Do you know our strengths?

Group Annual Report 2007

talanx.

talanx.

Segments and brands

Property/Casualty Primary Insurance

- For the first time the largest Group segment with gross written premium in excess of EUR 6 billion
- HDI/Gerling integration implemented in company law within six months of the squeeze-out with the loss of very few customers
- Operating profit (EBIT) EUR 240 million satisfactory result considering integration expenses recognized in income

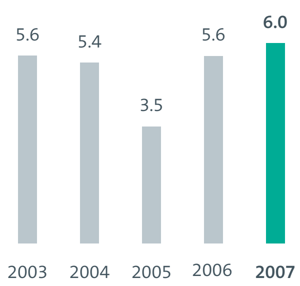
Life Primary Insurance

- Gross written premium surpasses the five billion mark for the first time
- Acquisition of BHW Lebensversicherung and BHW Pensionskasse; PB insurers now wholly owned by the Group
- HDI-Gerling life group closes its first financial year on a successful note

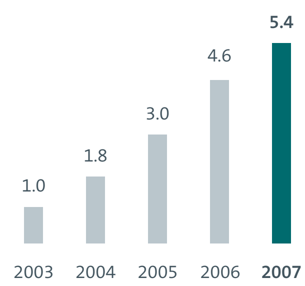
Non-Life Reinsurance

- Sale of US subsidiary Praetorian reflected in premium decline and extraordinary income
- January storm "Kyrill" largest single loss event with net strain of EUR 116 million
- Subsidiary and branch in Bahrain get off to a successful start

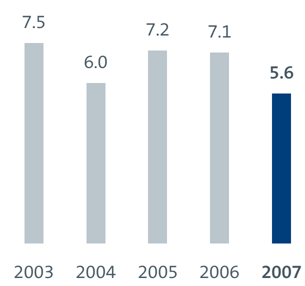
Gross written premium [1)]
in EUR bn



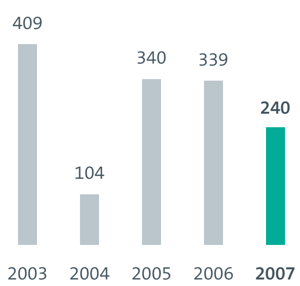
Gross written premium [1)]
in EUR bn



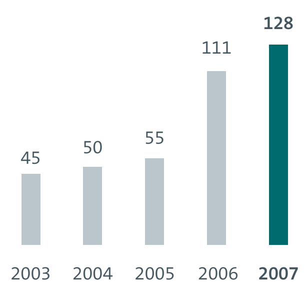
Gross written premium [1)]
in EUR bn



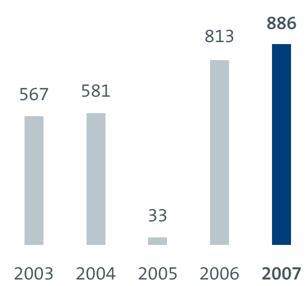
Operating profit (EBIT) [1)]
in EUR m



Operating profit (EBIT) [1)]
in EUR m



Operating profit (EBIT) [1)]
in EUR m



2003: US GAAP, 2004 onwards: IFRS

[1)] The years 2005, 2004 and 2003 are of only limited comparability due to changes in segment allocation

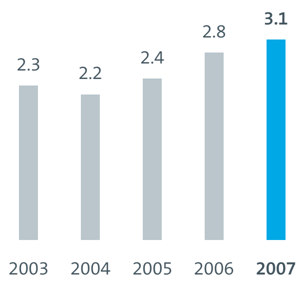
Life/Health Reinsurance

- Strongest rise in EBIT of all Group segments (+57%)
- New subsidiary for life reinsurance opened in Bermuda
- Branch in China commences operational business in May 2008, further locations in Asia under development

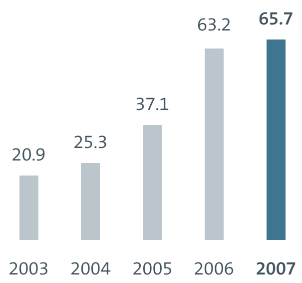
Financial Services

- Enlarged business volume boosts commission income; EBIT for the segment up 10%
- AmpegaGerling companies commence operations in Cologne after integration of their respective personnel
- Group's internal reinsurance broker Protection Re increases its operating profit from EUR 9 to EUR 15 million

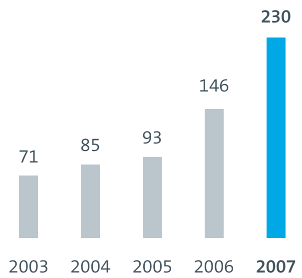
Gross written premium
in EUR bn



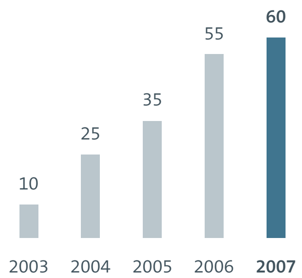
Assets under management
in EUR bn



Operating profit (EBIT)
in EUR m



Operating profit (EBIT)
in EUR m



ampegaGerling

From investment funds to asset management for private and institutional investors: the entire value-added chain in asset management.

ASPECTA

Aspecta's insurers have set standards in unit-linked life insurance: state-of-the-art sales technology combined with innovative products.

CiV Versicherungen Partner der Citibank

The long-standing successful bancassurance cooperation between Citibank and the Talanx Group – now also in Russia and Turkey.

hannover re

e+s rück

Hannover Re is one of the largest reinsurance groups in the world, maintaining business relations with more than 5,000 insurance companies in around 150 countries. E+S Re is its specialist reinsurer for the German market.

HDI

HDI Direkt Versicherung AG in Germany and the companies abroad with a concentration on private customer business continue to operate under the traditional HDI brand.

HDI GERLING

Transacting international non-life and life insurance business, the HDI-Gerling brand was created out of the HDI and Gerling names, each rich in tradition and able to draw on more than 100 years of experience.

Posta Biztosító

A high-growth cooperative venture with the Hungarian postal service that concentrates on the life and property/casualty lines.

neue leben Willkommen Zukunft

With a superb product range Neue Leben offers its customers and distribution partners innovative insurance solutions on attractive terms.

PB Versicherungen Partner der Postbank

A partner of Postbank, the PB insurance brand is tailored to the needs of Postbank customers.

PROTECTION RE

Protection Reinsurance Intermediaries is the Group's own professional reinsurance broker for the reinsurance business ceded by the Talanx Group.

The Talanx Group is the third-largest insurance group in Germany. Talanx operates as a multi-brand provider. Its brands include HDI and HDI-Gerling, providing insurance for private and industrial customers, Hannover Re, one of the industry's most profitable reinsurers, Aspecta, which markets its insurance products through brokers and multiple agents, the bancassurance specialists CiV, PB and Neue Leben as well as the investment fund provider and asset manager AmpegaGerling. The Group transacts business in the segments of Property/Casualty Primary Insurance, Life Primary Insurance, Non-Life Reinsurance, Life/Health Reinsurance and Financial Services. The Hannover-based Group is active in 150 countries. The world's leading rating agencies consider the financial strength of Talanx to be "excellent", as illustrated by ratings of AA–/stable from Standard & Poor's and A/stable from A.M. Best.

Group key figures		2007	2006	+/– %
IFRS				
Gross written premium	EUR m	19,130	19,368	–1
Property/Casualty Primary Insurance	%	31	29	+2 points
Life Primary Insurance	%	28	24	+4 points
Non-Life Reinsurance	%	27	35	–8 points
Life/Health Reinsurance	%	14	12	+2 points
Net premium earned	EUR m	14,895	15,019	–1
Combined ratio (property/casualty insurance and non-life reinsurance) [1]	%	99.2	96.1	+3.1 points
Net investment income	EUR m	2,702	2,516	+7
Operating profit (EBIT)	EUR m	1,451	1,286	+13
Net profit (after tax)	EUR m	999	727	+37
Group net income (after minorities)	EUR m	477	394	+21
Policyholders' surplus	EUR m	8,329	7,652	+9
Total shareholders' equity excl. minority interests	EUR m	3,782	3,495	+8
Minority interests	EUR m	2,379	1,987	+20
Hybrid capital	EUR m	2,168	2,170	–0.1
Return on equity after tax [2]	%	13.1	11.7	+1.4 points
Investments (excluding funds held by ceding companies)	EUR m	61,569	57,765	+7
Total assets	EUR m	95,378	92,964	+3
Staff (full-time equivalents as at 31.12. of the financial year)		15,996	16,576	–3

For mathematical reasons rounding differences of ± one unit may arise in the tables.

[1] *Combined ratio adjusted for deposit interest received*

[2] *Group net income (after minorities) relative to average shareholders' equity* $\left(\frac{\text{position as at 01.01.} + \text{position as at 31.12.}}{2}\right)$

Just ask us!

We only get answers by asking questions. And only those who receive an answer and an explanation can understand things and see clearly. This is the way to transparency – the goal that Talanx has set itself in its communication.

Yet an answer not only helps the questioner: if we want to provide an answer, we have to ponder the matter first. And that also helps the responder to move forward.

In the following pages we shall set out a number of questions that are often put to the Board of Management and offer a revealing insight into our company. Our intention is that the answers should bring transparency to our work and our Group. So if you have any further questions, just ask us ...

Letter from the Chairman of the Board of Management

Ladies and Gentlemen,

If you were to ask us for our assessment of the financial year just-ended, we could assert with good reason that 2007 has a special significance for Talanx: in 2007 we shouldered the main burden resulting from the integration of the former Gerling companies – both in financial terms and as far as the workload was concerned –, we took a major step forwards in bancassurance business with the acquisition of the Postbank insurance activities and an associated long-term sales cooperation and we also generated a first-class result.

Following the announcement two and a half years ago of our intention to acquire the operational companies of what was then the Gerling Group, many eyes – both internally and externally – turned quickly to the operating level. Inside the Group, we found ourselves within a short space of time deeply involved in the ambitious day-to-day work of the integration, while outside the Group the progress of the integration was tracked with a critical gaze.

Such perspectives distort the view of the big picture and hence of the crucial consideration that we had in mind with the takeover of the Gerling Group: the acquisition was strategically motivated, and the purpose of this takeover was to get the Talanx Group in shape for what lies ahead. And in this we have been successful!

By taking this step we have equipped Talanx to handle the challenges of a dramatically changing insurance market and hence cemented a promising competitive position for the Group on a long-term basis. Quite apart from the fact that our acquisition of Gerling is an unmistakable expression of our commitment to industrial insurance and that our new size will enable us to satisfy even better the requirements of our industrial clients going forward, our Group now enjoys a significantly improved platform for asserting ourselves in the international competitive arena: even in difficult market situations we can be relied upon to assume risks. We can utilize the capital market more efficiently. We enjoy more advantages when buying reinsurance than was previously the case. Our new size will enable us to realize innovations more rapidly – whether it be the launch of new products or in IT or customer service. As an employer, our appeal to qualified personnel is considerably enhanced. These advantages allow us to provide our clients with comprehensive services that cater to their needs.

Only with the scale that it now has can our Group – given the tasks that it needs to accomplish – play a role in the market over the long term. With the completion of the 2007 financial year the foundation has been put in place. Particularly gratifying in this context is the fact that – despite the integration – we generated a very good net profit.

Group EBIT was boosted by 13%. At almost EUR 1.5 billion, the Group achieved the highest operating profit in its history – despite substantial integration expenditures recognized in income. All Group segments increased their EBIT with the exception of the Property/Casualty Primary Insurance segment, which had to absorb particularly heavy integration costs. The Group's return on equity after tax climbed again to stand at 13.1% in the year under review.

Profitability was thoroughly satisfactory, especially bearing in mind that – along with the integration costs – the market environment was by no means easy. Competition intensified sharply in industrial and private customer business, a trend that is likely to be sustained in the current year too.

The subprime crisis had scarcely any direct impact on the Group, which was compelled to take only minimal subprime-related write-downs. This clearly underscores the fact that our investment managers know their craft and act with the necessary prudence.

2008 will doubtless not be any easier than 2007. Markets are progressively softening in non-life insurance and reinsurance. In life insurance, too, market conditions in Germany are certainly not straightforward. Consumers remain uncertain as a consequence of turmoil on the financial markets and new or modified legal and regulatory parameters, such as the EU

Mediation Directive, the reform of the Insurance Contract Act and the amendment of the Insurance Supervision Act. These doubts remain despite the fact that – at least in Germany – very many people have recognized the need for individual retirement provision. Our Group companies are working flat out to counter these difficult market conditions in a targeted manner and with the appropriate tools. In the Property/Casualty Primary Insurance and Non-Life Reinsurance segments we are systematically pursuing – especially in the current market climate – our anticyclical underwriting policy and in so doing are willing to accept temporary losses of market share. On the life insurance side we support our broad range of marketing activities with innovative products.

In the current year, too, the integration of the Gerling companies will keep us busy – first and foremost in non-life insurance. Leaving aside the highly complex integration of the IT systems, however, this task will be completed in the course of the year. The same is true of the integration of the BHW companies into our Bancassurance Division. With these two integrations the Talanx Group has demonstrated its ability to assimilate acquisitions in a short space of time – and hence also proven that it will continue to play an active role in the progressive international consolidation of the industry.

Nevertheless, we continue to work continuously and purposefully to improve our internal structures. For example, we recently implemented an intermediate holding company structure for the Bancassurance Division – as has already been successfully adopted in other areas of the Group. What is more, the demands placed on corporate governance by capital markets, rating agencies, insurance regulators and lawmakers are growing ever more exacting. Here, too, we have put in place processes that will ensure Talanx's ability to convincingly meet such requirements going forward.

We have compiled this Annual Report under the motto "Just ask us" – not least because we hope that the answers provided here will broaden perspectives. For it is often the case that perspectives become so blinkered in day-to-day business that

one can no longer see the wood for the trees. Today, the Talanx Group enjoys a promising size and competitive position, it is financially strong and has the know-how needed to actively and aggressively deal with the challenges that lie ahead. Even in the difficult conditions currently prevailing on our markets, we look optimistically to the future and tackle the tasks before us with considerable energy. We shall continue to pursue with great resolve our strategy, which has secured for the Group a leading role in the German market over the past ten years. What is more, we should be delighted if you – our clients, business partners and staff – would continue to support us in this striving. And if you have any further questions, just ask us ...

Yours sincerely

Herbert K. Haas

Board of Management

Herbert K. Haas
Chairman

Burgwedel
*1954
Corporate Communications, Corporate Development, Human Resources, Internal Auditing, Investor Relations, Legal Affairs/Executive Staff Functions

Dr. Immo Querner

Ehlershausen
*1963
Accounting/Taxes, Finance/Participating Interests, Financial Services segment, Planning and Controlling, Quantitative Risk Management, Real Estate

Dr. Thomas Noth

Hannover
*1960
Information Technology

Dr. Christian Hinsch

Burgwedel
*1955
Domestic and Foreign
Property/Casualty Primary
Insurance segment

Dr. Hans Löffler

Niederkrüchten
*1949
Domestic and Foreign
Life Insurance Division

Norbert Kox

Bergisch Gladbach
*1946
Domestic and Foreign
Bancassurance Division

Wilhelm Zeller

Burgwedel
*1944
Reinsurance
segments

Mr. Haas, do you anticipate further consolidation in the European insurance industry – and if so, what opportunities do you see here for Talanx?

Herbert K. Haas
Chairman of the Board of Management

"Consolidation in the insurance sector will continue on the European level. Going forward, as in past years, Talanx will actively participate in this consolidation. We intend to sustain our growth – both organically and through acquisitions – and improve the Group's diversification across lines and regions. Our primary focus is on expansion in primary insurance, most notably in private customer business."

Dr. Querner, where is work still ongoing in the area of risk management?

Dr. Immo Querner
Finance, Financial Services

"The Gerling integration has given rise to fresh challenges and new possibilities for the integrated, Group-wide management of risks and opportunities. What is more, Solvency II and the preparations for a possible Initial Public Offering of Talanx AG call for very considerable efforts – with a single unifying core: consistent and rigorously quantified measurement of risks across segments and risk sources as a prerequisite for the profitable exploitation of entrepreneurial opportunities. This constellation will, in a manner of speaking, always remain a work in progress, especially in the case of highly changeable risks that sometimes take concrete shape quite suddenly. It would be wrong, then, to wait for a conclusive flash of insight; rather, the role played by explicitly risk-aware decision-making – which draws on increasingly sophisticated mathematical models and hence complements common sense and experience – is growing within the Group. This is true not only of Group-wide standards and processes, but also of systematic steering of life insurance activities with an eye to the market-consistent embedded value."

Dr. Noth, information technology is a decisive competitive factor for insurance enterprises – how well is Talanx placed in this regard?

Dr. Thomas Noth
Information Technology

“The success achieved by the companies in the Talanx Group is based in part on competitive IT solutions. This applies to both the cost angle and the functionalities provided. This insight also guides our actions when it comes to uniting the IT landscapes in the integration-affected areas – a task where a great deal of work still remains going forward. Yet this is also an area where our new joint line-up will enable us to position ourselves even better for the competition that lies ahead.”

Report of the Supervisory Board

In our function as the Supervisory Board we again considered at length the economic situation and strategic development of Talanx AG and its major subsidiaries in the 2007 financial year. We advised the Board of Management on the direction of the company, monitored the management of business and were directly involved in decisions of fundamental importance.

In the year under review we came together for three ordinary meetings and two extraordinary meetings of the Supervisory Board. As in the previous year, the Federal Financial Supervisory Authority (BaFin) exercised its legal powers and sent two representatives to attend one of these meetings. The committees formed by the Supervisory Board in accordance with § 107 Para. 3 German Stock Corporation Act (AktG), namely the Finance and Audit Committee and the Personnel Committee, met on three and two occasions respectively. The Mediation Committee prescribed under the Co-Determination Act again had no reason to meet in 2007. The Chairman of the Supervisory Board informed the full Supervisory Board of the work of the Audit and Personnel Committees. In addition, we received quarterly written reports from the Board of Management on the course of business and the position of the company and the Group in accordance with § 90 German Stock Corporation Act (AktG). Purely on the basis of the company's economic position, no audit measures pursuant to § 111 Para. 2 German Stock Corporation Act (AktG) were necessary in the 2007 financial year. Insofar as transactions requiring approval arose between meetings, the Board of Management submitted these to us for a written resolution. The Chairman of the Supervisory Board also remained in constant contact with the Chairman of the Board of Management and was regularly advised of all important business transactions within the company and the Talanx Group. All in all, within the scope of our legal responsibilities and those prescribed by the Articles of Association we assured ourselves of the lawfulness, expediency, regularity and efficiency of the actions of the Board of Management.

The Board of Management provided us with regular, timely and comprehensive information regarding the business and financial situation – including the risk situation and risk management –, major capital expenditure projects and fundamental issues of corporate policy.

In the year under review compliance units were set up at Talanx AG and its major subsidiaries; they draw up guidelines for the lawfulness of corporate actions and monitor their observance.

Key areas of discussion

The business development of the company and the individual Group segments, the planning for 2008 and the medium-term planning of the company and the Group formed the primary focus of the reporting and were discussed at length during our meetings. The reasons for divergences between the business experience and the relevant plans and targets in the financial year just-ended were explained to us, and we were able to satisfy ourselves accordingly with the explanations provided.

A further focus of our deliberations was on the integration of the group of Gerling primary insurance companies, in particular – following the squeeze-out of the minority shareholders of Gerling-Konzern Allgemeine Versicherungs-AG in May 2007 – of the Gerling non-life insurers, into the Talanx Group. In this regard we received reports on the status of measures taken under company law as well as negotiations over a settlement of interests and social compensation plan, and we adopted the resolutions necessary for attainment of the target structure. In addition, the new strategy developed for the Talanx Group was presented to us and we were updated on preparations for a possible Initial Public Offering of Talanx AG.

The extension of the sales cooperation with Postbank and the associated corporate acquisitions were explored in detail at two meetings. The discussion and the adoption of a resolution in this context took place without Dr. Petram, thereby preempting from the outset any possible conflicts of interest in view of his seats on the Executive Board of Deutsche Post AG and the Supervisory Board of Deutsche Postbank AG. Following completion of the corporate acquisitions we endorsed the newly developed holding structure for the bancassurance division, approved the related transfer transactions and took due note of the considerations relating to the personnel make-up of the holding company's Board of Management.

Along with preparations for discussion and adoption of resolutions in the full Supervisory Board, the Finance and Audit Committee of the Supervisory Board considered the company's quarterly financial statements compiled on a voluntary basis as well as the acquisition of an insurance company in Ukraine and the establishment of two insurance companies in Croatia. The Audit Committee also discussed the findings of an actuarial audit of the net loss reserves for non-life insurance business within the Talanx Group as well as the profitability trend at the individual Group companies as at 31 December 2006.

Furthermore, at two extraordinary meetings the Supervisory Board explored acquisition and cooperation projects in Italy which were intended to promote expansion of bancassurance activities in Europe.

The transactions and measures subject to approval in accordance with legal requirements, the company's Articles of Association or Rules of Procedure were agreed with the Board of Management following examination and discussion.

Corporate Governance

The Supervisory Board devoted special attention to the issue of Corporate Governance. It adopted new Rules of Procedure for the Board of Management and the Supervisory Board that reflect the development of good and responsible enterprise management and supervision. In addition to greater involvement of the Board of Management and Supervisory Board in personnel decisions within the Group and modification of the approval requirements, a Nomination Committee was formed on the level of the Supervisory Board. Along with the Chairman of the Supervisory Board, the members of the Nomination Committee are Dr. Lindner and Dr. Rogowski (on the composition and function of the committees cf. page 16 of the Annual Report). The committee met for the first time in April 2008 and in this context recommended suitable candidates to the Supervisory Board; the latter will propose these candidates to the 2008 Annual General Meeting for election to the Supervisory Board.

Audit of the annual and consolidated financial statements

The annual financial statements of Talanx AG submitted by the Board of Management, the financial statements of the Talanx Group – drawn up in accordance with International Financial Reporting Standards (IFRS) – as well as the corresponding management reports and the bookkeeping system were audited by KPMG Deutsche Treuhand-Gesellschaft Aktiengesellschaft, Wirtschaftsprüfungsgesellschaft, Hannover. The full Supervisory Board selected the auditor and the Audit Committee awarded the concrete audit mandate. In addition to the usual audit tasks, the audit focused particularly on the fair value disclosures/recognition of goodwill as well as on the adequacy of the provisions for pensions.

The audits conducted by the auditors gave no grounds for objection. The unqualified audit certificates that were issued state that the accounting, annual financial statements and consolidated financial statements give a true and fair view of the net assets, financial position and results and that the management reports suitably reflect the annual and consolidated financial statements.

The financial statements and the audit reports of KPMG were distributed to all the members of the Supervisory Board in due time. They were examined in detail at a meeting of the Audit Committee on 17 June 2008 and at a meeting of the Supervisory Board on 18 June 2008. The auditor took part in the deliberations of the Audit Committee and of the full Supervisory Board regarding the annual and consolidated financial statements, reported on the conduct of the audits and was available to provide the Supervisory Board with additional information. In accordance with the final outcome of our own examination of the annual financial statements, the consolidated financial statements, the corresponding management reports and the audit reports, we concurred with the opinion of the auditors and approved the annual and consolidated financial statements drawn up by the Board of Management.

The annual financial statements are thus adopted. We approve of the statements made in the management reports regarding the further development of the company. After examination of all relevant considerations we agree with the Board of Management's proposal for the appropriation of the disposable profit.

The report on the company's relations with affiliated companies drawn up by the Board of Management in accordance with § 312 German Stock Corporation Act (AktG) has likewise been examined by KPMG Deutsche Treuhand-Gesellschaft Aktiengesellschaft, Wirtschaftsprüfungsgesellschaft, Hannover, and given the following unqualified audit certificate:

"Having audited the report in accordance with our professional duties, we confirm that
1. its factual details are correct,
2. in the case of the transactions detailed in the report, the expenditure of the company was not unreasonably high."

We have examined the report on relations with affiliated companies; we reached the same conclusion as the auditors and have no objections to the statement reproduced in this report.

Changes on the Board of Management

In light of the significantly enlarged investment volume in the Group's AmpegaGerling segment and the more exacting challenges facing asset management activities, Mr. Harry Ploemacher left the Board of Management of Talanx AG on 31 December 2007 by mutual agreement. Mr. Ploemacher continues to serve as Managing Director of AmpegaGerling Asset Management GmbH and as Chairman of the Supervisory Boards of AmpegaGerling Investment GmbH and AmpegaGerling Immobilien Management GmbH. The Supervisory Board expressed its thanks and appreciation to Mr. Ploemacher for his work on the Board of Management of Talanx AG. With effect from 1 January 2008 Dr. Immo Querner – in addition to his previous functions – has been the responsible member of the Board of Management of Talanx AG in charge of the Financial Services business segment.

Furthermore, the Supervisory Board and Mr. Dettmer agreed not to continue their cooperation in view of their differing views on the strategic business policy. Mr. Dettmer's mandate and contract of service were therefore terminated by mutual agreement. The Supervisory Board expressed its thanks and appreciation to Mr. Dettmer for his work on the Board of Management of Talanx AG. Effective 1 June 2008 Dr. Thomas Noth was appointed as a member of the Board of Management of Talanx AG. His area of competence and the general schedule of responsibilities within the Board of Management are set out on pages 4/5 of the Annual Report.

Word of thanks to the Board of Management and staff

The Supervisory Board thanked the members of the Board of Management and all the staff for their efforts in the year under review – one which was once again notable for its special challenges. Their contributions were vital to the gratifying development of results.

Hannover, 18 June 2008

For the Supervisory Board

Wolf-Dieter Baumgartl
(Chairman)

Supervisory Board

Wolf-Dieter Baumgartl
Chairman
Former Chairman of the Board of Management of Talanx AG and HDI V.a.G.,
Berg

Johannes Funck
Deputy Chairman
Employee, HDI Direkt Versicherung AG,
Mülheim

Prof. Dr. Eckhard Rohkamm
Deputy Chairman
Former Chairman of the Board of Management of ThyssenKrupp Technologies AG,
Hamburg

Reinhard Faßhauer
(from 01.03.2008)
Senior executive, HDI-Gerling Sach Serviceholding AG,
Langenhagen

Götz Hartmann
(until 29.02.2008)
Senior executive, Talanx AG,
Gehrden

Gerald Herrmann
Trade union secretary,
Norderstedt

Dr. Thomas Lindner
Chairman of the Board of Management of Groz-Beckert KG,
Albstadt

Otto Müller
Employee, Hannover Rückversicherung AG,
Hannover

Rudolf Müller
Employee, Gerling Kundenservice Firmen und Privat GmbH,
Leverkusen

Dr. Hans-Dieter Petram
Former Member of the Board of Management of Deutsche Post AG,
Bonn

Ralf Rieger
Employee, HDI-Gerling Vertrieb Firmen und Privat AG,
Raesfeld

Dr. Michael Rogowski
Chairman of the Supervisory Board of Voith AG,
Heidenheim

Dr. Erhard Schipporeit
Former Member of the Board of Management of E.ON AG,
Hannover

Barbara Schulze
Employee, HDI-Gerling Industrie Versicherung AG,
Bochum

Jürgen Stachan
Trade union secretary,
Sarstedt

Bodo Uebber
Member of the Board of Management of Daimler AG,
Stuttgart

Eggert Voscherau
Former Deputy Chairman of the Board of Executive Directors of BASF SE,
Ludwigshafen

Supervisory Board Committees *

Finance and Audit Committee	Personnel Committee	Mediation Committee	Nomination Committee
Wolf-Dieter Baumgartl Chairman	Wolf-Dieter Baumgartl Chairman	Wolf-Dieter Baumgartl Chairman	Wolf-Dieter Baumgartl Chairman
Johannes Funck	Reinhard Faßhauer	Johannes Funck	Dr. Thomas Lindner
Dr. Thomas Lindner	Prof. Dr. Eckhard Rohkamm	Prof. Dr. Eckhard Rohkamm	Dr. Michael Rogowski
Prof. Dr. Eckhard Rohkamm		Barbara Schulze	
Dr. Erhard Schipporeit			

* Current members

The Supervisory Board has formed four committees from among its ranks. They support the full Supervisory Board in the performance of its tasks.

Tasks of the committees

Finance and Audit Committee

- Preparation of financial decisions for the full Supervisory Board
- Decisions in lieu of the full Supervisory Board on certain financial matters, including the establishment of companies, acquisition of participations and capital increases at subsidiaries within defined value limits

Personnel Committee

- Preparation of personnel matters for the full Supervisory Board
- Decisions in lieu of the full Supervisory Board on certain personnel matters such as the content of service contracts with Board members

Mediation Committee

- Proposal for the appointment of a Board member if the necessary two-thirds majority is not achieved in the first ballot (§ 31 Para. 3 Co-Determination Act)

Nomination Committee

- Proposal of suitable candidates for the Supervisory Board's nominations to the General Meeting

Board of Management

Herbert K. Haas
Chairman

Chairman of the
Board of Management
HDI Haftpflichtverband der
Deutschen Industrie V.a.G.,
Hannover
■

Werner Dettmer
(until 21.04.2008)
■

Dr. Christian Hinsch

Member of the
Board of Management
HDI Haftpflichtverband der
Deutschen Industrie V.a.G.,
Hannover

Chairman of the
Board of Management
HDI-Gerling Sach Serviceholding AG,
Hannover
■

Norbert Kox

Chairman of the
Board of Management
Proactiv Holding AG,
Hilden
■

Dr. Hans Löffler

Chairman of the
Board of Management
HDI-Gerling Leben
Serviceholding AG,
Cologne
■

Dr. Thomas Noth
(from 01.06.2008)

Member of the
Board of Management
HDI-Gerling Sach Serviceholding AG,
Hannover
■

Harry Ploemacher
(until 31.12.2007)

Chairman of the
Executive Board of
AmpegaGerling Asset
Management GmbH,
Cologne
■

Dr. Immo Querner

Member of the
Board of Management
HDI Haftpflichtverband der
Deutschen Industrie V.a.G.,
Hannover
■

Wilhelm Zeller

Chairman of the Executive Board
Hannover Rückversicherung AG,
Hannover
■

Dr. Hinsch, has the integration of HDI-Gerling in non-life insurance been a success?

Dr. Christian Hinsch
Property/Casualty Primary Insurance

“Absolutely, and I can also give you an indicator for the non-life sector: the success can best be measured by the number of industrial clients that have remained loyal to our company. With two rounds of renewals in industrial business behind us, we can assert that customers have demonstrated their commitment to the new company HDI-Gerling Industrie Versicherung AG. HDI-Gerling was able to renew contracts for 2008 with more than 95% of the top 500 Gerling clients in industrial business. Not only that, we were even chosen as Germany’s best insurer in a worldwide survey conducted last year by Euromoney among purchasers of commercial policies. We have made good progress with the integration in private and commercial business too and intend to complete it before the end of the year.”

Dr. Löffler, why is life insurance a key pillar of Talanx's activities?

Dr. Hans Löffler
Life Insurance

"Retirement provision is a true market of the future because the state is increasingly pulling out of welfare systems and instead falling back on steering incentives in the form of subsidy measures. Our clients and sales partners want a reliable partner for individual provision and risk protection. We feel very much at home in the dynamic emerging market segments of individual and occupational retirement provision. With our range of products we serve the increasingly nuanced demand for provision solutions that combine security and guarantees with peak performance and state-of-the-art investment strategies. In this context we place our trust in strong sales partners that provide customers with the necessary personal counseling. The international activities of the life group extend our growth potential and also ensure that our aspiration to offer innovative concepts specially tailored to a variety of target groups can be fulfilled on a lasting basis."

Mr. Kox, does your bancassurance business model also work in the international arena?

Norbert Kox
Bancassurance

"Yes, it is feasible with our model. And this is one of our Group's major advantages. We are already expanding our bancassurance model – which has enjoyed considerable success here at home – into international markets. In Hungary we have a firmly established presence, and the formation of new companies in Russia and Turkey in cooperation with Citibank was another step in the right direction. As in Germany, we place our trust in local partners that have at their disposal a strong sales organization. Our target markets are in line with the future growth regions defined by the Group. In making such assessments, it is important that the markets in question should offer a healthy economic and demographic environment for profitable growth in the future."

Mr. Zeller, what gain does the Talanx Group derive from Hannover Re being part of the Group?

Wilhelm Zeller
Reinsurance

"With the fourth-largest reinsurer in the world the Talanx Group has a true global player in its portfolio. The results generated by the Talanx Group are stabilized by the worldwide diversification of risks and boosted by the consistently well above-average return on equity delivered by one of the industry's most profitable companies."

Staff

The implementation of one of the largest acquisitions in the history of the German insurance industry, namely the takeover of Gerling by Talanx, imposed an enormously heavy workload on the majority of the Group's staff. For the integration of the former Gerling companies and former HDI companies affects the workforces in two senses: in addition to their already demanding daily tasks, they are called upon to devote massive energy to the creation of new structures. Not only does this mean more work, it also necessitates an increased level of flexibility and tolerance in the context of the merger of two corporate cultures. What is more, many employees and their families are personally impacted insofar as their areas of responsibility are adjusted or they are faced with relocation.

The Board of Management would therefore like to extend a very special word of thanks to all concerned for their extraordinary dedication and considerable achievements in the year just-ended. This appreciation is due also to the families and partners of our employees who are lending their support in this situation. The Board of Management reserves its special praise for the fact that our staff have successfully handled the operational side of business, despite the integration-related strains on their working situation, numerous relocations and technical adjustments. Yet the Board of Management also expresses its gratitude to the employees in areas not impacted by the integration, who played a vital part in the Group's success in the financial year just-ended thanks to their dedicated efforts in their various spheres of responsibility. The Board of Management thanks the Group Employee Council for its close and constructive cooperation, especially with respect to the negotiations over agreements that are to be finalized as a consequence of the integration.

On average, the Group employed 17,178 staff worldwide in 2007, a figure equivalent to 15,989 full-time capacities. Around two-thirds were employed in Germany. Approximately 85% of the labor force in Germany, i.e. roughly 9,500 individuals, were affected by the integration inasmuch as they work in areas where it was necessary to bring together the Gerling, HDI or Ampega companies: Property/Casualty Primary Insurance, Life Insurance and Financial Services. In other countries, too, such as Austria, Poland, Spain or the United States, companies were merged with corresponding implications for their employees.

Integration: Considerable progress

Considerable progress was made in 2007 with the integration of the former Gerling companies and the former HDI companies.

General activities applicable to all segments

Group Management and the Group Employee Council negotiated a social compensation plan applicable Group-wide as well as numerous settlements of interests.

The settlements of interests regulate the how and whether of entrepreneurial measures. The reaching of such agreements is a precondition and in many instances also the green light for implementation of planned integration steps. In 2007 all necessary settlements of interests were concluded for the Life Insurance Division, and in the first quarter of 2008 most settlements of interests were also reached for the Group segment of Property/Casualty Primary Insurance.

The offsetting or alleviation of economic disadvantages that may be incurred by individual members of staff as a consequence of the measures agreed in the settlements of interests is regulated by the social compensation plan. What is at stake, then, is how employees are to be assisted in the event of relocation, the compensation that is available if an employee stays on in a less well-paid job and the termination payments than can be made to those who leave the company. The social compensation plan of the Talanx Group includes inter alia extensive benefits in the event of workplace relocation, such as reimbursement of travel expenses, reasonable accommodation expenses and relocation costs as well as financial incentives for moving promptly to a new employment location.

Members of staff who have to leave the Group because they are unable or unwilling to move with their job to a new location receive redundancy payments commensurate with the normal industry level. In addition, they are able to join an employment and placement company that seeks to place staff in jobs outside the Group. This company, HDI-Gerling Beschäftigungs- und Qualifizierungsgesellschaft, has got off to a successful start. Not only that, Talanx has set up a coordinating office to assist employees in their search for new jobs within the Group.

All affected local employee councils have availed themselves of the opportunity to join the social compensation plan agreed between the Group Management and Group Employee Council, thereby ensuring that their workforces benefit from the arrangements set out in this social compensation plan.

Implementation in the segments

Property/Casualty Primary Insurance: Particularly in the non-life sector, there were considerable overlaps between the business activities of the former Gerling companies and those of the former HDI companies, their markets and also their customer groups. The principle driving the integration, therefore, was to ensure that in future coinciding functions are only exercised by one area within the organization. Only in this way can synergies be leveraged from the merger. At the same time, this approach will enable us to continue to offer employees stimulating tasks and promising prospects going forward.

The reorganization of this segment was based on concentrating central functions in Hannover and merging local branches and offices of Gerling and HDI. This entailed, in the first place, numerous relocations to a single site; secondly, many employees also had to change their place of work, primarily from Cologne to Hannover. They were supported in this adjustment by the tools available under the social compensation plan described above.

Life Insurance: In 2007 the companies belonging to this division were restructured and the integration of the workforces was successfully completed. The employees of HDI-Gerling Lebensversicherung at the Wiesbaden location and those of Aspecta Lebensversicherung in Hamburg received offers of work in Cologne. The operations in Hamburg and Wiesbaden were closed at the end of the year and around 400 jobs altogether were moved to Cologne. We are pleased to report that almost half the staff in the two cities accepted the offer to relocate to Cologne. The employees at the local offices affected by the integration were also offered jobs with unchanged compensation arrangements in Cologne, insofar as further employment at the existing location or an alternative site nearby was not possible.

Financial Services: In May 2007 the Ampega and Gerling companies – which had been merged in the previous year – were combined into one operation at the new joint location in Cologne, while Protection Re remained in Hannover. Roughly two-thirds of the Ampega team in Hannover took up the offer to relocate to Cologne.

Entirely separate from the Gerling integration, it should be mentioned that the newly acquired BHW companies in Hamelin with a labor force of around 100 have already been integrated into the Bancassurance Division.

Human resources development: an important consideration in all segments

A focus of human resources development within the Talanx Group is on the skills enhancement and development of our personnel. In part due to the varying requirements and needs in the individual Group segments, personnel development has largely been conducted on a decentralized basis to date.

In Property/Casualty Primary Insurance a particular emphasis was placed on further specialist training. Since the intention is to bring the former HDI employees and former Gerling employees progressively closer together, they were familiarized extensively with the handling of the other company's systems and rules.

Since May 2007 the Life Insurance Division has been running the "live-academy" in Cologne as a training center for brokers, multiple agents and financial services providers; it also offers employees of the life group of companies a comprehensive program of training opportunities.

In the Bancassurance Division staff receive systematic skills enhancement to equip them for their demanding tasks through comprehensive further training and personnel development activities. Targeted job rotation improves the wide-ranging versatility of the employees.

In reinsurance, too, human resources development is a core task of personnel management. Hannover Re dedicates approximately six days a year to training activities for each member of staff. Over the past three years one in eight employees took part in a personnel development workshop.

Our segments

	Property/Casualty Primary Insurance	Life Primary Insurance
Markets, customers and products	The areas of concentration in this business segment are worldwide, professional industrial insurance as well as property and casualty insurance for private customers in promising markets. With our international positioning, we aim for profit-oriented growth.	Our group offers a diverse range of products for the capital accumulation and retirement provision of our private customers as well as for occupational retirement provision. They include traditional life and disability insurance policies and innovative offerings such as unit-linked products. In bancassurance we develop tailored products in cooperation with our partners.
Goals	■ Grow in established markets and consolidate and extend our market leadership ■ Grow organically and anorganically in selected growth markets ■ Attain a leading market position in growth markets	■ Life Insurance: Expand our market position in Germany; operate internationally as a specialist with a clearly defined focus ■ Bancassurance: Expand cooperations at home and abroad; evolve into one of the most profitable bancassurance insurers in Europe.
Sales channels	■ Tied agents' organization ■ Branch network ■ Direct marketing	■ Life Insurance: Independent agents and sales organizations, brokers as well as own network of tied agents ■ Bancassurance: Branch networks of sales partners, supplemented by multi-channel marketing
Brands	HDI GERLING HDI	HDI GERLING ASPECTA CiV Versicherungen Partner der Citibank PB Versicherungen Partner der Postbank neue leben Willkommen Zukunft Posta Biztosító

Non-Life Reinsurance

Based on our experience in all lines, we are valued as an undogmatic, flexible and innovative alternative to the regional market leaders. We position ourselves as a "multi-specialist" in selected market segments with a comprehensive product range. We prefer to offer our structured reinsurance concepts as a complement to existing reinsurance solutions.

- Remain one of the most profitable non-life reinsurers
- Expand and opportunistically enlarge market share if conditions are adequate
- During soft market phases no volume or growth targets, but instead reduction of market share

- Largely broker-oriented
- Selected representative offices and branches
- Centralized underwriting in treaty business

hannover re®

e+s rück

Life/Health Reinsurance

We are present on five continents in this segment. As one of the largest life/health reinsurers in the world, we solve our clients' problems using a holistic approach – from new business financing to strategic market positioning. Our target clients are providers of unit-linked products, bancassurance models in German- and Romance-speaking markets and small to mid-sized niche insurers.

- Become one of the three largest life/health reinsurers in the world by 2010
- Become market leader in the area of financing transactions for life, annuity and personal accident
- Cultivate growth markets in Asia
- Strengthen market position in Continental European markets

- Decentralized worldwide marketing structure
- Global network
- Brokers not used

hannover re®

e+s rück

Financial Services

The spectrum of products in this segment ranges from individual investment concepts for private investors to comprehensive asset management solutions for institutional clients. The assets of Group companies are managed here, and the Group's own reinsurance broker also belongs to this segment.

- Grow (organically) by increasing profitable third-party mandates on the retail side and boosting volumes in institutional business

- Marketing channels of the Talanx Group
- Cooperations with banks, brokers and asset managers
- Direct sales

ampegaGerling

PROTECTION RE

2007

January

Winter storm “Kyrill” sweeps across Europe

Winter storm “Kyrill”, which sweeps across large parts of Europe on 18 and 19 January, causes an insured market loss in the order of EUR 5 billion. The net burden of losses for the Talanx Group comes to almost EUR 160 million before taxes, with the bulk of them attributable to the German market.

Rating for HDI-Gerling Life

Standard & Poor’s awards the new Group subsidiary HDI-Gerling Lebensversicherung AG, which emerged from the merger of the HDI and Gerling life insurers, a rating of “A” with positive outlook. The rating was raised to “A+” with stable outlook in July.

February

Securitization of reinsurance recoverables

Hannover Re for the first time transfers risks arising out of reinsurance recoverables – i.e. outstanding claims held by reinsurers against their retrocessionaires – to the capital market. By way of this securitization it substantially reduces the default risk associated with reinsurance recoverables.

Forum on old-age provision

The HDI and Gerling pension management companies jointly organized for the first time the “Forum Alterssicherung” in Cologne. More than 120 brokers, financial advisors and other participants from the field of occupational retirement provision took the opportunity to learn more about the issue of old-age provision.

The EU Portability Directive is explained in a lecture

March

HDI extends award for honorary service

The HDI branch office in Hannover honors unpaid dedication and extends the HDI award for honorary service to a trainer with the Lower Saxony Disabled Sports Association.

Uwe Schünemann (right), Interior Minister of Lower Saxony, hands over the award for honorary service

HDI-Gerling Austria honored for its unit-linked products

Marking the outstanding service provided to its sales partners, HDI-Gerling Life in Austria is honored with the insurance award for providers of unit-linked policies by the trade journal “Fonds Professionell”. The prize is awarded on the basis of a survey of broker pools and investment advisors.

April

AmpegaGerling awarded multiple distinctions

AmpegaGerling receives the Grand Prix Eurofonds 2007 from the leading newspapers in the five participating countries, namely France, Spain, Italy, Luxembourg and Germany. In the competition AmpegaGerling was crowned as the best funds provider of its size Europe-wide. AmpegaGerling funds similarly performed better than average in the highly regarded rankings of the investment funds research firm Lipper.

May

Sale of Praetorian completed

The sale of Hannover Re’s US subsidiary Praetorian Financial Group to the Australian QBE Insurance Group, which had been agreed in December 2006, is closed at month-end after regulators give their approval.

HDI Seguros generates strong growth

The Brazilian journal Conjuntura Económica and the sponsoring company of the country’s most highly respected business school single out HDI Seguros as one of the “best insurance companies in Brazil”. At the same time they highlight HDI Seguros as the insurer with the strongest premium growth in the 2006 financial year.

João Francisco da Costa (left), CEO of HDI Seguros S.A., is pleased to accept the award

AmpegaGerling fully established in Cologne

The integration of the AmpegaGerling companies for asset management, investments and real estate management is successfully completed: the merged former Ampega and Gerling companies commence operations in Cologne.

June

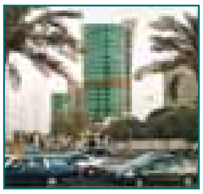
HDI-Gerling Pensionsmanagement AG launches operations

Upon entry in the commercial register the merger of Gerling Pensionsmanagement GmbH into HDI Pensionsmanagement AG takes retroactive effect as from 1 January. As HDI-Gerling Pensionsmanagement AG, the merged companies offer long-standing experience in all areas of occupational retirement provision as well as the necessary advisory and sales expertise.

July

Hannover Re strengthens its presence in Bahrain

Hannover Rückversicherung AG, Bahrain Branch, will concentrate exclusively on traditional reinsurance in the region, while the company Hannover ReTakaful writes worldwide treaties in accordance with Islamic law. The new establishment enables the Group to offer both Sharia-compliant and conventional solutions bundled at a single location. Back in May Hannover ReTakaful had already received the 2007 Innovation Award of the Middle East Insurance Forum.



Headquarters of Hannover ReTakaful in Manama

Talanx reinforces Bancassurance Division

Deutsche Postbank AG and Talanx extend their successful marketing cooperation dating back to 1999 for a further 15 years on an exclusive basis. In addition, Postbank relinquishes its life and personal accident business to its long-standing partner Talanx: BHW Lebensversicherung und BHW Pensionskasse as well as the 50 % stake in the PB insurers that was still held by Postbank.

Talanx CEO Herbert K. Haas and Norbert Kox with Dr. Wolfgang Klein (centre), CEO of Postbank

August

The boss is the prize

By participating in a campaign run by the Handelsblatt publishing house, Talanx promotes a greater exchange between schools and business. Higher-grade pupils are given a practically oriented insight into the world of the manager. The top prize is a lesson with Talanx Chief Executive Officer Herbert K. Haas.

Herbert K. Haas and Dr. Alan Hippe (left), CFO of Continental AG, get "The boss is the prize" campaign off with a symbolic launch

September

Quality offensive on the issue of sustainability at Aspecta

Under the "Aspecta IQ" slogan Aspecta Lebensversicherung AG highlights the investment quality of its products and services. At a roadshow it presents inter alia the unit-linked annuity product CLEAN.invest, which invests in funds that satisfy sustainability criteria with respect to social, ecological and ethical concerns.

The Aspecta roadshow visits ten German cities

HDI-Gerling launches operations in non-life business too

The merger of Gerling-Konzern Allgemeine Versicherungs-AG into HDI Industrie Versicherung AG is entered in the commercial register. Under the auspices of Talanx AG this creates the Hannover-based HDI-Gerling non-life group of companies – a major milestone in the integration process. Further companies in the group were subsequently rebranded under the "HDI-Gerling" banner.

A motif from the image campaign marking the launch of the new brand in the non-life sector

October

Motor insurance over the Internet

Customers can take out motor insurance online at the website www.HDI24.de. By launching this new sales channel HDI Direkt Versicherung AG is picking up on the growing demand for online products.

250 staff take part in marathon

Under a motto that may be loosely translated as "Run your life", around 250 runners from Aspecta and HDI-Gerling set off on the eleventh Cologne Marathon. After separate training preparations in Hamburg, Wiesbaden and Cologne, the relocation of all staff in the life group to Cologne has now been completed. The participants' dedication pays off: HDI-Gerling donates money to a good cause for every kilometer run by each entrant.

Cheered by many of their colleagues, Group employees cross the finish line of the Cologne Marathon

Hannover Re establishes life reinsurer in Bermuda

Hannover Re establishes a subsidiary in Bermuda for life reinsurance business. The focus of the new company is on the life, health, annuity and personal accident lines as well as block assumption transactions. Its geographical concentration is on the United Kingdom, Ireland, Canada, South Africa as well as business from various Asian markets.

November

Good ratings for life insurers

CiV Lebensversicherung and PB Lebensversicherung receive ratings of "A+" and "A" respectively from the independent rating agency Assekurata. In its first rating Neue Leben even secures the highest evaluation with an overall rating of "A++" (excellent). The latter – in common with PB Lebensversicherung – also obtains the best possible rating of five stars in the life insurance ratings published by WirtschaftsWoche.

December

Outstanding rating for Hannover ReTakaful

In December Hannover ReTakaful receives a rating of "A" with stable outlook from the rating agency Standard & Poor's. The rating underscores the important strategic role played by the Bahrain-based company and reflects its strong competitive position in the emerging Islamic insurance market.

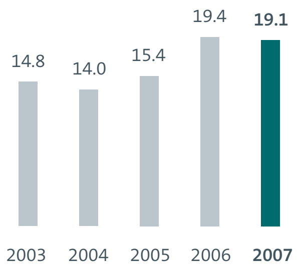
Talanx bancassurance arrives in Russia too

The Talanx Bancassurance Division has entered into another international cooperation with Citibank: effective 29 December 2007 the Russian insurance regulator awards CiV Life a license to sell life and personal accident insurance policies.

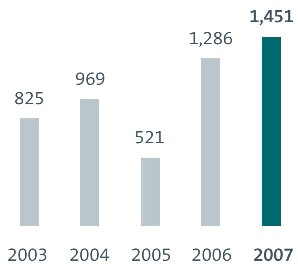
License granted to the Talanx subsidiary CiV Life Russia

The 2007 financial year was a successful one for the Talanx Group – in terms of both financial results and structural progress. Talanx significantly boosted its result despite difficult market conditions in Germany and numerous internal structural activities. The Group generated EBIT of EUR 1.45 (1.29) billion – a rise of 12.8% – from gross premium income that was slightly lower than in the previous year at EUR 19.1 billion. The progress made with the Group's structural development in the financial year was similarly successful. While the Gerling integration moved forward according to plan, the Group achieved another milestone in 2007 in its core Bancassurance Division: the acquisition of BHW Leben, BHW Pensionskasse and the remaining 50% interests in the PB insurers from Postbank as well as the extension of the sales cooperation with Postbank by a further 15 years until 2022 secure Talanx's favorable position in the promising bancassurance distribution channel.

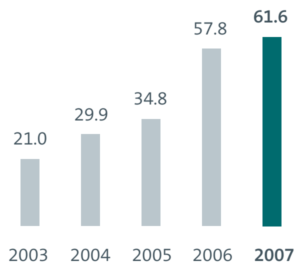
Gross written premium
in EUR bn



Operating profit (EBIT)
in EUR m



Investments
in EUR bn

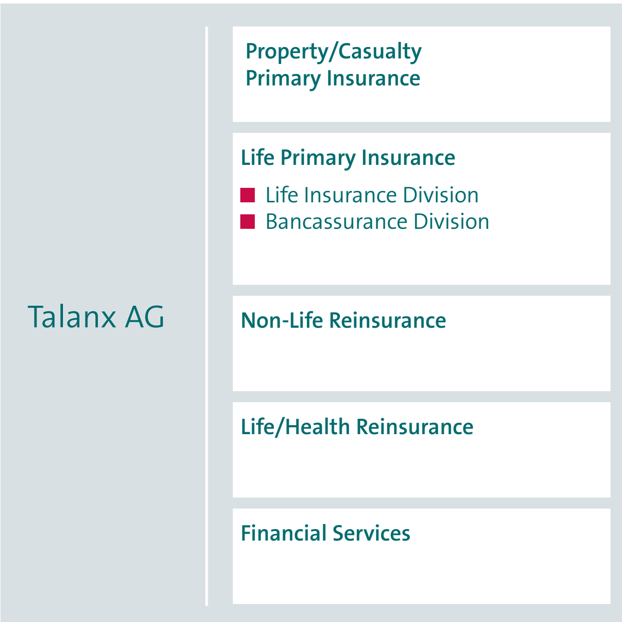


Group management report. Contents

Business operations, organization and structure

The Talanx Group is the third-largest German insurance group measured by gross premium income and operates as a multi-brand provider in the insurance and financial services sector. At the end of 2007 Talanx employed around 16,000 staff worldwide.

Talanx has split its activities into five Group segments: Property/Casualty Primary Insurance, Life Primary Insurance, Non-Life Reinsurance, Life/Health Reinsurance and Financial Services. The segments are united strategically by the corporate mission statement of focusing on those areas that offer particularly promising opportunities going forward. The individual companies are controlled – usually via intermediate holding companies – by the Hannover-based financial and management holding company Talanx AG, the sole owner of which is HDI V.a.G., a mutual insurance company.



Major European locations outside Germany for the insurance and reinsurance operations are Rome, Warsaw, Rotterdam, Vienna, London, Dublin, Zurich and Paris. On other continents – alongside our industrial insurance network – importance attaches first and foremost to reinsurance locations, including for example in the United States, South Africa, Australia and Bahrain. In the primary insurance sector we acquired companies over the past years in high-growth countries such as Brazil, Poland, Turkey and most recently Ukraine and Chile. In each of these markets our intention is to rank among the ten largest insurers in the country.

Strategy

Business-policy background

The Talanx Group is internationally active in the insurance, reinsurance and financial services sectors. In its target markets our Group is a major player in shaping the insurance industry. At Talanx, more than in any other insurance group, we optimize the interplay of insurance and reinsurance as an integral component of the business model with the aim of consistently enhancing the opportunity/risk profile, increasing capital efficiency and leveraging growth opportunities more flexibly. What is more, this composition of the Group portfolio ensures that even in difficult market phases our Group has at its disposal sufficient independent capacity to reliably support its clients, tap into interesting markets and thereby secure and increase the intrinsic value of the investment for stockholders.

The Group is headed by Talanx AG as a financial and management holding company. Its primary task is to lead and steer the Group. In its management of the Group Talanx AG relies on the organizational principle that has proven its worth in recent years: as locally as possible, as centrally as necessary. The success enjoyed by the Talanx Group is attributable in special measure to this organizational structure, which grants the individual business units a very high level of entrepreneurial freedom. In this way the various segments are best able to act on their opportunities – always with an eye to profitable growth.

While the Talanx brand is oriented exclusively towards the capital market, on the operating side our considerable international product expertise, our forward-looking underwriting policy and our marketing power are reflected in a multi-brand strategy. This enables us to optimally align ourselves with the needs of different customer groups, regions and cooperation partners. Furthermore, new companies can be efficiently integrated into the Group. Not only that, this structure facilitates a highly developed capacity for cooperation which can be harmonized with a diverse range of partners and business models.

In so doing, we trust in efficient business processes, optimally supported by state-of-the-art IT systems – another key success factor for our Group.

Strategic objectives of the Talanx Group

The paramount strategic objective of the Talanx Group is the ongoing refinement of an ownership structure that safeguards on a lasting basis the independence of the Group and its focus on a shareholder value orientation. This is driven by the firm conviction that only on this basis can company policy be geared to reliable continuity, above-average profitable growth and hence long-term value enhancement. This is done with the intention of living up to the interests of both shareholders and – also as a prerequisite – policyholders and staff in a balanced manner and generating the greatest possible benefit for these groups. This is accomplished by way of a strong Talanx group that is continuously able to provide the best possible insurance protection by consistently safeguarding and optimizing its equity base and capital allocation. As a binding guiding principle, this strategic objective forms the basis of all other company goals.

Profit target

The Talanx Group strives for continual, above-average value enhancement of the invested capital. We seek to rank among the five most profitable of Europe's 20 largest insurance groups – measured by our sustained return on equity under IFRS. Our Group's minimum target in relation to profitability: a return on equity 750 basis points in excess of the average risk-free market interest rate for 10-year German government bonds over the past five years.

On the Group level we ensure that all company-specific profit targets at least satisfy the defined target return on equity.

Capital management

The capital management of the Talanx Group strives for an optimized capital structure in order to reinforce the Group's financial strength.

This is achieved in two ways: firstly, we minimize the cost of capital by using appropriate equity substitutes and financing instruments; secondly, we align our equity resources such that they at least meet the standards of the Standard & Poor's capital model for a "AA" rating. In accordance with the profit target, equity resources above and beyond this requirement are only established if they enhance our independence from the international insurance markets and hence promote the optimal provision of insurance capacity and protection.

Capital resources are allocated to those areas that promise the highest risk-adjusted post-tax profit over the medium term. In this context we make allowance for the desired portfolio diversification and, in particular, the regulatory framework. Measurement is based on the expected contribution to value added, arrived at from the coordinated business plans.

Growth target

In order to preserve and further improve our competitiveness, we strive for profit-oriented growth within the Talanx Group. This is achieved organically, by way of strategic and complementary acquisitions as well as through cooperations – with a preferred concentration on the segments of Property/Casualty Primary Insurance, Life Primary Insurance and Life/Health Reinsurance.

The growth strategy pursued by Talanx is geared to diversification of the portfolio with a view to optimizing the risk-adjusted return generated by the Group.

Along with segment-oriented diversification, our stated strategic objective is more extensive regional risk spreading within the individual primary insurance segments. The Talanx Group additionally targets complementary acquisitions outside Europe in selected growth markets. In the medium term, it is envisaged that the proportion of gross premium generated in Germany from primary insurance business should not amount to more than half the total gross premium income from primary insurance. In view of the different risk profiles of our various divisions, we only set ourselves profit targets in volatile segments. In less risk-exposed segments we define both profit and growth targets.

Markets and business climate

Overall economic development

The global economic upturn was sustained on a high level in 2007. The growth rate of the world economy at 4.8% was roughly stable, once again driven principally by dynamic expansion in emerging markets and the Eurozone.

Although the crisis on financial markets that began to set in during the second half of the year had no immediately discernible curtailing effect, a trend towards increased risks of cyclical slowdown could be discerned. These risks were, however, masked by continued rapid economic growth in the BRIC (Brazil, Russia, India, China) markets.

In the United States, on the other hand, there could be no mistaking the softening tendencies: after the economy had picked up modestly in the first half-year, the incipient sub-prime crisis ushered in a cyclical cooldown. The resulting repercussions for the financial and capital markets took their toll on growth as the year progressed. Consumer prices rose considerably more sharply than in the previous year on an annual average, and the core inflation rate of 2.4% was thus in excess of the 2% target set by the Federal Reserve Board. The favorable movement on the labor market slowed somewhat, and gross domestic product grew by only slightly more than 2%.

The cyclical trend in the Eurozone pushed the aggregate gross domestic product up by 2.6%, hence cementing the positive growth already recorded in the previous year. Considerable differences were observed between the individual member states: a modest upturn in France, Italy and Portugal contrasted with sharply higher growth rates in Finland, Greece, Austria and Spain. In Germany, too, the largest national economy in the Eurozone, business activity built on the positive tone of the previous year. The labor market across Europe also profited from this development, with the unemployment rate falling to 7.4%. EU-wide harmonized consumer prices were, however, still higher than the target level set by the European Central Bank (ECB).

Growth in real gross domestic product

Figures in %	2007 [1]	2006
USA	+2.2	+2.9
Eurozone	+2.6	+2.9
Germany	+2.5	+2.9
United Kingdom	+3.1	+2.9
Japan	+2.1	+2.4

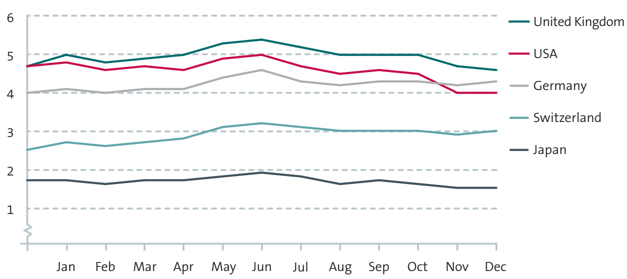
[1] *provisional figures*

Capital markets

Against the backdrop of rising inflation expectations and positive growth prospects in the Eurozone, the yield on 10-year German federal government bonds climbed from 3.95% to as much as 4.65% in the first half of the year. As the effects of the US real estate crisis began to spill over to the European financial sector too, fears were quickly awakened of darker clouds looming on the Eurozone growth horizon. In this climate the market for government bonds was increasingly viewed as a safe haven. The yield on 10-year German federal government bonds stood at 4.31% as at year-end.

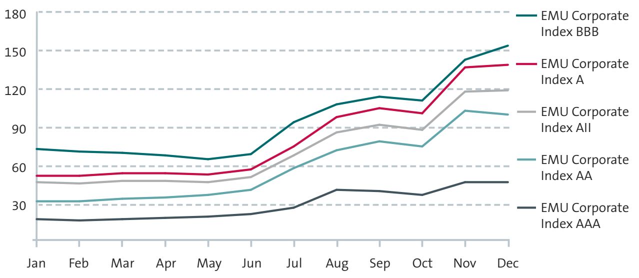
The US bond market was driven by rising inflation expectations and a slackening in economic growth during the first half of the year. The yield on 10-year US treasury bonds had increased from 4.70% to 5.23% by the beginning of June. After the Federal Reserve moved in September – citing growth risks – to initiate a cycle of interest rate cuts and reduced key rates by one percentage point to 4.25% by the end of the year, US yields began to rally. The yield on treasury bonds stood at 4.02% as at year-end.

Yields on 10-year government bonds in 2007
in %



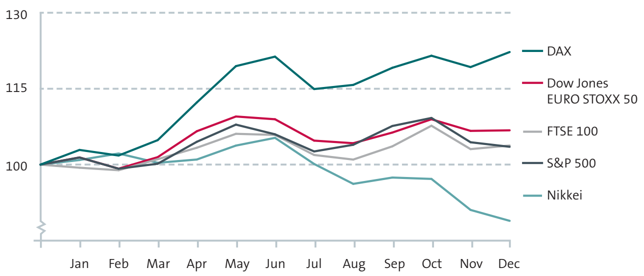
In this uncertain climate credit spreads widened appreciably towards the end of the year after moving sideways for a while. The price behavior was highly volatile.

Performance of corporate bonds in EUR
bps



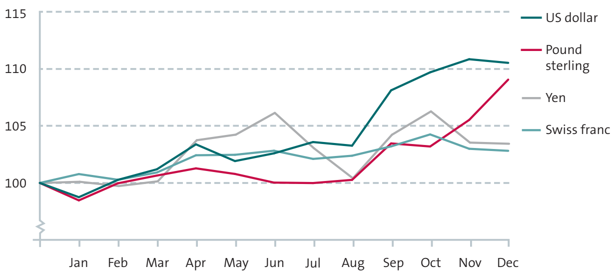
Movements on stock markets varied in 2007. The Dow Jones Euro STOXX50 closed the year just a shade higher than at the end of the previous year. The German DAX index, on the other hand, built on the good performance of prior years with a gain of 22.3%. In the United Kingdom the FTSE 100 put on 3.8%, hence outperforming most other European indices. The Dow Jones in the United States closed the year 6.4% higher, while the Japanese Nikkei 225 index slipped 11.1%. The mood on equity markets in the first half of the year was driven by strong liquidity, healthy corporate profits and a vigorous wave of mergers and acquisitions. Many stock indices had consequently soared to new record highs by the middle of July. From August onwards the subprime crisis prompted a reassessment of risks. An increasingly risk-averse stance on the part of investors led to a flight to safety and increased selling pressure on equities. Towards the end of the year equity markets began to rally again.

Movements on equity markets in 2007
31.12.2006 = 100



On the foreign exchange markets the US dollar continued to lose ground against the pound sterling and especially the euro over the course of 2007. The euro climbed to a new record high against the US dollar in 2007. The price of oil also soared to new highs.

Movement of the euro relative to other currencies
31.12.2006 = 100



The international insurance markets

Sustained economic growth and the largely favorable business climate in the major economic regions had positive implications overall for the global insurance industry in 2007.

In life insurance business demand for funded solutions for risk protection and retirement provision continued to increase on an international scale and created a broadly favorable environment for growth. On both the insurance and reinsurance side providers with a suitable product range and good sales positioning enjoyed a wide variety of growth opportunities. Business expansion was particularly notable in bancassurance – the sale of insurance products through bank branches. Along with regions such as Southern Europe, in which this form of distribution is traditionally widely established, its significance – assisted by relatively low barriers to market entry – grew appreciably in numerous emerging markets.

The property/casualty insurance markets were very largely overshadowed in 2007 by sustained softening notable for price erosion across a broad front. The rate decline in some areas of US business, including for example casualty insurance and the aviation and marine lines, was especially evident. Price competition here has already led to considerable erosion, although it should not be overlooked that premiums were coming back from what was originally a relatively high level.

The damage and losses caused worldwide last year by natural catastrophes and man-made disasters totaled an estimated USD 70 billion. Around 40% of this amount, roughly USD 28 billion, was covered by insurance – and benefits paid therefore rose by more than USD 10 billion compared to the previous year. Although losses from windstorm and flood events were higher in 2007, the total burden of insured losses was slightly below the average level of the last 20 years.

The German insurance industry

According to the figures available from the German Insurance Association (GDV) at the time when this Annual Report went to press, the German insurance industry booked only minimal premium growth of 0.8% in 2007 – a figure significantly lower than in the previous year which is even likely to fall short of the pace of general economic growth and the inflation rate in Germany.

Development of premium income in the individual insurance lines in Germany

in % compared to previous year	2007 [1)]	2006
Property/casualty insurance	–0.4	–0.7
Life insurance/occupational retirement provision	+0.6	+4.2
Private health insurance	+3.4	+4.2
Total	**+0.8**	**+2.5**

[1)] *provisional figures*

While the premium booked in life insurance had increased by 4.2% in 2006, the pace of growth slipped back to 0.6% in this major insurance sector in 2007. Viewed from this perspective, however, it should be borne in mind that the previous year's growth had been favorably influenced by the third step increase on the incentive scale for Riester policies. Had it not been for this effect, the growth level in life insurance in 2006 would have been similarly low to that seen in 2007.

In German property and casualty insurance the premium income booked by the individual lines moved in varying directions: while premiums in motor and industrial property insurance declined again as in the previous year, the premium volume in private customer lines (except motor), in particular, was further boosted. Along with the growth lines of property/casualty insurance, only private health insurance remains as a significant driver of growth in the German insurance industry.

Legal and regulatory environment

The year under review forcefully demonstrated that our business activities are consistently confronted with fresh challenges. The influencing factors were more varied than ever: not only a series of economic changes but also numerous reforms in the German and international legal environment left their mark on the insurance industry.

In July of the year under review the European Commission presented proposals for fundamental reform of insurance supervisory law in Europe in the form of the Draft Solvency II Framework.

The law amending the Insurance Supervision Act that was adopted by the German Federal Parliament in November 2007 – it entered into force on 1 January 2008 – is intended to strengthen the German insurance industry in the competitive European environment. Key points of this reform are new provisions relating to enterprise risk management. The rules place more exacting requirements, inter alia, on decision-making processes at companies. In another step, reform of the Insurance Contract Act was approved in the year under review that is intended to further strengthen the rights of policyholders.

Finally, November 2007 saw the entry into force of a new Environmental Damage Act which introduced civil liability for environmental damage and harm caused to biodiversity. The German insurance industry responded by launching a new type of liability insurance for environmental damage on the market.

Business development

The 2007 financial year was a successful one for the Talanx Group, despite difficult market conditions and a host of internal structural measures. It was successful inasmuch as, on the one hand, the Group generated very good results while further reinforcing its financial strength, and, on the other hand, work associated with the integration of the acquired companies made considerable progress – without losing sight of markets or clients.

Integration of the Gerling and BHW companies

Along with one of the largest takeovers in German insurance history, namely the acquisition of the operational Gerling companies by Talanx and the merger of these companies with the corresponding former HDI companies, the Group had to cope with another integration – albeit on a smaller scale: in July 2007 Talanx and Postbank signed an agreement regarding the purchase by Talanx of BHW Leben, BHW Pensionskasse and 50% of the interests in the PB insurers. Integration of the BHW companies into the Talanx Bancassurance Division then began – a task that is expected to be completed by the middle of the current year.

With the entry in the commercial register in September 2007 of the merger of Gerling-Konzern Allgemeine Versicherungs-AG into HDI Industrie Versicherung AG, the Gerling integration in Germany was largely completed from the standpoint of company law and the target structure of the HDI-Gerling non-life group was accomplished. Relocations within the non-life group to the joint base in Hannover are scheduled to be completed by the summer of 2008. Compared to other mergers, an unusually high proportion of staff on the first and second levels of management – specifically more than 80% – remained loyal to the merged enterprise.

Since the integration of the HDI-Gerling life group had already been completed under company law in September 2006, 2007 was devoted to bringing the staff and companies together geographically. The AmpegaGerling asset management operation similarly commenced fully unified operations in May 2007 in Cologne.

Business experience in 2007

Gross written premium (including savings elements of premium under unit-linked life and annuity policies) was almost on a par with the previous year at EUR 19.1 (19.4) billion, corresponding to a decline of 1.2%. Adjusted for exchange-rate effects, gross premiums were 1% higher than in the previous year.

The development of premium income in the year under review was influenced by opposing special effects: whereas in the previous year the Gerling companies had been included in the consolidated financial statements for three quarters, in 2007 they were consolidated for the full financial year. The BHW companies and the additionally acquired 50% interests in the PB insurers were included from the fourth quarter onwards. The Hannover Re subsidiary Praetorian Financial Group, on the other hand, was only recognized in the Group's income statement for the first five months as a consequence of its sale effective 31 May 2007.

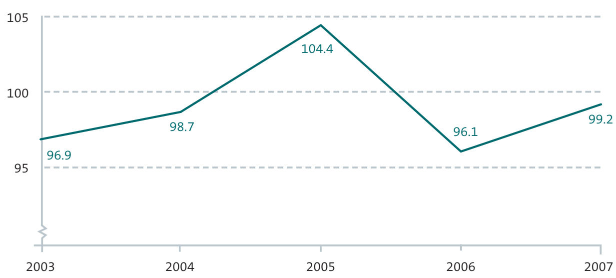
If these special effects are factored out, gross written premium was 5% lower than in 2006, primarily due to the Non-Life Reinsurance segment. This reflects on the one hand the fall in the value of the US dollar, and on the other hand the underwriting policy practiced by Hannover Re, under which it operates with a strict profit orientation in times of softening markets and is willing to accept losses of market shares.

The Group's highest-growth segment in 2007 after elimination of special effects was Life/Health Reinsurance. Gross premiums here increased by 10% to EUR 3.1 (2.8) billion. This can be attributed to the successful expansion of the enhanced annuities business in the UK.

Net premium earned similarly developed differently in the individual segments. All in all, it changed only marginally relative to the previous year, contracting by 0.8% to EUR 14.9 (15.0) billion.

The Group's result was burdened by an increased number of major claims compared to the previous year. Winter storm "Kyrill" alone produced a net strain of EUR 149 million in January. The loss ratio for property/casualty insurance and non-life reinsurance business climbed to 72.5 (71.5)%, while the expense ratio rose to 26.7 (24.6)%. The combined ratio increased to 99.2 (96.1)%.

Combined ratio
%



The number of policies in the Group's primary insurance portfolio grew by 7% to 21 million.

Group EBIT developed favorably, principally thanks to life/health reinsurance. With an increase of 13% to reach EUR 1.5 (1.3) billion, the Group generated the highest operating profit in its history – despite integration-related expenses of EUR 124 (145) million recognized in income.

The tax expenditure of EUR 329 (438) million includes non-recurring deferred tax income of EUR 230 million (before minority interests) resulting from the cut in tax rates brought about by the reform of corporate taxation in 2008. The tax ratio after adjustment for this non-recurring effect stood at 42 (38)%. In the case of the companies operating in the Life Primary Insurance segment, it should be borne in mind in this context that policyholders share in the positive effect on the net income for the reporting period through the surplus participation. This surplus participation results in a charge to EBIT. The net profit for the year totaled EUR 999 million. After deduction of minority interests in an amount of EUR 522 million, Group net income increased by 21% to EUR 477 (394) million. The total return on premium (i.e. EBIT relative to net premiums earned) climbed by 1.1 percentage points to 9.7 (8.6)%.

All in all, the performance of the 2007 financial year was in line with our expectations. We surpassed our goal of generating a return on equity 750 basis points in excess of the risk-free interest rate.

Financial position and assets

The balance sheet structure of the Talanx Group is shaped by its character as a diversified financial services group and its activities as a large, globally operating insurance group. The dominant item on the assets side is the investments, which at EUR 69.6 billion accounted for around 73% of total assets as at the balance sheet date. They serve first and foremost as security for the provisions constituted in insurance business, which amounted to EUR 69.0 billion (72% of total assets). The most important sources of financing are the shareholders' equity (6% of total assets) and the issued subordinated debt (2% of total assets).

Our total assets grew by EUR 2.4 billion year-on-year to EUR 95.4 billion. This was primarily attributable to the significant rise in our investments of EUR 3.7 billion (or 6%) to EUR 69.6 (65.9) billion. The increase in the asset portfolio is connected with the expansion of our insurance business in 2007 and the inflows of cash from our investments themselves. For further explanatory remarks on the investments please see the sections entitled "Investments" in the management report and "Nature of risks associated with insurance contracts and financial instruments" in the Notes.

In step with the increase in the item "Investments for the account and risk of holders of life insurance policies", which is comprised of the investments relating to unit-linked insurance products, the balance sheet item "Technical provisions in the area of life insurance insofar as the investment risk is borne by policyholders" rose by EUR 846 million to EUR 4.3 billion. In the case of these life insurance products, in respect of which the investment risk is borne by the policyholders, the technical liabilities reflect the fair values of the corresponding assets.

Balance sheet structure and key figures	**31.12.2007**	31.12.2006 [1]
Figures in EUR million		
Assets		
Intangible assets	3,127	2,609
Investments (including funds held by ceding companies)	69,624	65,938
Investments for the account and risk of holders of life insurance policies	4,314	3,468
Reinsurance recoverables on technical provisions	7,552	7,428
Accounts receivable on insurance business	3,758	4,453
Deferred acquisition costs	3,278	3,168
Cash	2,038	1,670
Deferred tax assets	237	577
Other assets	1,450	1,743
Assets of disposal groups classified as held for sale	—	1,910
Total assets	**95,378**	**92,964**
Liabilities		
Shareholders' equity (incl. minority interests)	6,161	5,482
Subordinated liabilities	2,168	2,170
Technical provisions	69,007	66,654
Technical provisions in the area of life insurance insofar as the investment risk is borne by policyholders	4,314	3,468
Other provisions	2,558	2,298
Liabilities	10,015	10,079
Provisions for deferred taxes	1,155	1,770
Debts of disposal groups classified as held for sale	—	1,043
Total liabilities	**95,378**	**92,964**

[1] *Adjusted on the basis of IAS 8*

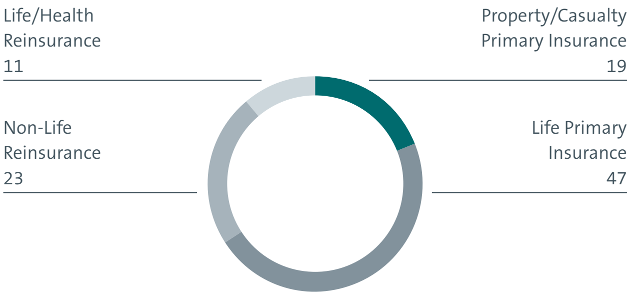
The technical provisions grew by EUR 2.3 billion to EUR 69.0 (66.7) billion. The breakdown of the major provisions connected with the insurance business, after allowance for the shares of reinsurers, was as follows:

Figures in EUR billion	31.12.2007	31.12.2006
Benefit reserve	34.9	32.0
Loss and loss adjustment expense reserve	21.0	21.3
Unearned premium reserve	4.2	4.6
Provision for premium refunds	1.4	1.3

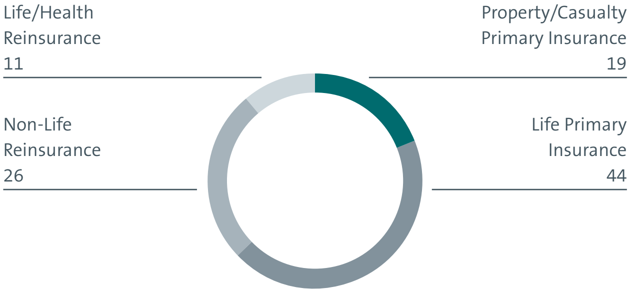
The sharp rise of EUR 2.9 billion (+9%) in the benefit reserve – representing future obligations in life insurance – to EUR 34.9 billion derived principally from the life insurance business written by our primary insurers. Particularly significant factors in the increase were the acquisition of BHW Lebensversicherung AG and BHW Pensionskasse AG as well as the acquisition of the remaining 50% interests in the PB insurers. The favorable growth of new business also contributed to the rise in the benefit reserve.

The technical provisions were divided as follows among the individual Group segments:

Technical provisions in 2007
%



Technical provisions in 2006
%



The year-on-year comparison highlights the increasingly well-balanced Group structure. The Group segment of Life Primary Insurance has been further strengthened, particularly due to the business of the BHW and PB companies added in the year under review. As an additional factor, in 2007 the non-life insurers belonging to the Bancassurance Division were reallocated – analogously to the allocation of areas of responsibility to individual Board members – to this Group segment (previously: Property/Casualty Primary Insurance); the reader is also referred to the section of the Notes entitled "Summary of major accounting policies – adjustment according to IAS 8". Almost half (47%) of the technical liabilities were thus apportionable to the Group segment of Life Primary Insurance in 2007. As in previous years, a special focus of our business activities in this area is individual and occupational retirement provision.

The decrease in technical liabilities in the Group segment of Non-Life Reinsurance was connected inter alia with the sale of Praetorian Financial Group, Inc., in May 2007. A further advantageous factor here was that the ratio of major claims and catastrophe losses to net premium earned in the year under review was below the expected level. The movement of the euro against the most important foreign currencies in this segment was another key influencing factor. Most notably, the year-on-year fall of the US dollar against the euro was reflected in reduced loss reserves when calculated on a euro basis.

The assets and liabilities of the Praetorian Group, which was sold effective 31 May 2007, as well as the real estate packages disposed of in the year under review were recognized in the previous year under the item "Assets of disposal groups classified as held for sale". No assets or liabilities were classified as "held for sale" on 31 December 2007.

Asset/liability management

The structure of our technical provisions and other liabilities constitutes the basis for the Talanx Group's investment strategy. The linking and harmonization of the underwriting portfolio (liability management) with the investment portfolio (asset management) delivers integrated asset/liability management. The aim is to stabilize the economic position in the face of fluctuations on capital markets.

The mix of our asset portfolio is guided by continuous dynamic financial analysis as well as the requirements of liquidity and matching currency coverage. The latter is important because a large portion of our business – especially in the Group segments of Non-Life and Life/Health Reinsurance – is written in foreign currencies. By systematically adhering to the principle of matching currency coverage, however, we ensure that currency fluctuations do not significantly impact the Group's assets, financial position or net income.

The implemented management and control mechanisms are wide-ranging and encompass most notably organizational rules such as regular reviews of limits and portfolio/sensitivity analyses, together with standard and ad hoc reports that are stipulated on this basis, all of which are integrated into the overall process.

We also use derivative financial instruments in order to structure asset management activities as effectively as possible (see here the sections entitled "Hedge accounting" and "(12) Derivative financial instruments and structured products" in the Notes.

The long-term debt taken out consists of altogether seven subordinated debts in a total nominal amount of EUR 2.2 billion and a loan of nominally EUR 550 million. It complements our shareholders' equity and serves primarily to optimize our cost of capital and safeguard liquidity at all times. The new loan taken out by Talanx AG in 2007 in an amount of EUR 550 million served to finance the acquisition of the BHW companies and the remaining 50% interests in the PB insurers. The long-term debt makes up altogether 3 (2)% of the balance sheet total or 31 (28)% of the sum total of shareholders' equity and long-term debt.

Investments

Our investment policy is geared – in compliance with tax considerations – to generating stable and plannable returns while at the same time achieving a high quality standard of the asset portfolio. The emphasis of our investment strategy is on the tried and trusted principles of security, liquidity, mix and spread.

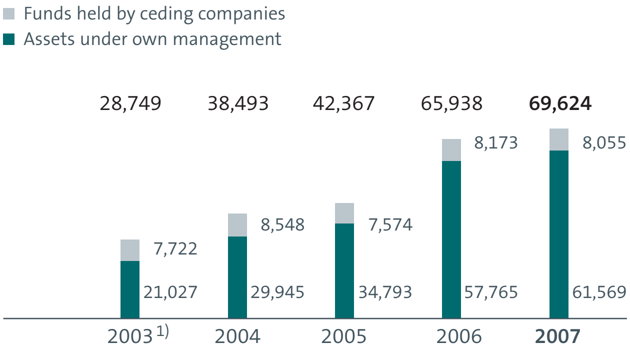
We invest only in assets that promise an adequate return. Currency risks, especially in reinsurance business, are controlled through adherence to the principle of matching currency coverage, i.e. we cover the expected liabilities in the corresponding currencies. Furthermore, we safeguard the Group's liquidity and ability to pay at all times by synchronizing the maturity profiles of assets with the corresponding liabilities and we keep sufficient liquid funds available to be able to meet matured liabilities at any time.

Our risk management in the investment sector is discussed in detail in the risk report, while developments on financial markets are described under "Markets and business climate".

Development and structure of investments

The total volume of assets held by the Talanx Group as at the balance sheet date amounted to EUR 69.6 billion. The growth in the portfolio over the past five years is shown below:

Investments
Figures in EUR million

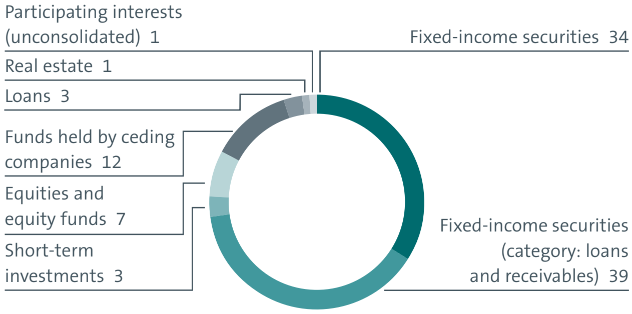


1) *On the basis of US GAAP*

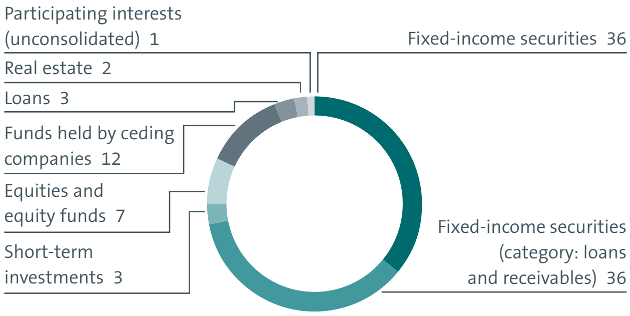
The favorable development of our insurance activities, the initial consolidation of the two BHW companies and the inflow of cash from the investments themselves served to boost our asset portfolio by EUR 3.7 billion or 6% to EUR 69.6 billion. Viewed from the perspective of the major companies belonging to the Talanx Group, the proportion of the asset portfolio held in foreign currencies remains moderate at around 20%. Investments denominated in US dollars continue to make up the largest single item in the foreign currency portfolio (accounting for around 67% of assets held in foreign currencies).

The breakdown of our investment portfolio in 2007 was largely unchanged from the previous year. Based on our high diversification of risks in the context of the investment strategy, the assets held by the Talanx Group broke down as follows as at the balance sheet date:

Breakdown of investment portfolio in 2007
%



Breakdown of investment portfolio in 2006
%



Fixed-income securities

The asset portfolio of the Talanx Group is dominated principally by investments in fixed-income securities. A total volume of EUR 50.8 billion (73%) was invested in this asset class as at the balance sheet date. The vast bulk of the holdings were classified as "Loans and receivables" recognized at nominal value. Around 46% of holdings were allocated to the balance sheet categories "Financial instruments held to maturity", "Financial instruments available for sale" and the two categories of "Financial instruments at fair value through profit or loss" and "Financial instruments held for trading".

In 2007 we increasingly carried bonds as "Loans and receivables" upon their addition and hence recognized them at amortized cost. An increase of EUR 3.6 billion or 14% to EUR 29.2 billion was recorded in this category. At the same time the portfolio of fixed-income securities carried as available for sale decreased slightly by EUR 200 million to EUR 21.3 billion.

As in previous years, we actively managed the duration of our fixed-income securities. As at the balance sheet date the duration – i.e. the average term to maturity of the bond holdings – was approximately 5.8 years.

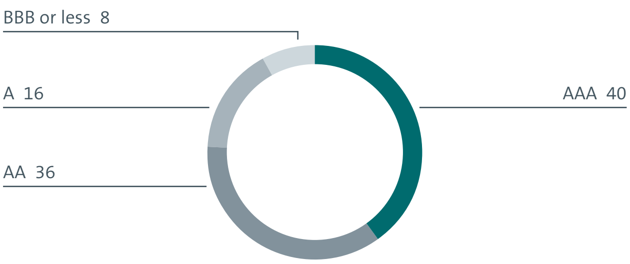
The focus of our investments in the area of fixed-income securities – with a volume of around EUR 17.9 billion – was primarily on government bonds or instruments issued by debtors of similar quality (approximately 35%). Roughly 26% of the portfolio was invested in bonds issued by corporations or banks. A further 28% was invested in mortgage-backed securities, principally mortgage bonds. Of the corporate and bank bonds, around 63% of the instruments were issued by German entities. The proportion of national debtors in the case of mortgage-backed securities was roughly 68%. Holdings in investment funds, which invest predominantly in high-quality fixed-income securities, accounted for about 9% of the bond portfolio. The breakdown of the investments described here highlights our conservative investment policy. Based on the neutral/defensive posture of our fixed-income portfolio, results came in within the planned parameters.

From the second half of 2007 onwards the international financial and credit markets came under the shadow of the crisis on US subprime markets. Of our total asset portfolio of EUR 69.6 billion, less than 0.2% is potentially affected by the crisis due to direct subprime exposure. In the year under review the Talanx Group did not incur any defaults on securities that could be attributed to subprime exposure. Among the Group's primary insurers no direct subprime write-downs were necessary, while in the reinsurance segments write-downs were taken amounting to a mere EUR 10 million. Indirect subprime losses on bank stocks were reflected in impairments of roughly EUR 20 million altogether. Specific securities of affected issuers were scaled back for the purposes of risk minimization.

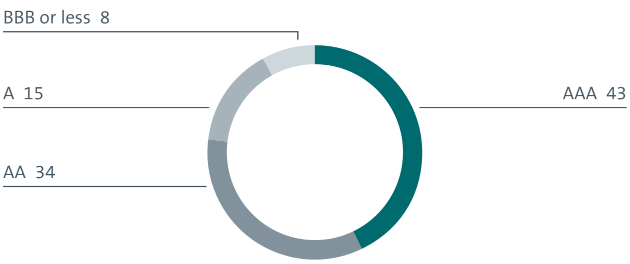
The charges on available-for-sale financial instruments recognized at fair value, which are taken in shareholders' equity, amounted to EUR 292 million as at 31 December 2007 – compared to charges of EUR 196 million in 2006. In particular, the widening of spreads connected with the financial crisis produced adverse effects on reserves in the second half of 2007, although these were more than offset by declining capital market rates in the same period.

The quality of our portfolio of fixed-income securities – measured by rating classes – was good. On 31 December 2007 around 89% of fixed-income securities, including those held in bond funds, were rated "A" or better.

Rating of fixed-income securities in 2007
%



Rating of fixed-income securities in 2006
%



Equities and equity funds

Against the backdrop of favorable equity markets in the course of 2007, the Group's equity investments increased slightly, as a consequence of which the equity allocation – i.e. the proportion of total assets attributable to equities and equity funds – at year-end stood at 6.8 (6.7)%. Measured at fair value, the book value of the assets was around EUR 4.7 (4.5) billion on the balance sheet date. The equities were partially protected against price losses by means of systematic hedging strategies.

As at the balance sheet date of 31 December 2007 the net balance of unrealized gains on equity securities classified as available for sale amounted to EUR 410 (422) million. The slight decrease was attributable to the increased realization of profits through equity sales in the year under review.

Funds held by ceding companies

The funds held by ceding companies involve securities deposits furnished to cedants as collateral for possible reinsurance payments. The amount of and changes in the recoverables normally reflect changes in the corresponding technical liability for the reinsured business. The level of the funds held by ceding companies – at EUR 8.1 billion – was roughly on a par with the previous year (EUR 8.2 billion).

Real estate including shares in real estate funds

Own-use real estate is not included in the investments, but is instead recognized in the balance sheet item "Other assets". The real estate allocation of our portfolio excluding such own-use real estate remains very low. Investments in real estate are always made with a view to generating a commensurate return. Existing properties are therefore consistently reviewed with an eye to their long-term profitability and future risks, e.g. locational risks. Two real estate packages of residential and commercial properties were sold in the year under review. The book values of real estate used by third parties, which are recognized under the investments, consequently contracted as at 31 December 2007 to EUR 616 (782) million.

Net investment income

Net investment income in the 2007 financial year totaled EUR 2.7 (2.5) billion, an increase of EUR 186 million (+7%) compared to the previous year.

Growth in net investment income over the past five years

	2007	2006	2005	2004	2003 [1)]
Figures in EUR million					
Ordinary investment income	2,853	2,544	1,666	1,393	1,452
thereof current income from interest-bearing securities	2,273	1,869	1,177	864	898
thereof income from funds held by ceding companies	251	283	372	410	548
Profit from shares in associated companies	10	5	3	—	—
Realized net gains on investments	243	169	234	441	179
Write-ups/write-downs on investments	–218	–64	–36	–48	–160
Unrealized net gains on investments	–64	–15	34	23	19
Other investment expenses	122	123	67	65	101
Net investment income	**2,702**	**2,516**	**1,834**	**1,746**	**1,388**

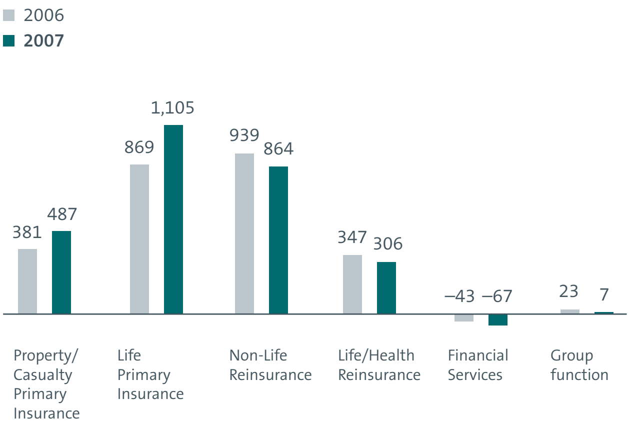
[1)] *On the basis of US GAAP*

The rise can be attributed first and foremost to the increase in the average yield on our bond portfolio, as a consequence of which ordinary investment income climbed by a significant EUR 309 million to EUR 2.9 billion. This growth more than offset, in particular, the decline in ordinary income from real estate brought about by the sales projects. An amount of EUR 251 (283) million was collected in interest income on funds deposited with ceding companies.

On balance, a profit of EUR 243 (169) million was generated in the 2007 financial year from the disposal of investments as part of proactive asset management – principally due to the upbeat trend on equity markets. This figure includes profits from equity investments of around EUR 322 (225) million, contrasting with a loss on the disposal of fixed-income securities amounting to EUR 102 (37) million.

The higher write-downs taken on investments of EUR 218 million were driven primarily by the increased depreciation requirement on our dividend-bearing instruments. Along with the profits realized due to the favorable performance of stock markets, we were compelled to take impairments of EUR 137 (20) million on specific equities.

Breakdown of net investment income by Group segments [1)]
Figures in EUR million



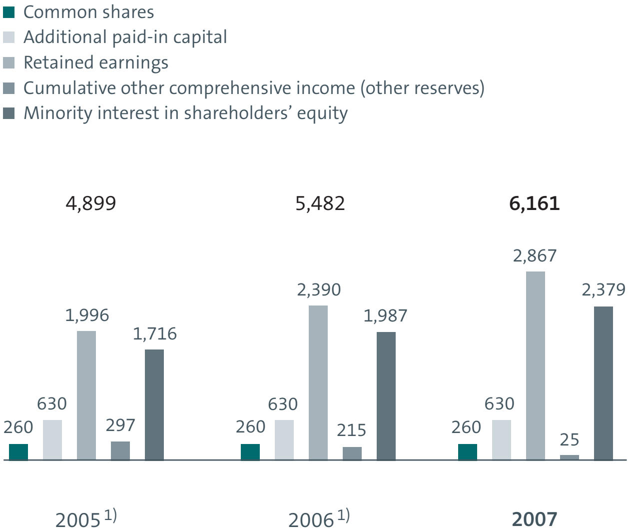
[1)] *Presentation after elimination of intra-Group relations between two segments*

The investment income reported by the Group segment of Financial Services consists principally of the costs of managing all assets – both the Group's own and third-party holdings. Reflecting the increase in the volume of assets under management, this figure fell as expected to –EUR 67 (–43) million.

The consolidation effects reported in the segmental statement of income are allocated to the various segments according to economic causation in this presentation. The amounts contributed by each of the segments to the Group's net investment income are thus immediately apparent. Consolidated companies that do not perform any operational functions with non-Group entities but instead discharge primarily holding functions are included under "Group function".

Explanation of changes in Group shareholders' equity

Changes in shareholders' equity
Figures in EUR million



[1)] *Adjusted on the basis of IAS 8*

In the financial year just-ended our shareholder's equity grew by EUR 679 million or 12% to EUR 6.2 (5.5) billion (for further information on the composition of the shareholders' equity please see also the statement of changes in shareholders' equity in the consolidated financial statements). The major changes in shareholders' equity were due to the following reasons:

Group net income (excluding minorities) climbed by 21% in 2007 to EUR 477 (394) million and was allocated in full to retained earnings.

The "Cumulative other comprehensive income (other reserves)" contracted by a substantial EUR 190 million year-on-year to EUR 25 million. This was due primarily to the decrease in the other changes in shareholders' equity as a consequence of changes in the ratios of participating interests (–EUR 131 million). The equity item was reduced by EUR 61 million following the squeeze-out at Gerling-Konzern Allgemeine Versicherungs-AG. A further reduction was attributable to the sale of the interest held in E+S Rückversicherung AG to a third party outside the Group, causing a corresponding increase in the minority interests in shareholders' equity. In addition, the positive balance of unrealized gains and losses on investments decreased slightly by EUR 11 million. The higher interest rate level was reflected in particular in increased unrealized losses relating to our portfolio of available-for-sale securities. The balance of unrealized gains and losses in our equity portfolio decreased following profit-taking in light of the favorable trend on stock markets. With the euro moving sharply higher – especially against the US dollar –, the currency translation reserve fell by EUR 66 million. This reserve recognizes exchange rate effects arising out of the translation of the assets and liabilities of our foreign subsidiaries into euros.

The minority interests in shareholders' equity increased by EUR 392 million to around EUR 2.4 billion. The rise was principally connected with the minority interest in Group net income, which amounted to EUR 522 (333) million. Through retrospective adjustment of shareholders' equity in an amount of EUR 11 million recognized directly in equity, it was possible to standardize the accounting principles used in the financial statements of all subgroups under common control of the parent company HDI V.a.G.; see here the section entitled "Summary of major accounting policies" in the Notes.

Rating of the group and its major subsidiaries

In recent months the Talanx Group and its companies again received excellent or very good ratings from the international rating agencies Standard & Poor's (S&P) and A.M. Best. It is important to distinguish between the "Financial Strength Rating", which primarily assesses our company's ability to meet obligations to customers – i.e. our policyholders –, and the "Issuer Credit Rating" or "Counterparty Credit Rating", which provides investors with information from an independent source about a company's financial strength.

All information provided on ratings in this section is valid as at 30 May 2008.

Financial Strength Ratings of the Talanx Group and its subgroups

	Standard & Poor's		A.M. Best	
	Note	Outlook	Note	Outlook
Talanx Group			A	Stable
Talanx Primary Group [1)]	A+	Stable		
Hannover Re subgroup [2)]	AA–	Stable	A	Stable

[1)] This rating applies to the subgroup of primary insurers as a whole as well as its major core companies (Property/Casualty Primary Insurance and Life Primary Insurance segments of the Talanx Group).

[2)] This rating applies to Hannover Re and its major core companies. The Hannover Re subgroup corresponds to the Non-Life Reinsurance and Life/Health Reinsurance segments of the Talanx Group.

On the basis of these ratings, the rating agencies categorize the financial stability of the Talanx Group as "excellent" or "strong". S&P awarded the Reinsurance segment of the Talanx Group the second-highest possible rating ("Very Strong"), while the Primary Group received the third-best mark ("Strong"). S&P attributed the downgrade of the Primary Group segment in 2006 to risks that could arise out of implementation of the Gerling integration. The rating agency highlights the outstanding competitive position and strong earnings power of the Talanx Group as particularly impressive strengths. The rating awarded by A.M. Best corresponds to its second-highest grade ("excellent") with respect to both the Talanx Group and the Hannover Re Group. A.M. Best has already reaffirmed the Financial Strength Rating of the Hannover Re Group for 2008.

The rating activities of the Talanx Group were significantly expanded in 2007. S&P was commissioned to issue Financial Strength Ratings for additional primary insurance companies. In some instances an independent rating is a prerequisite for being able to conduct operational business.

Financial Strength Ratings of companies belonging to the Talanx Primary Group [1)]

Companies belonging to the Talanx Primary Group	Standard & Poor's Note	Standard & Poor's Outlook	A.M. Best Note	A.M. Best Outlook
HDI-Gerling Industrie Versicherung AG	A+	Stable	A	Stable
HDI Direkt Versicherung AG	A+	Stable	—	—
HDI-Gerling Lebensversicherung AG	A+	Stable	A	Stable
Aspecta Lebensversicherung AG	A+	Stable	—	—
neue leben Lebensversicherung AG	A+	Stable	—	—
HDI-Gerling America Insurance Company [2)]	A+	Stable	A	Stable
HDI-Gerling Verzekeringen N.V. (Nederland)	A	Stable	—	—
HDI-Gerling Verzekeringen N.V./ HDI-Gerling Assurances S.A. (Belgie/Belgique)	A	Stable	—	—
HDI Assicurazioni S.p.A.	A	Stable	—	—
HDI-Gerling Welt Service AG	A	Stable	—	—
CiV Lebensversicherung AG	A	Stable	—	—

[1)] *Current ratings of Hannover Re subsidiaries are available online at the Hannover Re website.*

[2)] *The A.M. Best rating shown here is still assigned to the parent company Gerling America Insurance Company. Upon implementation of the target structure (planned for 2008) the two companies are to be merged and will conduct business operations under the name shown above.*

S&P defines the first six companies listed in the table (shown against a grey background) as "core companies" of the Talanx Primary Group. This is also why they received the same grade of rating. The other companies listed in the table are considered by S&P to be strategically significant participations and have therefore been awarded grades that are one notch* lower. In the case of A.M. Best, all three companies analyzed by the agency are defined in this table as "main operating subsidiaries" of the Talanx Group.

Issuer Credit Ratings of companies belonging to the Talanx Group

	Standard & Poor's Note	Standard & Poor's Outlook	A.M. Best Note [1)]	A.M. Best Outlook
Talanx AG	A–	Stable	bbb+	Stable
Hannover Rückversicherung AG	AA–	Stable	a	Positive

[1)] *In order to distinguish Financial Strength Ratings from Issuer Credit Ratings, A.M. Best uses lower-case script for the latter grades.*

On the basis of these ratings both agencies assess the financial strength of Talanx AG as "very good", corresponding to the third-best category in each case. The somewhat inferior grades compared to the Financial Strength Ratings are attributable to the methodology used by the rating agencies, under which a rating markdown is applied to holding companies. In other words, in accordance with the general analytical criteria used by the rating agencies, companies that exercise a purely holding function with no operational activities of their own are downgraded relative to the Financial Strength Rating that would be awarded to a comparable insurance undertaking.

The subgroup parent Hannover Re has received an Issuer Credit Rating of "excellent" from both rating agencies. This is equivalent to the second-best rating category. Compared to the previous year, the outlook for this company has further improved according to A.M. Best: it was raised from "Stable" to "Positive" in March 2008. The rating agency cited as justification the company's considerably improved profitability. S&P reaffirmed its "Outlook: Stable" assessment in May 2008; Hannover Re's Issuer Credit Rating is therefore on exactly the same level as the company's Financial Strength Rating.

**A notch is used to indicate a downgrade within a single rating category.*

Analysis of the consolidated cash flow statement

The cash flows of the Talanx Group are of course dominated by our business as an insurer and reinsurer. We first receive premiums for the assumption of risks and subsequently make payments in the event of a claim, normally at a point in the future that is initially unknown. The cash flow statement of insurance enterprises is therefore only of limited informational value.

Change in cash and cash equivalents

Figures in EUR million	31.12.2007	31.12.2006
Cash flow from operating activities	3,337	3,392
Cash flow from investing activities	−3,443	−3,228
Cash flow from financing activities	493	481
Change in cash and cash equivalents	387	645

The cash flow statement was drawn up using the indirect method. It was adjusted for the effects of changes in the consolidated group as well as exchange rate effects.

The point of departure for determining the cash flow from business activities was the net profit of EUR 999 (727) million.

The favorable course of business in the year under review was also reflected in the high inflow of cash from operating activities. In this context the net profit of EUR 999 million was adjusted in the consolidated cash flow statement by the increase (net perspective) in technical provisions (EUR 1.9 billion). Particularly as a consequence of the acquisition of the BHW companies and PB insurers, the benefit reserves increased in the Life Primary Insurance segment. On the other hand, the loss and loss adjustment expense reserves in the Non-Life Reinsurance segment decreased slightly, inter alia due to the disposal of the Praetorian Financial Group, a net ratio of major claims and catastrophe losses that was below the expected level and exchange rate effects.

The outflow of funds from investing activities was determined by payments made for the purchase of investments. Amounting to EUR 2.8 billion, they exceeded the incoming payments from the sale or final maturity of investments. The proceeds from the sale of consolidated companies include the inflow from the sale of Praetorian Financial Group, Inc. (EUR 394 million). The disposal of the four companies belonging to the Gerling-at-Lloyd's Group – Gerling Syndicate Holdings Ltd., Gerling at Lloyd's Ltd., Gerling Syndicate Services Ltd. and Gerling Corporate Capital Ltd. – gave rise to a cash outflow of EUR 10 million. The further cash outflow from the purchase of consolidated companies derived principally from the acquisition of the BHW companies and the interests in the PB insurers (EUR 528 million). The increase in inflows from the sale of real estate related primarily to the real estate packages of HDI-Gerling Lebensversicherung AG that were sold in March 2007.

The cash inflow from financing activities resulted mainly from the taking up of a loan in a nominal amount of EUR 550 million to finance the acquisition of the BHW companies and the interests in the PB insurers. The loan becomes due in 2012.

The total cash and cash equivalents grew by EUR 368 million to EUR 2.0 billion.

Non-financial performance indicators

Staff

The Gerling Group, which was acquired in 2006, was fully consolidated for the first time in the year under review. The number of staff employed by the Talanx Group on an annual average thus rose to 17,178 (translated into full-time positions this is equivalent to 15,989). If the Gerling companies had been included for the full financial year in 2006, the number of employees would have been 17,549 (or 16,576 full-time equivalents). The decrease of 371 staff only partially reflects the synergistic effects realized as part of the integration, since to some extent this was offset by enlargement of the workforce – especially at the companies abroad (Poland, Turkey) – and the acquisition of BHW Lebensversicherung AG.

The necessary manpower reductions in the Property/Casualty Primary Insurance and Financial Services segments as well as the Life Insurance Division were implemented in the most socially acceptable manner possible. Special use was made of partial retirement arrangements and termination agreements. Under the social compensation plan fair termination payments were agreed in cases where staff left the Group. Employees who wish or find themselves compelled to seek a professional reorientation are assisted by an employment and placement company. Yet the social compensation plan not only regulates compensation for employees leaving the Group, it is first and foremost aimed at keeping staff within the company and supporting their mobility. It therefore sets out arrangements governing the assumption of relocation expenses, double rent payments and broker's fees, the payment of an "express relocation bonus" and the reimbursement of travel expenses. In Germany around 2,000 employees moved to a new working location for integration-related reasons, around two-thirds of them in the property/casualty sector (including in-town relocations due to the merger of branches).

Sustainability

The member companies of the Talanx Group demonstrate their sense of responsibility to the environment and society in a broad variety of ways. On the one hand, they participate in projects – such as Hannover Re's involvement in the "Ecological Project for Integrated Environmental Technology" – geared to preventive environmental protection; on the other hand, they also develop products in the course of their business operations that promote sustainability criteria such as environmental conservation, energy consumption and social responsibility. One example of a new product offering aimed at investment in sustainability is the unit-linked annuity product Clean.invest marketed by Aspecta, which invests in investment funds managed according to ethically and ecologically sustainable criteria. We are thus able to attract those customers who are increasingly clamoring for investment products that address the issue of sustainability.

Sales, marketing and advertising

The multi-brand principle pursued within the Talanx Group is reflected in its external communication inasmuch as the subsidiaries seek to address their specific customer segments with their various brands through tailored marketing and advertising. Primary insurers such as HDI, HDI-Gerling and Aspecta engage directly with a broader public, using inter alia TV commercials, publicity campaigns and sponsoring activities.

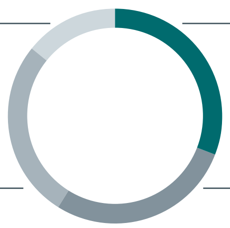
Talanx AG systematically targets the broader financial community and business journalists. We enhance awareness among these target groups inter alia through sponsorship of a stock market bulletin on television. The findings of the latest survey indicate steady improvement in awareness of the Talanx brand: in the spring of 2008 more than half (52%) of the program's audience were familiar with Talanx as an insurance group, compared to 45% in the previous year. The TV commercial and Talanx advertising show not only the Talanx logo but also the logos of the Group's major brands so as to underline the connection.

The sales channels employed by the Group's companies are extremely diverse. They range from the use of brokers and independent agents through tied agents' organizations and local representation by branch offices and sales outlets to highly specialized bancassurance cooperations. In the year under review a greater focus was placed on Internet sales in the property/casualty sector. HDI Direkt launched its website HDI24.de for products branded under the same name. Customers can price policies for motor, personal liability and legal protection insurance and take out contracts at online conditions over the Internet.

Development of the Group segments

The activities of the Talanx Group remain concentrated on the same five Group segments. The existing Life Primary Insurance segment features a new line-up: the non-life insurers operating under the bancassurance brands, which mainly transact personal accident insurance, are now allocated to this segment. Talanx is thus taking its lead from the management approach required by IFRS, the basis of which is that the units formed for the purposes of the enterprise's reporting and management are also of relevance to its external segment reporting. The Italian company HDI Assicurazioni, which transacts property/casualty and life insurance, is now allocated wholly to the Property/Casualty Primary Insurance segment. The figures for the previous year have been adjusted accordingly.

Segmental breakdown of gross premium
%



Following implementation last year of the intermediate holding structure for the Life Insurance Division in the Life Primary Insurance segment, the year under review saw completion of this step for the Property/Casualty Primary Insurance segment: HDI Service AG was renamed HDI-Gerling Sach Serviceholding AG and extended its remit to include the holding company function. Similarly, the Bancassurance Division was also reorganized in accordance with this structure, which has been successfully adopted in most areas of the Group: upon conclusion of the year under review the intermediate holding company Proactiv, which is positioned directly under Talanx AG, took over at the helm of the division. This line-up in the various segments and divisions is driven by the principle of aligning all areas of the Group efficiently and cost-effectively despite its high level of decentralization.

Upon closing of the sale of Praetorian Financial Group, Inc. – the US primary insurance subsidiary transacting specialty business – to the Australian QBE Insurance Group in May 2007, the Hannover Re Group turned its focus exclusively to reinsurance and is now comprised of just two strategic business groups: non-life reinsurance and life/health reinsurance; it should, however, be noted in this context that non-life reinsurance now also encompasses the product range consisting of structured covers as well as the remaining specialty business.

The figures presented below for individual companies were determined in accordance with IFRS after consolidation within the relevant Group segment.

Property/Casualty Primary Insurance

Key figures: Property/Casualty Primary Insurance [1)]

	2007	2006	2005	2004	2003 [2)]
Figures in EUR million					
Gross written premium	6,012	5,632	3,507	5,383	5,611
Net premium earned	3,709	3,783	2,116	2,361	2,171
Underwriting result	–39	207	184	–13	–22
Net investment income	482	389	225	245	338 [3)]
Operating result (EBIT)	240	339	340	104	409 [3)]
Combined ratio (net) in %	99.8 [4)]	92.7 [4)]	91.3	100.6	90.7

1) The years 2005, 2004 and 2003 are of only limited comparability due to changes in segment allocation
2) On the basis of US GAAP
3) Including extraordinary income of EUR 156 million from the sale of a subsidiary
4) Excluding life insurance business of the Italian subsidiary

Following the successful integration of the Gerling companies under company law, which was completed as planned in the fall of 2007, the Property/Casualty Primary Insurance segment presented itself with a new look – namely as the HDI-Gerling non-life group. On 24 September the merger of Gerling-Konzern Allgemeine Versicherungs-AG (GKA) with HDI Industrie Versicherung AG was entered in the Hannover Commercial Register.

At the same time, HDI Service AG and HDI Industrie Versicherung AG were superseded by HDI-Gerling Sach

Serviceholding AG and HDI-Gerling Industrie Versicherung AG respectively. This was following by renaming of HDI Direkt Versicherung AG, HDI-Gerling Firmen und Privat Versicherung AG and HDI-Gerling Rechtsschutz Versicherung AG. HDI-Gerling Sach Serviceholding AG functions as an intermediate holding company and – as a wholly owned subsidiary of Talanx AG – now holds directly or indirectly all participating interests in the segment.

While integration activities in the segment have been concluded from the standpoint of company law, there is still some work to do on the operational level. Completion of the entire integration is therefore scheduled for the fall of 2008 – a relatively short space of time considering that operational integration in the non-life sector was not able to commence until mid-2007. It was only in May 2007 that Talanx secured a settlement with the plaintiffs who had taken legal action against the squeeze-out resolution of the GKA General Meeting on 20 September 2006.

The success of the Gerling integration in industrial insurance, the area with the greatest overlaps, is borne out especially impressively by the number of industrial clients that have remained loyal to the company: as was also true of the 2006/2007 renewal phase in industrial business, the 2007/2008 renewals demonstrated clients' commitment to the new company HDI-Gerling Industrie Versicherung AG. In insurance business with major corporate groups HDI-Gerling Industrie lost its lead role on only two out of 285 accounts, while of the 500 most important Gerling clients among mid-sized enterprises there was just one cancellation on the policyholder's side. The integration-related contraction in premiums in industrial insurance was in the order of a mere 5%, and it was just 1.8% in relation to all business sectors. The favorable development in the eyes of clients is convincingly borne out by a global survey of commercial insurance purchasers conducted this year by the magazine "Euromoney": HDI-Gerling was chosen as "Best industrial insurer in Germany".

Largest Group segment for the first time

With gross written premium in excess of EUR 6 billion, what is now the Group's largest segment encompasses its longest-standing insurance business. With a product range extending from property and casualty policies for private customers to worldwide professional industrial insurance – more than 14 million customers place their trust in the Group in this segment. This sector can draw on more than 100 years of experience from each of its twin roots, HDI and Gerling. It stands for tradition in industrial, commercial and private customer insurance. The fruits of the union of the HDI and Gerling brands, both steeped in tradition, will be enhanced professionalism, greater expertise and improved reliability for clients as well as a better range of products and services. The combined HDI-Gerling company name says it all: continuity of both brands' accustomed quality and improvement through the pooling of strengths in the customer's interest.

Promising market positions

The segment is very well positioned in the various submarkets: HDI-Gerling ranks among the leaders in European industrial insurance. The underwriting policy in industrial insurance continues to be guided by the principle of stable earnings instead of premium growth. In hard markets we seek to generate profitable growth, while in soft markets we are willing to accept losses of market share rather than jeopardize profitability – a development that could be observed in the business development of the year under review.

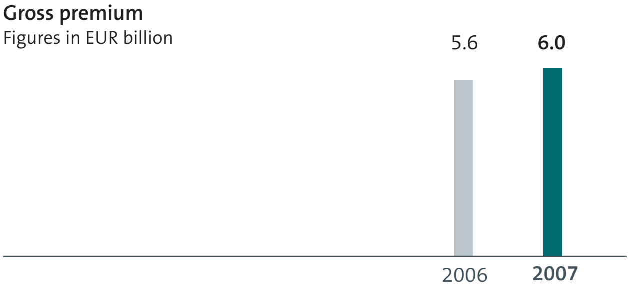
Industrial insurance took a great step forward in its international positioning, the indispensable hallmark of a professional industrial insurer. Only a company that can support its industrial customers worldwide on a sustained basis will be able to survive in the industrial insurance market over the long term. Now that the integration of the units abroad has been completed, HDI-Gerling has at its disposal a foreign network with 25 of its own locations, thereby enabling it to cover more than 80% of its service needs in foreign markets through its own organization. What is more, the extension of the cooperation agreement with Royal & SunAlliance until 2019 has ensured professional service for industrial insurance customers in more than 130 countries altogether.

The broad range of sales channels through which HDI-Gerling and HDI market their products offers a competitive edge in German private customer and commercial business. They cover virtually the entire market spectrum – a diversity that is scarcely available to any other corporate group. The segment operates with two product providers in order to satisfy the needs of all customer groups: HDI-Gerling Firmen und Privat serves customers requiring a high level of counseling support, while HDI Direkt is active in the low-cost sector. Another competitive advantage is afforded by the systematic pooling of resources, thereby enhancing the efficiency and market opportunities of the companies in routine business.

Business experience in 2007

Gross written premium in the Property/Casualty Primary Insurance segment climbed by 7% to EUR 6.0 (5.6) billion. The increase derived solely from the first-time recognition of the former Gerling companies for a full financial year in 2007. The business figures for the previous year only included these companies for nine months. After factoring out this effect, premium in the segment contracted by 11%. Of this, 3.0 percentage points resulted from the elimination of non-recurring special effects, which in 2006 had caused gross premium to rise – an increase that was not typical of the market as a whole; a further 1.6 percentage points were due to the termination of a cooperation between the HDI company in Italy and a bank partner. Not only that, the Group relinquished unprofitable business, for example through the sale of the company Gerling at Lloyd's Ltd. Last but not least, part of the decrease can be attributed to the profit-oriented underwriting policy; in softer market phases the company is typically more cautious in its underwriting. A willingness to even accept losses of market shares in this segment during such phases has long been practiced as part of the underwriting policy. Fierce competition in motor business was also a factor in the decline in premium income.

Gross premium
Figures in EUR billion



Against a backdrop of opposing developments in the individual markets served by our foreign holding company HDI-Gerling International Holding AG, gross written premium contracted by altogether 6.4% to EUR 1.7 (1.8) billion. The companies in Brazil and Poland were particularly successful. The favorable development in Brazil was due to greater cooperation with HSBC Bank Brasil. The Polish company HDI Asekuracja made the most of the pace of growth in its local market, inter alia by way of a cooperation with the subsidiary of Commerzbank in Poland for the sale of motor insurance policies through the bank's Internet platform. On the other hand, the gross written premium booked by our Italian company fell after termination of the cooperation agreement with Banca Intesa.

For the sake of comparability of property/casualty business, the calculation of the following ratios disregards the Italian company's life business. The level of retained premium stood at 59.4 (58.2)% in 2007. Net premium earned in the segment fell by 2% to EUR 3.7 (3.8) billion as a consequence of the contraction in unearned premiums, which had been unusually high in the previous year following the Gerling acquisition.

The net expense ratio increased by 8.1 percentage points to 27.1 (19.0)% due to a non-recurring effect from the previous year. Against the backdrop of an unremarkable claims experience both at home and abroad – with a not unusual number of major claims and catastrophe losses – the loss ratio in 2007 fell slightly short of the previous year at 72.7 (73.7)%. The combined ratio climbed to 99.8 (92.7)%.

The segment generated investment income of EUR 482 (389) million in the year under review. As with all items in the statement of income, here too a comparison with the previous year is rendered more difficult by the first-time recognition of the Gerling companies for a full financial year in 2007. Ordinary investment income in the segment surged by altogether 21% to EUR 513 (423) million. Integration-related expenses of EUR 110 million at home and abroad were the primary reason for the decline in EBIT in the segment to EUR 240 (339) million.

Major regions

HDI-Gerling Industrie Versicherung AG is active worldwide for its clients. In their business transacted with private customers the companies belonging to the HDI-Gerling non-life group operate in promising national markets.

Western, Central and Eastern Europe

Germany

Germany is the most important market for the segment and contributes the lion's share of premium volume. Both in industrial insurance and business with private customers the Talanx companies rank among the market leaders overall. The Property/Casualty Primary Insurance segment generated gross premium of EUR 3.2 (2.8) billion last year in Germany.

Benelux

HDI-Gerling Verzekeringen N.V., Rotterdam, serves not only the Dutch but also the Belgian industrial insurance market. Price competition has intensified in these markets. Particularly in such situations, we place considerable emphasis on a profit-oriented underwriting policy – even if this results in premium erosion. Gross written premium contracted to EUR 180 (194) million. EBIT increased again, reaching a new record of EUR 22 (21) million.

The Belgian subsidiary, which has been in run-off since 2001, will resume its underwriting of industrial business in the future as part of the restructuring of the former Gerling portfolio and the Antwerp branch. Gross written premium totaled EUR 3.9 (0) million and net income after tax amounted to EUR 4.3 (1.0) million.

Poland

The Group has been active in Poland since 2002 and now enjoys – with what is currently the sixth-largest insurer measured by premium income, namely HDI Asekuracja TU S.A. – the second-largest distribution network with 331 sales outlets. The company has proven particularly successful in selling motor insurance policies in rural districts. The second company, HDI-Gerling Polska TU S.A., offers professional industrial insurance products. Although it still belonged to HDI-Gerling Industrie Versicherung AG as at 31 December 2007, it was already under the operational control of HDI Asekuracja by this time. In 2008 the company – subject to the approval of Polish regulators – will be included in the structure of participations under HDI-Gerling International. Our involvement in the Polish market has been rewarded: enjoying a market share of 14% in the motor insurance segment, HDI Asekuracja ranks second in the market with some 1.7 million insured vehicles. Gross written premium totaled EUR 226 (212) million in 2007, with 84 (83)% of the portfolio apportionable to motor insurance. The operating profit (EBIT) came in at EUR 11 (12) million. HDI Asekuracja was voted Poland's best insurer in 2007 in a customer survey conducted by the magazine Euromoney.

Austria, Hungary, Czech Republic and Slovakia

For HDI Hannover Versicherung AG, Vienna, the 2007 financial year was a successful one – despite fierce competition and a multitude of integration-related tasks at the former Gerling locations in Austria, Hungary, the Czech Republic and Slovakia. The company, which celebrates its twenty-fifth anniversary in 2008, serves around 400,000 private and industrial customers. The markets of Hungary, the Czech Republic and Slovakia are serviced through branches of HDI Hannover. A cost leader on the Austrian market, the company is considered an innovative provider. In 2007 it again won a number of distinctions at the Assekuranz Award Austria 2007. Particularly noteworthy was its recognition as the best motor insurer in Austria (AssCompact Award 2007). Gross written premium increased only by a modest 1.3% to EUR 147 (145) million. With an operating profit (EBIT) of EUR 27 (19) million, the company delivered the best performance in its history.

Southern Europe and Turkey

Italy

Our Italian company HDI Assicurazioni S.p.A., Rome, which transacts both life and non-life business, developed as planned in 2007. HDI Assicurazioni is the largest foreign company in the segment measured by gross premium income. Gross premiums slipped back to EUR 558 (743) million due to the expiry of a major cooperation agreement; if this nonrecurring effect is factored out, however, gross premium volume was on a par with the previous year. Investment income of EUR 69 (52) million was generated from an asset portfolio of EUR 1.7 (1.6) billion; the operating profit (EBIT) contracted by 18% to EUR 23 million.

Spain

HDI HANNOVER International (España) Cía. de Seguros y Reaseguros, S.A., Madrid, divides its operations evenly between private customers and industrial business. With retroactive effect as from 1 January 2008, it will also take over the industrial portfolio written by the Gerling branch office in Madrid – subject to approval from the Spanish authorities. Against the backdrop of the price war in motor insurance and the company's selective underwriting policy, gross written premiums fell by 2.8% to EUR 153 (158) million. The proportion of the total premium income generated by motor insurance in 2007 was 48 (57)%. In industrial business our Spanish company achieved moderate growth despite a difficult market climate and was able to stabilize profitability thanks to a selective underwriting policy. The operating profit (EBIT) came in at EUR 4 (19) million.

Turkey
Embedded in a rapidly growing national economy, the appeal of the Turkish insurance market is also rising. Many individuals and businesses there are underinsured or indeed have no insurance protection whatsoever. Talanx entered the Turkish market in 2006 with the acquisition of what is now HDI Sigorta A.Ş. The company, which concentrates on private customer business, succeeded in expanding its area-wide sales network with around 600 (394) agents and reached agreements with strategic distribution partners such as banks and the Turkish post and telecommunications company PTT.

2007 was dominated by the reorientation of the company with the aim of advancing – on a solid platform of secure profitability – to become one of the country's top ten insurers over the medium term. With exceptionally vigorous growth of 137% (market: 23%), HDI Sigorta A.Ş. was the fastest growing insurer in the country in 2007 – posting gross written premium of EUR 88 (37) million. The number of policies increased to almost 200,000. Although the 2007 operating result (EBIT) was still in negative territory, it improved substantially on the previous year to reach –EUR 2.6 (–4.7) million.

South America
Talanx has defined Latin America as a strategic growth market in private customer business, with key importance attached to Brazil. The fifth-largest country on earth – the eleventh-largest national economy in the world – offers enormous growth potential. Having long been active in this market, the Group has significantly expanded its sales network in recent years. We are now represented there by 54 branch offices of our own, and through a secure long-term marketing agreement with HSBC Bank we are able to use the latter's almost 1,000 branches for the distribution of our insurance products.

From its origins as a service office for industrial clients on the South American market, the company has evolved considerably following the acquisition of the HSBC insurance portfolio in 2005. With gross premium income of EUR 339 (321) million, HDI Seguros S.A. is now the second largest foreign company in this Group segment. It currently ranks among the leading motor insurers in Brazil.

Following the merger of HSBC Automóveis e Bens with HDI Seguros S.A., the company now trades nationwide under the existing name. The goals pursued with the acquisition were accomplished, and the expansion of business moved forward briskly in 2007. The company continues to enjoy competitive advantages in the market thanks to its favorable cost situation and outstanding service. The operating profit (EBIT) of EUR 25 million in 2007 was on the level of the very good result in the previous year (EUR 26 million).

Life Primary Insurance

Key figures: Life Primary Insurance [1)]

Figures in EUR million	2007	2006	2005	2004	2003 [2)]
Gross written premium	5,354	4,603	2,964	1,768	1,022
Net premium earned	3,803	3,228	2,085	1,029	757
Net investment income	1,092	861	450	225	147
Operating result (EBIT)	128	111	55	50	45

[1)] *The years 2005, 2004 and 2003 are of only limited comparability due to changes in segment allocation*
[2)] *On the basis of US GAAP*

The Group segment of Life Primary Insurance combines two promising sectors: the Life Insurance Division and the Bancassurance Division.

The Life Insurance Division operates on the market with the brands HDI-Gerling and Aspecta. HDI-Gerling offers the complete product range spanning traditional and unit-linked solutions for old-age provision as well as term and disability covers. A core concentration is occupational retirement provision across all methods of implementation. Aspecta is a specialist and pioneer in the product segment of unit-link provision.

The term "bancassurance" refers to the sale of insurance products through a bank's distribution channels. Not only does the division cooperate with a number of banks and partner Sparkasse savings institutions, it also works together with a post office partner, namely the Hungarian postal service.

Life Insurance Division

Following the integration of the Gerling companies in the Life Insurance Division in October 2006, the HDI-Gerling life group can look back on its first full financial year. Grouped together under HDI-Gerling Leben Serviceholding, its members in Germany include the companies HDI-Gerling Lebensversicherung AG, HDI-Gerling Pensionsfonds AG, HDI-Gerling Pensionskasse AG, HDI-Gerling Pensionsmanagement AG and Aspecta Lebensversicherung AG. In the international arena the Group is represented by companies in Poland, Liechtenstein and Luxembourg.

The Life Insurance Division is superbly positioned from a marketing standpoint: the distribution channels range from tied agents to brokers and multiple agents as well as direct sales. HDI-Gerling is thus able to cover virtually the entire marketing spectrum. The Aspecta brand is especially interesting for independent sales partners. Nevertheless, HDI-Gerling Life and HDI-Gerling Pensionskasse also work together with independent agents in the areas of individual and occupational retirement provision.

Including premiums from unit-linked life insurance and unit-linked annuity insurance, gross written premium surged by 25% in 2007 to almost EUR 3.2 (2.5) billion. Net premium earned climbed 31% to EUR 1.9 (1.4) billion, although it should be borne in mind that in this division too the Gerling companies were only included in the statement of income for nine months in 2006. If Gerling were taken into account for the full 2006 financial year, the increase in gross premium would have been 11%.

The in-force portfolio excluding riders grew by 3% to 3.34 (3.25) million policies.

Bancassurance Division

The sale of insurance policies over the counter at banks has grown sharply in importance right across Europe in recent years – and is a highly promising sector for Talanx. The capacity to work together seamlessly is crucial to the success of such cooperations. Key performance factors include complete integration into the culture and branch architecture of the bank or postal service partner, exclusive and tailored products as well as a high level of integration into the relevant IT infrastructure. In this division the Group is present on the German market with the CiV insurers, PB insurers, Neue Leben and BHW Life as well as internationally with the Hungarian postal service. An intermediate holding structure was similarly created for the Bancassurance Division in the year under review: the division is now led by the intermediate holding company Proactiv, which is positioned directly under Talanx AG.

Gross written premium including premiums from unit-linked life insurance and unit-linked annuity insurance rose by 5.5% to EUR 2.2 (2.1) billion. Net premium earned increased by 7% to EUR 1.9 (1.8) billion. When making comparisons with the previous year, it should be borne in mind that in 2006 the PB companies were only 50% consolidated while 2007 includes the BHW companies and the fully consolidated PB insurers for one quarter. After adjustment for this effect, the gross written premium generated by the division was on a par with the previous year.

The in-force portfolio excluding riders grew by 33% to 4.1 (3.1) million policies, principally due to the inclusion of BHW Life; had it not been for this effect the rate of increase would have been 1%.

Gross written premium
Figures in EUR billion

Group segment as a whole

A Group segmentation more closely geared to the management approach brought about structural changes in the 2007 financial year. The non-life insurers of the bancassurance brands transacting personal accident insurance were allocated to the Life Primary Insurance segment. The Italian company, which conducts both life and non-life insurance, is allocated to the Property/Casualty Primary Insurance segment. The figures for the previous year have been adjusted accordingly. For the Talanx Group segment of Life Primary Insurance the 2007 financial year was dominated by the reform of the Insurance Contract Act (VVG) and the amendment of the Insurance Supervision Act as well as the resulting legal, IT and underwriting changes. The companies were called upon to make considerable efforts in order to implement the adjustment of all tariffs and corresponding contract and sales documentation as well as to redesign key business processes so as to optimally support their sales partners. Although the legislation amending the Insurance Contract Act did not enter into force until January 2008, Neue Leben, CiV Life and PB Life launched their 2007 year-end business with products that were already VVG-compliant. Despite the integration-related tasks that imposed a heavy additional workload on many employees, the HDI-Gerling life group had also adjusted its products in line with the revised VVG standards in time for January 2008.

Development of new business in the segment influenced by market events in Germany

The German market, on which new business declined in 2007, is of the greatest significance to this segment. In this market a total of around 7.9 million new policies – 6% fewer than in the previous year – were taken out in the areas of life insurance and occupational retirement provision ("Pensionskassen" and "Pensionsfonds") with total premiums paid of EUR 161 billion, a decline of 3.5%. Total premiums paid under new business in life insurance in the stricter sense of the term contracted by 2.2% to EUR 153 billion. Gross written premium booked in life insurance and occupational retirement provision on the German market amounted to EUR 78.9 (78.5) billion, only slightly surpassing the previous year with marginal growth of 0.6%.

The modest new business generated by the Talanx life insurance companies paralleled developments on the German market. The number of new policies taken out (excluding riders) came in insignificantly lower than in the previous year – at EUR 0.9 million –, while total premiums paid in new business (excluding riders) contracted by 6% to EUR 15.1 (16.1) billion.

Gross written premiums in the segment – including savings elements of premium under unit-linked life and annuity policies – surpassed the 5 billion mark for the first time to reach EUR 5.4 (4.6) billion. With a rate of increase of 16% they were comfortably in excess of the previous year's level. Excluding the savings elements of premium under unit-linked life and annuity policies, gross written premium grew by 14% to EUR 4.4 (3.9) billion. When making comparisons with the previous year, however, the two aforementioned extraordinary effects must be borne in mind: recognition of the Gerling companies for only nine months in 2006 as well as the first-time inclusion of the BHW companies and the full consolidation of PB Lebensversicherung for one quarter in the year under review. After factoring out these effects the premium growth stood at 2.4%.

Measured by gross sum insured, the in-force portfolio (excluding riders) grew by 13% to EUR 178.5 (158.4) billion. The number of policies in in-force business (excluding riders) climbed 17% to 7.4 (6.4) million.

The level of retained premium in the Life Primary Insurance segment stood at 86.9 (86.0)%. Net premium earned rose by 18% to EUR 3.8 (3.2) billion.

Ordinary investment income grew by 19% to EUR 1.3 (1.1) billion; net investment income surged by 27% to EUR 1.1 (0.9) billion. Once again, comparisons with the previous year are difficult owing to the changes affecting the BHW, PB and Gerling companies. The operating profit (EBIT) in the segment was boosted by 15% to EUR 128 (111) million, despite two special effects that exerted a drag on profitability: firstly, the revaluation of the Neue Leben Group in the context of its inclusion in Proactiv Holding AG led to a goodwill adjustment of around EUR 50 million. Secondly, the reform of corporate taxation approved in mid-2007 negatively impacted EBIT to the tune of EUR 26 million owing to the participation of policyholders in the provision for deferred premium refunds. Making allowance for these special effects, the segment generated substantially higher EBIT.

Major regions

For many years to come life insurance will offer considerable chances of success for structural reasons – and not only in Germany. In foreign markets, too, state systems of old-age provision are struggling to cope with demographic factors: increasing life expectancy and the rising number of pensioners. It is for this reason that we are consistently making the most of our opportunities to become active in the field of retirement provision on promising European markets – whether in individual or occupational retirement provision. Outside Germany we were present with life insurance companies and branches in Luxembourg, Lichtenstein, Switzerland, Austria, Italy, Spain, Poland and Hungary in the year under review; in the current year Russia and Turkey have been added to this list. The Group's foreign companies grew by 18% in 2007, comfortably outstripping the German companies.

Germany

The bulk of the premium volume is generated in Germany, the most important market in the segment. As a collective, the Talanx life insurers rank among the leading insurance groups in this market. We continue to view the German market as attractive. An unflagging public debate surrounding the inadequate level of pensions in the future is prompting more and more people to face up to this issue. The gross premium income posted by the segment in Germany last year totaled EUR 4.9 (4.1) billion. This increase of 20% is reduced to 7% after elimination of the aforementioned special effects associated with BHW, PB and Gerling. In 2007 the Talanx life insurers thus recorded premium growth in Germany significantly in excess of the growth of 0.6% achieved by the German life insurance market as a whole.

Central and Eastern Europe

Prospects are bright in the markets of Central and Eastern Europe. The national economies are enjoying healthy rates of growth, and with greater affluence the local population is also becoming increasingly aware of the need to secure their retirement provision – a favorable market climate for life insurers. The opportunities available to our companies are especially attractive due to their very strong sales positioning; this is clearly borne out by the fact that the Polish companies achieved the most vigorous growth in the entire Life Primary Insurance segment. Altogether, they generated gross written premium of EUR 96 (56) million, a rise of some 75%.

Western and Southern Europe

The markets of Western and Southern Europe also offer very good opportunities. Aspecta Assurance International Luxembourg S.A., for example, which sells its products in Italy and Spain too, enjoyed dynamic growth and boosted its gross premium income by 15.4% to EUR 189 (164) million.

Non-Life Reinsurance

Key figures: Non-Life Reinsurance [1)]

	2007	2006	2005	2004	2003 [2)]
Figures in EUR million					
Gross written premium	5,584	7,143	7,243	6,046	7,464
Net premium earned	4,603	5,638	5,481	5,050	5,702
Underwriting result	19	79	–694	–154	–120
Net investment income	845	925	872	853	902
Operating result (EBIT)	886	813	33	581	567
Combined ratio (net) [3)] in %	98.9	98.2	109.4	97.7	96.9

[1)] The years 2005, 2004 and 2003 are of only limited comparability due to changes in segment allocation
[2)] On the basis of US GAAP
[3)] Including deposit interest

Non-life reinsurance is transacted within the Talanx Group by the Hannover Re Group, one of the five largest reinsurers in the world measured by gross premium volume. The proportion of primary insurance business in this segment is now only minimal following the sale of the US company Praetorian Financial Group, Inc. and the withdrawal of Clarendon Insurance Group, Inc. – also operating in the US market – from active specialty business. Only International Insurance Company of Hannover Ltd., London, and Compass Insurance Company Ltd., Johannesburg, are still operating – successfully – in this segment.

Active cycle management

Non-life reinsurance is not only the larger of the reinsurance segments, it is also the more difficult because in almost all lines and markets the business development is volatile and cyclical. In these typically cyclical markets and lines we do not pursue any volume, growth or market share targets – but trust exclusively in profitable relationships. During an upswing we increase our market share, while in a downward cycle we scale back our participation and at the same time seek to identify market and product niches. This systematic cycle management enables us to be prepared for more difficult market situations, such as those we are currently facing. Our basic principle of "profit before growth" will be more important than ever in the upcoming market phase.

Reduced risks

We continually analyze and assess potential threats so as to be able to take appropriate action as and when necessary. In the year under review, for example, we further reduced our peak exposures under catastrophe covers. We also made further moves to ensure that our equity base is not burdened by exceptionally large losses: in the year under review we topped up our 2005 "K5" transaction – through which we transfer worldwide insurance risks to the capital market – and thereby made our portfolio even more weather-proof. That we are on the right track was confirmed as early as January 2007, when winter storm "Kyrill" swept across large parts of Europe and caused enormous losses for insurers and reinsurers alike. Thanks to the "K5" transaction our strain from this winter storm was appreciably lower than would otherwise have been the case.

Profitable concentration

In non-life reinsurance we concentrate on those segments that promise the greatest profitability. These include, inter alia, property catastrophe business, worldwide credit and surety insurance, marine insurance and the markets of Central and Eastern Europe. In the lucrative German market, too, we continued to enlarge our share as one of the leading reinsurers. In view of the enormous growth potential inherent in the Islamic insurance markets we are also systematically pursuing – through our subsidiary in Bahrain – the development and expansion of Sharia-compliant business in full conformity with Islamic principles. We take a particularly favorable view of the initial rating of "A" with "stable" outlook awarded to the Bahrain-based Hannover ReTakaful in November 2007 by the rating agency Standard & Poor's. In the year under review Hannover Re also established a branch office in Bahrain that will concentrate exclusively on traditional reinsurance in this region.

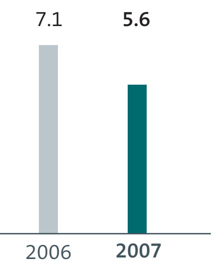
Market development

The state of the market in non-life reinsurance was still favorable in 2007: although the treaty renewal season as at 1 January 2007 had demonstrated that after eight consecutive years of rate increases the hard market had passed its peak and we were now slowly entering a downturn, the rate level remained broadly stable with just a few exceptions. Rates were commensurate with the risks, and we therefore continued to generate profitable business in almost all segments by adhering to our selective underwriting principles. In areas that did see more marked rate reductions – such as aviation business – prices were coming back from what was generally a thoroughly adequate level. Only in a few lines, such as US casualty business – and here especially directors' and officers' (D&O) covers –, did we assess prices and conditions as no longer appropriate to the assumed risk. In these areas we responded accordingly and scaled back our premium volume.

Business experience in 2007

In the 2007 financial year non-life reinsurance was the second-largest Group segment after Property/Casualty Primary Insurance, since gross written premium contracted by 22% to EUR 5.6 (7.1) billion due to the sale of Praetorian, lower premium income in the area of structured products and reduced peak exposures. At constant exchange rates, especially in the case of the euro against the US dollar, the decline would have been 18%. The level of retained premium remained virtually unchanged at 82.2 (82.0)%, and net premium earned fell by 18% to EUR 4.6 (5.6) billion.

Gross premium
Figures in EUR billion



On account of winter storm "Kyrill" – a severe event by European standards and on the reinsurance side too our largest loss event with a net burden of EUR 116 before tax – the year under review failed to match up to the claims experience of the previous year, which had escaped virtually unscathed. Contrary to forecasts, the hurricane season in North America and the Caribbean passed off relatively peacefully. In the course of the year, however, a number of small and mid-sized natural disasters were recorded. Total net expenditure on catastrophe losses and major claims amounted to EUR 285 (107) million; this figure corresponds to 6.3% of net premium in non-life reinsurance and was thus within the expected figure for the year of roughly 8%.

The combined ratio (including deposit interest received) stood at 98.9% in the year under review after 98.1% in the previous year; the underwriting profit contracted to EUR 19 (79) million. Net investment income fell by 9% to EUR 844 (925) million. Despite reduced premium income, the operating profit (EBIT) in non-life reinsurance was a further 9% higher than in the previous year at EUR 886 (813) million, in part due to the profit of EUR 179 million from the sale of Praetorian.

Major regions

In reinsurance business we are active in all markets that have a sound legal system and permit free transfer of payments. The most important regional markets are the United States and Germany in view of their above-average profit potential.

Germany

German business is transacted by E+S Rückversicherung AG. The company continues to rank second in Germany, the second-largest non-life reinsurance market in the world. As a specialist reinsurer serving the German market, it is highly valued by its clients primarily due to its excellent financial standing, the quality of its services and the continuity of its business relationships.

The reinsurance market in Germany was again characterized by adequate rates and conditions. We secured improvements in conditions and acted on attractive business opportunities in the year under review, especially in non-proportional motor liability insurance. Personal accident insurance was another target line to show a gratifying development. Product innovations enabled us to boost our premium income in this line by around 5%.

Thanks to larger shares under existing accounts and new customer relationships we succeeded in further enlarging our market share and extending our position as one of the leading reinsurers in the German market. Although the result was impacted by loss expenditure associated with "Kyrill", we were highly satisfied overall with the business development.

United Kingdom

We boosted our gross premium income in the United Kingdom in the year under review. In terms of catastrophe losses our portfolio was impacted by "Kyrill" at the start of the year as well as floods in June and July, although the strains for our company were relatively moderate.

The London Market is also a prominent centre for the underwriting of international marine and aviation risks; in both lines Hannover Re ranks among the market leaders.

In the aviation line we wrote our business guided strictly by profitability considerations, and we asserted our leading position in aviation reinsurance despite slightly reducing our market shares. We continued to improve the diversification of our portfolio, and are thus well positioned to act profitably in a softening market.

The market climate in marine reinsurance in the year under review was still heavily overshadowed by the substantial losses from the 2005 hurricane events in the Gulf of Mexico, which had not only prompted rate hikes and increased retentions at ceding companies but also ushered in extensive restructuring of the reinsurance programs. We successfully consolidated the changes made in 2006, and rates consequently held stable.

North America

The North American market is the largest and most important single reinsurance market for the Talanx Group and indeed for the entire industry: it accounted for 32% of our total premium volume in this Group segment. Our US business is written almost exclusively through brokers; this gives us greater flexibility. In accordance with our anticyclical underwriting policy, we continually identify business sectors that no longer offer sufficient profitability. In such areas we reduce our shares and/or stop writing new business. This practice explains the contraction in our premium volume in the year under review.

We are one of the market leaders in credit and surety reinsurance in North America. Our portfolio was, however, unaffected by the crisis on the US mortgage market, since our underwriting guidelines preclude mortgage guarantee business and credit derivatives. Our premium volume in credit reinsurance showed double-digit growth, and results were again excellent. Indeed, we were even able to improve appreciably on the already very good result of the previous year; no significant loss events were recorded in the year under review.

Half of our premium income in the area of structured products derives from the United States. In view of the exceptional importance of this market we maintain a representative office in Chicago specially for marketing purposes. Following the turmoil that had erupted around structured products in recent years, demand for our conceptual solutions stabilized in the year under review – albeit on a lower level.

Africa

The most important non-life reinsurance market on the African continent is South Africa. The Johannesburg-based Group company, Hannover Re Africa, is a sought-after partner for all lines, not least thanks to its quick and flexible response times. It writes predominantly specialty business, a sizeable portion of which is assumed from its subsidiary Compass Insurance Company. In accordance with our selective underwriting policy we did not renew treaties in the year under review that failed to show sufficient profitability, although we were still able to slightly increase the overall gross premium volume in the year under review. The loss ratio increased somewhat due to a number of sizeable claims. The company's clear strategic positioning and disciplined underwriting policy generated another record result in the year under review.

Asia

By far our largest Asian market is Japan, with natural catastrophe business the most important single line. Thanks to our presence in Tokyo, where we maintain a service company, we are in constant personal touch with our clients. In view of our very good rating we are a sought-after partner for reinsurance covers. We were able to slightly increase our premium volume in the year under review, and our portfolio was spared any significant major losses.

Our main markets in Southeast Asia are Malaysia, India, the Philippines and Indonesia. The takaful market – that is to say, insurance business transacted in accordance with Islamic law – has enjoyed dynamic growth in Southeast Asia and on the Arabian peninsula: in the year under review alone more than 20 new takaful companies were registered. Given the impressive pace of industrial expansion and what is still a relatively low insurance density at present, growth in the takaful market is currently estimated at over 20% per annum. These growth prospects had already prompted Hannover Re to establish its own dedicated subsidiary in Bahrain in 2006. Looking back on the first financial year, our overall assessment is very positive: the premium income totaled around EUR 11 million, and we thus generated stronger growth than planned. More and more takaful companies prefer to place their business with Sharia-compliant reinsurers such as the Hannover Re subsidiary.

The strongest growth market in Asia is China. This country therefore continues to be a target market for international insurers and reinsurers, and competition is correspondingly intense. In these markets too Hannover Re pursues an opportunistic underwriting policy.

Australia, New Zealand

Hannover Re ranks third in the Australian non-life reinsurance market. For more than 20 years it has been represented by a branch office in Sydney. Clients value the company as a reliable and attractive partner not only on account of this local presence but also due to its very good rating.

On the Australian continent, too, the overriding principle guiding our business strategy is adherence to our profitability targets: we write business in this region predominantly on an opportunistic basis. What is more, we are looking to expand niche business in an effort to further diversify our portfolio. We were satisfied with the result generated on the Australian continent in the year under review.

Life/Health Reinsurance

Key figures: Life/Health Reinsurance

	2007	2006	2005	2004	2003 [1)]
Figures in EUR million					
Gross written premium	3,083	2,794	2,425	2,200	2,342
Net premium earned	2,795	2,374	2,258	1,998	2,003
Net investment income	313	345	281	254	178
Operating result (EBIT)	230	146	93	85	71

[1)] *On the basis of US GAAP*

The Group segment of Life/Health Reinsurance combines under the worldwide Hannover Life Re brand the international reinsurance activities in the life, health, annuity and personal accident lines, insofar as they are transacted by life insurers.

Hannover Life Re writes its business on all five continents and in recent years has advanced to become a leading provider of reinsurance concepts and solutions. With a market share of around 8% worldwide in 2007 it has long ranked among the four most important internationally operating life reinsurers. Hannover Life Re is organized as a network of seven reinsurance companies and five foreign branches.

We offer our clients a broad range of reinsurance solutions. Over 470 staff at 18 locations worldwide are thus in a position to respond to the special needs of the various markets and individual clients and incorporate them into their solution concepts.

We consider ourselves a customer-oriented life and health reinsurer that structures and manages its relations with the aid of systematic Customer Relationship Management. We work together with our clients on a long-term, partnership-based footing in order to open up profit potentials for both parties.

Clear policy of expansion

Life and health reinsurance is one of the strategic growth segments within the Talanx Group: in this business we are generating profitable organic growth with double-digit rates of increase. The smaller of the Group's two reinsurance segments is consistently enlarging its market share and pursues a determined policy of expansion: equipped with equity resources of EUR 120 million, a subsidiary in Bermuda – which at the beginning of October 2007 received a license from the local regulator to commence operational business activities – has now been added as another member of the Hannover Life Re network. We are devoting intensive efforts to further tapping into the Asian growth market: a branch was established in China and commenced operational business in May 2008. The South Korean regulator gave its approval in principle in December 2007 for establishment of a branch in Seoul. In addition, preparations are currently underway for the setting up a service company in Mumbai that will write life and facultative non-life business on the Indian market from this year onwards. With the opening of these branches we are moving closer to our goal of being one of the three largest active life/health reinsurers in the world by the end of this decade.

We are just as committed to pursuing our goal of becoming the market leader in financing transactions for life, annuity and personal accident business. Going forward, as in the past, we remain interested in value-enhancing acquisitions in the Life/Health Reinsurance segment. Our investments serve primarily to promote the expansion of our infrastructure in emerging Asian markets as well as to cement our position on various Continental European markets.

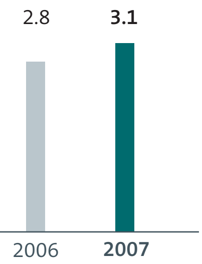
A new initiative that we are supporting through our Paris branch consists of so-called microinsurances – a counterpart to the microloans that enable rural populations in developing countries to start their own independent commercial activities for the first time.

In this sector we concluded our first group reinsurance treaties for business in Egypt and Morocco, and in the coming years we expect to see appreciable extension of this initiative to various Asian and Latin American markets.

Business experience in 2007

The development of the Group segment of Life/Health Reinsurance was again exceptionally gratifying in 2007. With respect to both the pace of growth and the level of profitability, the segment comfortably outperformed the 2006 financial year – without in any way compromising on a reserving policy whose hallmark is prudence. Our conservative underwriting policy also remained unchanged and helped to ensure optimal diversification of the portfolio in terms of both lines and regions.

Gross premium
Figures in EUR billion



The gross premium income booked in life/health reinsurance surpassed the EUR 3 billion mark for the first time in the year under review, climbing by 10% to EUR 3.1 billion. Due to lower retrocessions the level of retained premium rose to 90.8 (85.4)%, as a consequence of which net premium earned grew by as much as 18% to EUR 2.8 (2.4) billion. It should be borne in mind in this context that the weakness of the US dollar and other currencies against our balance sheet currency (euro) was one of a number of factors to exert a restraining effect on premium growth in the year under review; at unchanged exchange rates the premium volume would have been 3 percentage points higher.

Our preferred lines of life and annuity accounted for almost 88 (87)% of the total premium in 2007, with enhanced annuities in the United Kingdom serving as a particularly vital driver of our growth.

As in previous years, the following factors had a bearing on the performance of the Group segment of Life/Health Reinsurance:

- Biometric risks
- Risk associated with the persistency of the business in force
- Client-related credit risk (financing transactions)
- International capital markets
- Own administrative expenses

The mortality factor remains the most significant biometric risk for our worldwide portfolio. The notable exposures in this respect are in the United Kingdom, South Africa, Australia and various Asian markets. The mortality experience for the year under review was favorable overall from our perspective. The biometric risk of morbidity manifests itself in widely differing coverage concepts in the individual markets, including for example critical illness covers (in the United Kingdom, South Africa and Australia), Senior Medicare Supplement plans (in the United States), long-term care annuities (in Singapore and Germany) and disability covers (in Germany and France). The morbidity experience was better than average in the year under review. The longevity factor is of growing relevance due to our heavy involvement in the field of UK single-premium enhanced annuities. In accordance with our position as market leader in this segment of the UK market we continuously analyze the claims experience at all major cedants; for the year under review our actuarial analyses indicate that this business is progressing as expected.

The risk associated with the persistency of the in-force reinsured portfolios, which is especially important for our financing transactions with respect to unit-linked products, exhibited a similarly favorable development: the observed lapse rates were generally below those that had been actuarially calculated and factored into the pricing.

We did not have any adverse experiences with the credit risk attached to our ceding companies in the year under review; in no instances were the ratings of our key insurance clients downgraded by the international rating agencies.

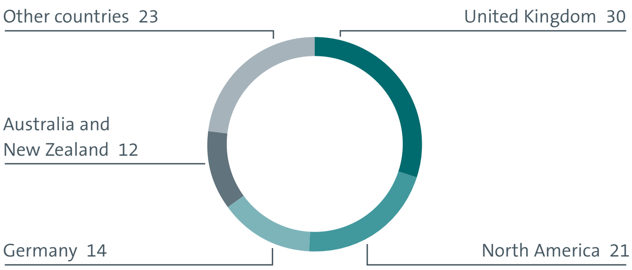
The investment income generated by the segment also came in within the expected bounds despite the weakness of some foreign currencies: it amounted to EUR 313 (345) million owing to higher investment expenses.

As in past years, our cost structures are geared to lean processes, an ability to respond rapidly to market developments and a high level of efficiency. With an expense ratio of 2% relative to gross written premium we have ranked as the cost leader among globally operating professional life and health reinsurers for many years.

The operating profit (EBIT) generated by the Group segment showed significant growth of 58% in the year under review to reach EUR 230 (146) million.

Major regions

Regional origin of gross premium in the segment
%



Germany

Generating 14 (16)% of the gross premium volume, Germany is the third-largest market for the Group segment. Major products in the domestic market are long-term care annuities and disability covers. The risk of involuntary unemployment, which we assume as a supplementary risk under reinsurance treaties from the bancassurance sector, also belongs to this category.

E+S Re, which bears responsibility for handling the German market not only in non-life reinsurance but also in life/health reinsurance, generated premium income of EUR 411 million from its German cedants in the year under review; this was equivalent to a modest decline of around 3%. Even the above-average growth of our portfolio for Riester pensions failed to entirely offset the planned run-off of a large block assumption transaction from 2004. The underwriting result developed as expected, improving significantly on the previous year.

United Kingdom

The UK reinsurance market is the second-largest in the world after the United States. Indeed, for our company it is the most important single market, accounting for 30% of our total premium volume written worldwide in the year under review.

Single-premium enhanced annuities for persons with a reduced life expectancy, which we have written directly from Hannover for more than ten years in cooperation with a small group of UK specialty insurers, make up a rapidly growing business segment.

The Talanx Group operates through various risk carriers in the United Kingdom: Hannover Life Re UK based outside London provides a broad range of services in support of conventional reinsurance business, with an emphasis on risk transfer for mortality covers and critical illness policies; Hannover Life Re Ireland writes a few key accounts directly and is also available as a retrocessionaire or co-reinsurer for Hannover Life Re UK.

Total gross written premium from UK cedants climbed 35% to EUR 927 (EUR 687) million in the year under review; of this amount, 21% was attributable to Hannover Life Re UK, while the rest was written in equal parts by Hannover Life Re Ireland and from Germany.

Ireland

Hannover Life Re Ireland focuses on tailored reinsurance solutions for mid-sized and larger insurers in the United States, United Kingdom, Continental Europe and Asia. In recent years the company has advanced to become Hannover Life Re's most important foreign subsidiary – measured by written premium. It recorded a slight decline in gross written premium in the year under review to EUR 429 (469) million, while net premium earned stood at EUR 423 (459) million.

North America and Bermuda

The US market is served by Hannover Life Re America based in Orlando, Florida. Several Canadian life insurers owned by the country's leading banks are placing a growing volume of reinsurance business with Hannover Life Re. What is more, the Canadian market holds special significance for us inasmuch as our most important retrocessionaires are based there. Geared very much to the long term, our close and trusting cooperation with these partners plays a vital role in Hannover Life Re's worldwide risk management. Delivering 21 (23)% of gross premium income, North America ranks second among the Talanx Group's largest business regions.

Hannover Life Re America continues to concentrate its new business activities on non-traditional areas of the US life reinsurance market, putting the emphasis on block assumption transactions involving life and annuity portfolios as well as on various segments of health business in the senior citizens' market. In the area of seniors' health insurance we entered into a substantial participation in the Medicare Part D segment launched last year as part of government prescription drug coverage for seniors; around 44 million US citizens are enrolled in the Medicare program.

The gross premium volume assumed by Hannover Life Re America grew in the year under review by 11% measured in US dollars; measured in euros it contracted slightly to EUR 413 (417) million. The operating result (EBIT) came in at –EUR 20 (–47) million, while net income after tax amounted to EUR 6 (–29) million.

We established a new subsidiary in Bermuda: Hannover Life Re Bermuda writes a worldwide portfolio and leverages the special strengths of Bermuda as an insurance location in the interests of its clients. At the end of the year under review it concluded reinsurance treaties with its first clients, although the premium volume is still marginal. The company closed the year under review with a modest operating profit.

Africa

Hannover Life Re Africa, which is based in Johannesburg with a branch office in Cape Town, bears underwriting responsibility for business from South Africa and the neighboring countries of English-speaking Africa. The company concentrates on individual life business with the risk components of mortality, critical illness and disability, cooperating first and foremost with dynamic mid-sized players as well as newly established insurers. It also successfully offers financing solutions such as block assumption transactions.

The company's gross written premium climbed by 13% measured in the local currency; after conversion to euro it was slightly in excess of the previous year at EUR 105 (101) million. The operating profit (EBIT) totaled EUR 7 (11) million; net income after tax fell by 43% to EUR 6 million.

Asia

As in the previous years, two regional centers operated as branches of Hannover Re provide underwriting support for life and health reinsurance business in Asia: the operation in Kuala Lumpur is responsible for the ASEAN markets and the Indian Subcontinent, while the branch office in Hong Kong handles the Chinese-speaking economic region, (South) Korea and Japan. Underwriting activities are focused on risk-oriented reinsurance treaties in the life, critical illness and personal accident lines. We made significant progress with the establishment of branches in China and South Korea as well as a service company in India, which are intended to reinforce our infrastructure in Asia.

Following the rapid growth of more than 50% posted in the previous year, gross premium income in the region retreated in 2007 and came in at EUR 90 (104) million. Results were very good in all markets in the year under review; no sizeable major losses were reported.

Australia and New Zealand

The Sydney-based Hannover Life Re Australasia is responsible for business relationships in Australia, New Zealand and Oceania; in the year under review it was again able to successfully assert its position as market leader. Underwriting activities are concentrated on the reinsurance of life and critical illness lines as well as disability annuities. The assumed gross premium volume climbed 15% to EUR 349 million.

Financial Services

Key figures: Financial Services

Figures in EUR million	2007	2006	2005	2004	2003 [1]
Net investment income	–67	–49	–28	–25	–25
Other income	144	121	73	61	36
Other expenses	17	17	10	11	2
Operating result (EBIT)	60	55	35	25	10

[1] *On the basis of US GAAP*

This Talanx segment, which consists of the AmpegaGerling companies and the Group's own reinsurance broker Protection Re, offers a product range that extends from individual investment concepts for private investors to comprehensive asset management solutions for institutional clients.

Multifaceted product and service expertise

The central task of the Group segment is asset management for all companies belonging to our Group – this ranges from strategic and operational investment decisions for the various portfolios to administrative services such as investment bookkeeping, accounting and investment reporting.

These tasks are performed by AmpegaGerling Asset Management GmbH, AmpegaGerling Investment GmbH and AmpegaGerling Immobilien Management GmbH. AmpegaGerling is thus one of the largest asset managers in Germany with no ties to a banking partner. AmpegaGerling Asset Management GmbH is responsible for investments made by the Talanx Group. AmpegaGerling Investment GmbH operates as a funds provider for private clients and institutional investors. AmpegaGerling Immobilien Management GmbH handles the coordination of real estate management for the Group. These three closely cooperating companies not only concentrate the management of all assets and real estate owned by the Talanx Group; they also make their asset management know-how available to institutional and retail clients outside the Group under the AmpegaGerling brand.

Institutional clients include inter alia insurers, "Pensionskassen" (pension insurance companies set up by one or more companies to serve exclusively their own employees), provident funds as well as external asset managers. The portfolio of products and services encompasses special funds, retail funds and institutional asset management activities, including specialized administration services for clients outside the Group. Private clients are able to invest in a broad range of funds for capital accumulation or in state-of-the-art, dynamic retirement provision.

Successful merger

The AmpegaGerling companies emerged in 2006 from the investment, asset management and real estate companies of the Ampega and Gerling brands. The integration was successfully completed with the uniting of the personnel in Cologne, and the merged companies commenced joint operations in May 2007.

Several distinctions testify to the success of the merger: the magazine "Fonds professionell" in cooperation with the rating firm Morningstar, for example, awarded AmpegaGerling the German Funds Prize in the category of "Investment companies with a small range of bond funds". In the international arena AmpegaGerling was crowned as the best funds provider of its size Europe-wide by the major daily newspapers of the participating countries, namely France, Spain, Italy, Luxembourg and Germany. The paramount rating criterion was the most solid return with a minimal risk.

Internal reinsurance broker within the Group

The Talanx segment of Financial Services also includes Protection Reinsurance Intermediaries AG (Protection Re), the professional reinsurance advisor and intermediary for all non-life reinsurance cessions of the Talanx Group. Protection Re is tasked with safeguarding on a long-term basis the reinsurance capacities needed for all insurance enterprises within the Talanx Group in the non-life sector and with developing optimal solutions for our clients and business partners. Protection Re cooperates worldwide with reinsurers, selected reinsurance brokers and other service providers.

Business experience in 2007

A key ratio in the Financial Services segment is the volume of assets under management, which grew by 4% in the year under review to EUR 65.7 billion. The assets under management within the Group climbed by EUR 754 million.

The total volume of assets under management at AmpegaGerling Asset Management GmbH amounted to EUR 48.4 billion as at year-end and hence exceeded the previous year's level by EUR 1.6 billion. The company performs its services exclusively for clients within the Talanx Group.

All in all, AmpegaGerling Investment GmbH had 157 (134) portfolios under management as at the balance sheet date with a total volume of EUR 14.1 (13.4) billion, including 35 (34) special funds and 67 (48) retail funds with a combined volume of EUR 9.7 (10.0) billion. In addition, the company administered 55 (52) financial portfolios with a volume of EUR 4.4 (3.4) billion. The total volume of the administered portfolios was spread over three areas: somewhat more than half – EUR 7.7 billion – was apportionable in 2007 to asset portfolios managed for Group companies, which therefore fell slightly short of the previous year's volume (EUR 8.1 billion). The remaining volume was split in equal measure between retail and institutional business. Retail business involves funds designed primarily with private investors in mind. Despite the difficult market environment for investment companies with close ties to the insurance industry, the volume in retail business was maintained almost on a par with the previous year at EUR 3.2 billion. Growth was driven by administrative mandates with label funds for asset managers, the administration and management of policy portfolios and the placement of AmpegaGerling funds in the unit-linked policies of the Group's own life insurers. In institutional business the company not only enlarged the volume of already existing mandates in 2007, it also acquired new mandates. The volume of institutional business climbed to EUR 3.2 billion.

The mix of cedants served by Protection Re changed appreciably in 2007 – and will show further changes in 2008 – as it now reflects the significantly modified structure of the Talanx Group. With the placement volume handled in 2007 in excess of EUR 1.5 billion in ceded premium, the company ranks among Europe's major reinsurance brokers.

The dominant profit drivers in the segment are the fees and commissions collected by the investment companies as well as the brokerage and other interest income booked by Protection Re – both increased in the year under review. The principal reason here is the considerably higher business volume following the Gerling acquisition. The operating profit (EBIT) generated by Protection Re consequently rose to EUR 15 (9) million, while EBIT in the segment as a whole increased by 10% to EUR 60 (55) million.

Capital and performance management

Not only the regulatory framework, but also capital markets and rating agencies are placing increasingly exacting demands on insurance groups, as is evident inter alia from the following questions:

- How can we increase our profitability and create value on a sustained basis?
- How can we make optimal use of our capital?
- How can we optimize our cost of capital?
- How can we ensure that we invest in areas where we shall generate the highest risk-adjusted return over the long term?
- How can we seize strategic opportunities and at the same time remain aware of and manage the immanent risks?

Within the scope of Group management we resolve these issues by using an integrated management system, in which we devote special attention to the following four fundamental management processes that govern the interplay between the Group management and financial holding company Talanx AG and the Group's various business segments:

- Capital management
- Performance management
- Risk management
- Mergers & acquisitions (M&A)

Capital management

We consider capital management to be one of the Group's essential management tasks; it delivers an effective contribution to the Group objective of sustained value enhancement. In our understanding, this refers to a process structured on the basis of clear guidelines and workflows for the optimization of capital management and capital allocation within the Group. An important subfield of capital management, in our assessment, is identifying capital that exceeds the required risk capital on our defined level of certainty of a 99.5 percent Value at Risk or – in the opposite case – falls short of this level.

The next step is to rectify – or at least alleviate – the incorrect allocation of capital reflected in over- or undercapitalization by evaluating and implementing appropriate corrective actions.

In this context we consider it our stated aim to achieve the most efficient possible utilization of our capital while at the same time ensuring appropriate capital adequacy and making allowance for the effects of diversification. We view the optimization of our capital and financing structure as a further crucial aspect of capital management. Our goal in this regard is to arrive at an optimal cost of capital and the best possible capital allocation.

In the management system of the Talanx Group we differentiate between two fundamental capital concepts, namely "Company's Capital" and "Risk-Based Capital".

Company's capital

In our understanding, company's capital refers to the capital that serves as a basis in our value-based management approach for determining the excess return above and beyond the cost of capital (cf. also under "xRoCC"). It represents the total capital available in a unit (company or segment), and is composed of the policyholders' surplus and the so-called soft capital. For us, soft capital includes, for example, the loss reserve discount, a level of overreserving in property/casualty insurance that goes beyond best estimate reserving and the non-capitalized value of in-force business in life/health insurance.

Risk-based capital

Risk-based capital is the amount of capital necessary for the conduct of insurance business in order to ensure that the probability of capital erosion is kept as low as possible. The capital needed for this purpose is determined using mathematical risk models. To this extent it also constitutes the economic capital and indicates over- or undercapitalization and capital adequacy relative to the company's capital.

Performance management

Performance management is the centerpiece of our array of management tools. Under our systematic approach two fundamental processes form the points of departure for efficient enterprise and group management: the definition of a clear strategy geared to ensuring the Group's long-term survival and – of no less importance – the consistent implementation of this strategy. Since instances of mismanagement are very often due to the inadequate implementation of strategy, we devote particularly close attention to the process steps that enable targeted orientation of our entrepreneurial actions to our strategic objectives.

The major stages of strategy implementation consist of the drawing up of strategic program planning, i.e. the breaking down of the strategic objectives into subgoals and the subsequent breaking down of the subgoals/strategic program planning into operational goals that are backed by concrete measures.

Performance management and the management of the segments are guided by the following basic principles:

- The Board of Management of the holding company sets out strategic parameters for the planning and orientation of business activities. The focus is on the Group's core management ratios and on Group-wide strategic initiatives.
- Holding companies and segments use a consistent performance metric to manage their business.
- Performance is discussed and assessed in regular meetings between the Board members with responsibility for the holding company and the segments on the basis of the performance metric.

Using the performance metric we are able to link our strategic planning with the operational planning, inasmuch as we define our strategies in structured overviews. The performance metric not only encompasses purely financial core management ratios but also other relevant operational management ratios from four different perspectives: the financial perspective, the market/customer perspective, the process perspective and the staff perspective.

Our management indicators

As part of our performance management we measure economic value creation from the strategic planning to operational management using our central management indicator, namely Intrinsic Value Creation (IVC).

IVC enables us to compare the value contributions made by the Group, the five business segments as well as individual operating units, making allowance for their specific characteristics. This puts us in a position to reliably identify value-creating areas. In this way, we can optimize the allocation of capital and resources, pinpoint risks and opportunities and initiate the appropriate measures.

Group holding company and Group segments use a consistent performance metric to manage business.

In non-life business (Property/Casualty Primary Insurance and Non-Life Reinsurance) the IVC measures the difference between the NOPAT (net operating profit after adjustments and tax) and the cost of capital. The IVC thus determines the true economic value creation.

Our five core management ratios:

- **IVC – Intrinsic Value Creation**
  Value creation of the segment in accordance with value-based management (as an absolute amount)
- **xRoCC – Excess Return on Company's Capital**
  Value creation of the segment in accordance with value-based management (relative to the company's capital)
- **Dividend/profit transfer of the segment**
- **Risk budget**
  Definition of available risk capital per segment
- **Capital adequacy ratio (CAR)**
  Minimum solvency level of the segment
  (ratio of company's capital to risk-based capital)

The NOPAT is comprised of the Group net operating profit after tax recognized under IFRS and the change in the differences between present values and carrying amounts in the balance sheet (in each case adjustment for non-life and life insurance). In addition, interest on hybrid capital, minority interests, extraordinary profits and losses as well as effects of over- or undercapitalization are eliminated. The NOPAT thus gives us an economically informative performance and management ratio for the reporting period in question.

The cost of capital is calculated from the allocated risk-based capital, weighted with the average cost unit rate for the total capital. The capital is divided between the profit centers in a manner that is appropriate to the risk; the uniform Group-wide Talanx risk model on the basis of a 99.5 percent Value at Risk is used for this purpose. The time horizon considered under the model is one calendar year.

Different return requirements are used as a basis for determining the cost of capital for the individual capital components. As far as the cost of equity capital is concerned, for example, it is our assumption on the basis of a CAPM (Capital Asset Pricing Model) approach that the investor's opportunity costs are 460 basis points in excess of the risk-free interest rate. Value is created above this rate of return. The definition of our target return-on-equity for the Group of at least 750 basis points above the "risk-free" rate thus already includes a not inconsiderable target value creation.

Interest is calculated on the components of soft capital at the respective underlying interest rates and on the hybrid capital using the interest expenses actually accruing. Weighted according to the composition of the company's capital as defined above, the weighted total cost of capital applicable to all profit centers can be calculated from these various interest rates.

The value creation of our life segments (Life Primary Insurance and Life/Health Reinsurance) is measured using the change in the market-consistent embedded value (MCEV), which constitutes the basis for the IVC calculation in these segments. The MCEV is defined as the value of the enterprise, which is measured as the discounted present value of future earnings until complete run-off of the in-force portfolio – from the standpoint of the shareholder and after taxes – plus the fair value of equity, making allowance for capital commitment costs.

In order to measure the comparable return delivered by business units or divisions of varying size, the generated IVC is considered in relation to the corresponding capital. In this way we arrive at the ratio known as the xRoCC (Excess Return on Company's Capital), which indicates the return generated in excess of the cost of capital. Measured according to the xRoCC, our medium-term target is to generate an excess return of 6% for the Group as a whole.

Processes in the area of risk management are described in greater detail in the following risk report.

Risk report

With its various Group segments the Talanx Group offers an extensive range of products encompassing not only insurance but also financial and other services. The acceptance of risks constitutes the core of our business, and a highly developed level of risk awareness is vital to our success if we are to consistently maximize our opportunities. Talanx AG and its subsidiaries consequently employ a diverse range of methods and tools for risk monitoring and controlling.

Our decision-making processes and monitoring mechanisms not only satisfy the comprehensive requirements placed on reporting and information systems by the Insurance Supervisory Act, they also extend to the compilation and examination of the annual and consolidated financial statements, the internal control system and the use of extremely powerful planning and controlling tools.

We use a value-based approach (Intrinsic Value Creation) to steer our business operations. One of the most important parameters within this process is the risk capital, i.e. the capital needed to conduct our business activities. By using risk capital as a control parameter we are able to optimize the allocation of capital within the Group.

In accordance with our approach of ensuring the greatest possible decentralization, our subsidiaries each maintain their own risk management systems; for they are themselves best able to assess their risks and take timely risk management measures. Group Controlling specifies guidelines for the organization of local risk management systems that ensure a consistent minimum standard Group-wide, and with the aid of an internal risk model it determines the risk situation of the Talanx Group as a whole on the basis of the local risks. We are able to make a precise assessment of the risks using this internal risk capital model, which is currently based on the so-called GDV (German Insurance Association) model and is used for the analysis and measurement of individual risks as well as of the Group's overall risk position. The purpose of the risk quantification is to calculate the risk capital on the basis of a 99.5% Value at Risk. The time horizon considered under the model is one calendar year. Quarterly reporting on both current business developments and on risk management ensures that the Board of Management of Talanx AG is kept constantly updated on risks and can intervene as necessary.

The Risk Committee of the Talanx Group monitors the capitalization and risk profile of the entire Group and ensures that the relationship between these two parameters is appropriate. The Risk Committee is also tasked with ensuring that comprehensive risk awareness is firmly anchored in the Talanx Group and with further enhancing risk controlling. In order to remain constantly updated on the risk situation at the subsidiaries, Group Risk Management holds quarterly discussions with the responsible risk officers at the subsidiaries. The responsible risk officers at the subsidiaries notify significant changes in the risk position by way of ad hoc reports to Group Risk Management.

The potential implications of risks are not only documented but also incorporated into the annual planning of the Group companies, thereby making it possible to allow for the risks of future development as well as appropriate countermeasures in a timely manner. The plans drawn up by all Group companies and for the Group as a whole are discussed and approved by the Board of Management and Supervisory Board of Talanx AG.

Risks of future development

The risk situation of the Talanx Group can be broken down into the five risk categories described below. They are based on German Accounting Standard DRS 5-20:

- underwriting risks
- default risks in insurance business
- investment risks
- operational risks
- other risks

No risks have as yet emerged that could jeopardize the continued existence of the Talanx Group or significantly impair its assets, financial position or net income. Substantial capital, reserves and underwriting provisions have been built up in order to cover for the financial consequences of conceivable risks.

The financial stability of the Talanx Group and its member companies has been reviewed over a number of years by highly reputed rating agencies such as Standard & Poor's and A.M. Best. Standard & Poor's has given the Hannover Re Group and the collective of primary insurers within the Talanx Group financial strength ratings of "AA–" (very strong) and "A+" (very good) respectively. A.M. Best rates the financial strength of the entire Talanx Group "A" (excellent); please see also the section of the Notes entitled "Nature of risks associated with insurance contracts and financial instruments".

Major underwriting risks

The underwriting risks in property and casualty insurance are considered separately from those in life insurance because of the considerable differences between them.

Underwriting risks in property/casualty business (primary insurance and reinsurance) derive principally from the premium/loss risk and the reserving risk.

The premium/loss risk is the risk that previously defined insurance premiums are used to pay subsequent indemnification, although the amount of such payments is initially unknown. The actual claims experience may therefore diverge from the expected claims experience. This can be attributable to two reasons: the risk of random fluctuation and the risk of error.

The risk of random fluctuation refers to the fact that both the number and amount of claims are subject to random factors and the expected claims level may therefore be exceeded. This risk cannot be excluded even if the claims spread is known. The risk of error describes the risk of the actual claims spread diverging from the assumed claims spread. A distinction is made here between the diagnostic risk and the forecasting risk. The diagnostic risk refers to the possibility that the current situation may be misinterpreted on the basis of the available data. This is particularly likely to occur if only incomplete data is available regarding claims from previous insurance periods. The forecasting risk refers to the risk that the probability distribution of the total claims may change unexpectedly after the estimation is made.

The Talanx Group manages and reduces all components of the premium/loss risk first and foremost through claims analyses, actuarial modeling, selective underwriting, specialist audits and regular review of the claims experience as well as through the use of appropriate reinsurance protection.

The second underwriting risk in property/casualty business, namely the reserving risk, refers to the possibility that the underwriting reserves may not suffice to pay in full claims that have not yet been settled or reported. A need to establish additional reserves may then arise. In order to manage this risk the Talanx Group sets aside extra reserves on the basis of its own claims investigations in addition to the losses reported by clients. Furthermore, a so-called IBN(E)R (incurred but not (enough) reported) reserve is constituted for claims that have probably already occurred but have not yet been (adequately) reported. What is more, the level of reserves is regularly reviewed – not only internally but also by external actuaries – in order to minimize the reserving risk. With regard to the run-off results of the loss reserves we would refer the reader to our comments in the Notes under "Loss and loss adjustment expense reserve".

The following paragraphs describe the risks associated with individual lines of property and casualty insurance and subsequently discuss the risks in life primary insurance and life/health reinsurance.

Under liability insurance policies we grant the policyholder and any other persons included in the coverage protection against claims for damages asserted by third parties. Indemnification is normally provided for bodily injuries and property damage, although pure financial losses are also insurable. This also includes motor third party liability insurance. The agreed sums insured constitute the policy limits.

The frequency and amount of claims can be influenced by a number of factors, including for example a change in legislation. As a result, the number of cases in which claims are brought before the courts could rise, with corresponding implications for indemnification payments. Risks may also be associated with inflation, since some claims are settled over a very long period of time. On account of inflation, for example, the reserves constituted may not suffice to meet subsequent claim payments. Under liability insurance policies the (re)insurer is liable for all insured events that occur during the policy period, even if a claim is not discovered until after the policy period has ended. We therefore establish loss reserves not only for claims that have already been notified, but also for those that have been incurred but not yet reported (IBNR). The actuarial methods that are used to calculate these reserves may involve a risk of error due to the underlying assumptions.

Personal accident insurance policies provide insurance protection against the economic repercussions of accidents. Depending on the consequences of the accident and the policy concerned, the Group companies normally pay a daily allowance, a lump-sum disability benefit or disability pension or a death benefit. The reserves are calculated on the basis of actuarial models.

The Group (re)insurance companies calculate their premiums for liability and personal accident policies using empirical values and actuarial calculations. They also control these risks through their underwriting policy. Underwriting guidelines, which set out inter alia underwriting exclusions and limits, define criteria for risk selection. These underwriting guidelines are binding on the underwriters; they are reviewed annually and modified as necessary. The risk is also reduced with the aid of reinsurance coverage, which protects against peak exposures. Furthermore, the adequacy of the reserves is regularly reviewed.

Property insurance policies are taken out in order to obtain an insurance benefit for damaged or destroyed property in the event of a claim. The amount and extent of the losses covered by such policies are determined in particular by the costs of rebuilding and restoration or the compensation payable for contents; in industrial and commercial insurance the losses resulting from business interruption are also covered. The benefits are, however, limited by the sum insured. Claims under motor insurance policies may arise out of the replacement or repair of a destroyed or damaged vehicle.

Underwriting risks are of special importance under these policies. As a consequence of incorrect calculation assumptions, inadequate accumulation control or erroneous estimations of the claims experience, key cash flows may diverge from the expectations underlying the calculation of the premium. Climate change, in particular, can lead to frequent and severe weather events (e.g. floods or windstorm events) and a corresponding scale of damage. Considerable claims may arise under industrial property insurance policies as a consequence of large individual loss events. In order to limit these risks we continually monitor possible divergences between the actual and expected claims experience and, as appropriate, we revisit the pricing calculations. For example, the Group companies have an opportunity to adjust prices to the actual risk situation when policies are renewed. They also control these risks through their underwriting policy: here too there are underwriting exclusions and limits that serve as a criterion for risk selection. Compulsory deductibles also apply in some lines. Substantial individual and accumulation risks are minimized through the use of carefully selected reinsurance coverage which protects against peak losses.

Especially for the Hannover Re Group, scenario calculations are performed in order to identify accumulation risks at an early stage. In this context, for example, simulation models are used to analyze the worldwide implications of natural disasters due to global climate changes. On the basis of these analyses it is possible to determine the maximum exposure that Hannover Re should run for such risks as well as the corresponding retrocession requirement. Retrocession – i.e. the passing on of risks to carefully selected reinsurers of long-standing financial quality – is another vital tool for limiting underwriting risks.

In life primary insurance the insurance policy commits the insurer to either a single or regularly recurring benefit payment. The premium calculation in this case is based on an actuarial interest rate and biometric bases that depend inter alia on the age of the insured at policy inception, the policy period and the amount of the sum insured. The main insured events are the death of the insured person or maturity of the policy (survival).

Typical risks in life insurance are associated with the fact that policies grant long-term benefit guarantees: while the premiums for a given benefit are fixed at the inception of the policy for the entire policy period, the underlying parameters (interest rate level, biometric assumptions) may change.

Biometric actuarial bases such as mortality, longevity and morbidity are established at the inception of a contract in order to calculate premiums and reserves. Over time, however, these assumptions may prove to be no longer accurate and may therefore necessitate additional expenditures, e.g. for raising the benefit reserve. The adequacy of the biometric actuarial bases is therefore regularly reviewed.

Epidemics or a worldwide shift in lifestyle habits may pose special risks to contracts under which death is the insured risk. Under annuity policies the risk derives first and foremost from the continuous improvement in medical care and social conditions, thereby increasing longevity – with the result that insureds draw benefits for a longer time than calculated.

Reserves calculated on the basis of assumptions regarding the development of biometric data such as mortality or disability serve to ensure that the commitments under these policies can always be met. Specially trained life actuaries make sure that the actuarial bases also make sufficient allowance for risks of change.

In addition, life insurance policies entail lapse risks. In the event of cancellation it is possible, for example, that sufficient liquid assets may not be available to cover insurance benefits. This can give rise to the unplanned realization of losses on the disposal of assets. For this reason, the Group's life insurers regularly match and control the duration of their assets and liabilities. What is more, receivables due from insurance agents may be lost in the event of cancellation, e.g. if the accounts receivable from intermediaries cannot be collected. Insurance intermediaries are therefore carefully selected. Cancellation may also create a cost risk if new business collapses and the fixed costs – unlike the variable costs – cannot be directly reduced. Cost controlling and a focus on variable sales costs through distribution channels such as multiple agents limit this risk.

An interest guarantee risk exists under life insurance policies with guaranteed interest payments. This risk arises if upon inception of a life insurance policy a guaranteed interest rate is agreed on the savings element of the premium. The interest guarantee risk has been exacerbated by the reform of the Insurance Contract Act (VVG) inasmuch as policyholders are entitled to participate in the unrealized reserves. The insurance premiums must be invested at appropriate terms on the capital market in order to generate this guaranteed return. Yet the capital market fluctuates over time; future investments are thus subject to the risk of poorer conditions. What is more, the duration of the investments is generally shorter than the duration of the insurance contracts, hence creating a reinvestment risk. An interest rate risk exists in connection with guaranteed surrender values. A rapidly rising interest rate level, for example, may give rise to hidden obligations. If contracts were to be terminated prematurely the policyholders would be entitled to the guaranteed surrender values and would not share in any incurred hidden losses. Upon disposal of the corresponding investments the hidden losses would have to be borne by the life insurers, and in theory it is possible that the fair market value of the investments would not suffice to cover the guaranteed surrender values. For a large part of our life insurance portfolio this risk is reduced through contractual provisions. As a further factor, the change in the distribution of acquisition costs brought about by amendment of the Insurance Contract Act will lead to higher surrender values in the initial phase. The Group reduces the interest guarantee risk primarily by constantly monitoring the asset portfolios and capital markets and taking appropriate countermeasures. To some extent interest rate hedging instruments, known as swaptions and book yield notes, are used. The surplus distributions paid in addition to the guaranteed interest rate can be adjusted according to the state of the capital market. The large proportion of new business attributable to unit-linked life insurance policies minimizes the interest guarantee risk because with this type of insurance the investment risks and opportunities are borne by policyholders.

In life and health reinsurance the previously described biometric risks are of special importance. The reserves in life and health reinsurance are based principally upon the information provided by ceding companies. The plausibility of the figures is checked using reliable biometric actuarial bases. Furthermore, local insurance regulators ensure that the reserves calculated by ceding companies satisfy all requirements with respect to actuarial methods and assumptions (e.g. use of mortality and morbidity tables, assumptions regarding the lapse rate etc.). The lapse and credit risks are also of importance with regard to the prefinancing of cedants' new business acquisition costs. The interest guarantee risk, on the other hand, is of only minimal risk relevance due to the structure of the contracts.

A key risk management tool in the areas of life insurance and life/health reinsurance is systematic monitoring of the market-consistent embedded value (MCEV). The MCEV denotes the present value of future shareholders' earnings from business in life insurance and life/health reinsurance after appropriate allowance for all risks underlying the business in question. Sensitivity analyses highlight the areas where the Group is exposed and provide pointers as to which areas to focus on from the risk management perspective.

Default risks under insurance business

Bad debts may arise on receivables due under insurance business. This applies, in particular, to receivables due from reinsurers, retrocessionaires, policyholders and insurance agents. This would result in value adjustments or write-downs on the receivables.

The Group counteracts the default risk at reinsurers and retrocessionaires by carefully selecting them with the aid of expertly staffed Security Committees, constantly monitoring their credit status and – where necessary – taking appropriate measures to secure receivables. Depending upon the type and expected run-off period of the reinsured business, the selection of reinsurers and retrocessionaires is guided by our own credit assessments as well as by the minimum ratings of the rating agencies Standard & Poor's and A.M. Best.

The default risk at policyholders is countered first and foremost by means of an effective collection procedure and the reduction of outstandings. Agents are subject to credit checks. In addition, adequate general bad debt provisions are established to allow for the default risk.

Major investment risks

Investment risks should be considered in the context of the investment policy. Based on Group investment guidelines, the investment policy at the individual companies is regulated within the Talanx Group by the supervisory framework applicable to each particular company and by internal investment guidelines. The consistent principle underlying investment activities is the goal of generating a risk-appropriate contribution to the business result.

Particularly in the interests of policyholders, the investment policy adopted by Talanx – building upon the basic legal parameters – is guided by the following maxims:

- optimizing the return on investments while at the same time preserving a high level of security
- ensuring liquidity requirements are satisfied at all times (solvency)
- risk diversification (mix and spread)

An essential component of risk management is the principle of separation of functions – i.e. keeping a distinction between Portfolio Management, Settlement and Risk Controlling. Risk Controlling – which is organizationally and functionally separate from Portfolio Management – bears responsibility for monitoring all risk limits and evaluating financial products. In this respect our management and control mechanisms are geared particularly closely to the standards adopted by the Federal Financial Supervisory Authority (BaFin) and the respective local supervisory authorities.

Detailed investment guidelines are in force for the individual companies, compliance with which is constantly monitored. These investment guidelines serve to define the framework of the investment strategy and are therefore guided by the principles set out in § 54 of the Insurance Supervision Act, which envisages the greatest possible level of security and profitability while ensuring liquidity at all times and preserving an appropriate mix and spread of the portfolio. Monitoring of the quotas and limits set out in these guidelines is the responsibility of Group Risk Controlling and the Chief Financial Officer of each company. Any significant modification of the investment guidelines and/or investment policy must be approved by the Board of Management of each company and brought to the attention of its Supervisory Board.

Risks in the investment sector consist most notably of market, credit and liquidity risks.

Market risk

The market risk arises from the potential loss due to adverse changes in market prices and may be attributable to changes in interest rates, equity prices and exchange rates. This can necessitate a value adjustment or result in realized losses upon disposal of financial assets. A fall in the level of interest rates can also lead to lower investment income.

For the bulk of the securities portfolio the experts at AmpegaGerling Asset Management GmbH simulate possible market changes that can cause significant price and interest losses as at the balance sheet date. The Value at Risk (VaR) is a vital tool used to manage market price risks. The VaR is determined on the basis of historical data, such as the volatility. In the context of these calculations the probably of a certain portion of the portfolio diminishing in value is calculated on a weekly basis. In addition, the risk of market changes is identified using enterprise-specific stress tests and those required by regulators with correspondingly defined stress test parameters.

When it comes to managing the currency risk, we check that matching currency cover is maintained at all times. The risk is limited by investing capital wherever possible in those currencies where obligations are to be fulfilled under insurance contracts.

Investments in alternative asset classes such as private equity and hedge funds are limited and regularly monitored using a conservative control mechanism. The hedge funds are entirely transparent for the individual companies and are monitored daily with an eye to liquidity, leverage and exposure.

In the case of direct investments in real estate, the yield and other key performance indicators (e.g. vacancies and arrears) are measured on the level of individual properties and the portfolio as a whole. Risk controlling for indirect real estate investments, as with private equity funds, is based on regular monitoring of the development and performance of the funds.

The Talanx Group enters into derivative transactions to hedge against price risks or interest rate risks affecting existing assets, prepare the subsequent purchase of securities or generate additional earnings on existing securities. The use of derivative products is regulated by internal guidelines in order to ensure the most efficient and risk-free possible use of forward purchases, derivative financial instruments and structured products and to satisfy regulatory requirements. The use of such instruments is thus subject to very strict limits. The parameters of the investment guidelines and the legal parameters for derivative financial instruments and structured products are updated and constantly monitored in the system of limits. Derivative positions and transactions are specified in detail in the reporting.

Credit risk

The credit risk refers to the possible fall in the value of an asset due to the failure of a debtor or change in their ability to pay. As a consequence, financial assets may become non-performing with a corresponding need to take a value adjustment or write-down. The rating classes assigned by rating agencies such as S&P and Moody's are a key pointer for investment decisions taken by Portfolio Management. If a rating cannot be ascertained in this way, an implicit rating is determined. This is done by way of mark-ups and markdowns on existing ratings of the issuer or of instruments with different features from the same issuer. The credit risks to be monitored consist of counterparty risks and issuer's risks. Risks of counterparty default are controlled using specified counterparty lists and by monitoring the limits defined for each rating class. Adherence to defined issuer limits (group limits and/or company limits) is monitored by Risk Controlling.

Liquidity risk

The liquidity risk refers to the risk that it may not be possible to sell holdings or close open positions due to the illiquidity of the markets – or to do so only with delays or price markdowns – as well as the risk that the traded volumes influence the markets in question. A liquid asset structure ensures that Group companies are able to meet their payment obligations – especially under insurance contracts – at all times. The expected due dates – among other considerations – are taken as a basis for the payment obligations, making allowance for the run-off pattern of the reserves.

In order to monitor liquidity risks each type of security is assigned a liquidity code that indicates how quickly a security can be sold. These codes are regularly reviewed by Portfolio Management. The plausibility of changes is checked by Risk Controlling and, where appropriate, the codes are modified. The data is subsequently included in the standardized portfolio reporting provided to the Chief Financial Officers. Compliance with the defined minimum and maximum limits for liquidity is observed. Overstepping of any risk limits is immediately reported to the Chief Financial Officers and Portfolio Management.

Major operational risks

Operational risks encompass the risk of losses occurring because of

- inadequacy or failure of internal procedures
- human error or system failure
- external events

Multifaceted and cause-oriented risk management and an efficient internal control system minimize such risks, which may be associated with business activities of all types, human resources or technical systems. The failure of data processing systems and data security rank among the most significant operational risks. Ensuring the availability of applications and protecting the confidentiality and integrity of data are of vital importance to the Talanx Group. Since the global sharing of information increasingly takes place via e-mail, this creates a vulnerability to computer viruses. Systematic investment in the security and availability of information technology preserves and enhances the existing high level of security.

Operating risks may also arise in the area of human resources, for example due to a lack of the skilled experts and managers necessitated by an increasingly complex business with a strong client orientation. The Group therefore attaches great importance to further and advanced training activities. With the aid of individual development plans and appropriate skills enhancement opportunities members of staff are thus able to respond to the latest market requirements. What is more, state-of-the-art management tools and appropriate incentive schemes – both monetary and non-monetary – foster strong employee motivation. Talanx counters the risk of personnel committing fraudulent acts to the detriment of the company with internal guidelines governing areas of competence and processing workflows as well as with regular specialist checks and audits.

Legal risks may arise in connection with contractual agreements and the general legal environment, especially with respect to business-specific imponderables of commercial and tax law as they relate to an internationally operating life and property/casualty insurer as well as a life/health and non-life reinsurer. Insurers and reinsurers are also dependent on the political and economic framework conditions on their respective markets. These external risks are subject to intense monitoring by the Talanx Board of Management on behalf of the entire Group and as part of an ongoing exchange of information with local management.

Last year we reported at this juncture on potential risks associated with reform of the Insurance Contract Act. The legislation amending the Insurance Contract Act has now entered into force. Since the regulations governing minimum surrender values in life insurance and the spreading of acquisition costs do not apply to in-force business, we take a considerably more relaxed view of the risk situation in this area than was the case in the previous year. Nevertheless, the spreading of the acquisition costs over five years in the initial contract years under endowment policies will lead to higher surrender values. It remains essential to act appropriately on the implications of the framework conditions determined by insurance supervision law, including the Regulation on Minimum Premium Refunds, also in light of risk considerations.

The integration of the former Gerling Group companies into the Talanx Group has led and will continue to lead to far-reaching changes and fresh opportunities. The integration of organizational structures, business strategies and corporate cultures within the scope of this acquisition poses a considerable challenge. Among other things, it is necessary to organize the integration of staff and the simplification of systems and tools while at the same time ensuring that insurance operations and customer satisfaction are maintained at all locations. These activities have still to be completed and are taking place parallel to operational business. Given the scale and complexity of such a project, business processes and workflows as well as technical systems can of course be affected by disruptions and impairments, which may also have implications for sales activities. Identifying, resolving and eliminating such problems is then a matter of the highest priority. Integration risks are subject to constant monitoring and are reported to the responsible steering committees and the Group Board of Management.

On the marketing side the Talanx Group works together, inter alia, with external agents, brokers and a number of cooperation partners. In this respect there is, of course, an immanent risk that marketing agreements can be impacted by external influences – with a corresponding potential for the loss of new business and erosion of the in-force portfolio.

Other major risks

Other risks consist primarily of participation risks of Talanx AG, especially those associated with the performance of subsidiaries, the stability of results in the portfolio of participating interests and a potentially inadequate balance in the business. The Group uses appropriate tools in controlling, internal auditing and risk management to counter risks arising out of the development of results at subsidiaries. A standardized reporting system regularly provides decision-makers with the latest information about the Group and the business development at all major subsidiaries. They are thus able to intervene at any time in order to control risks. The Group reduces risks associated with a lack of stability in the results of the portfolio of participating interests or with an inadequate business balance primarily by means of segmental and regional diversification as well as by investing systematically in growth markets and in product and portfolio segments that stabilize results.

The risk of asset erosion on acquisitions and their inadequate profitability is kept as low as possible through intensive due diligence checks conducted in cooperation with independent professional consultants and auditors. Furthermore, Talanx pays close attention to risks deriving from the financing of acquisitions and those associated with the capital needs of subsidiaries as well as their anticipated profitability. It counters the financing risk by compiling regularly updated cash flow statements and forecasts and defining priorities for the application of funds.

Events of special significance after the balance sheet date

Events that could have an influence on our financial position, net income or assets are described in the section of the Notes entitled "Events after the balance sheet date".

Forecast

The following remarks about the expected development of the Talanx Group and its business environment are subjective assessments based on plans and forecasts that we consider coherent but the materialization of which is uncertain.

Economic environment

Future macroeconomic situation

Global economic growth in 2008 is likely to be somewhat weaker than in the previous year. It would appear to be proving correct that the encroachment of the strains from the property crisis and credit crunch into the real economy – which had been feared in some quarters – will be limited and a severe dent in growth can be avoided. The emerging markets will probably retain their prominence against the backdrop of the relatively robust state of the large national economies and again comfortably surpass the growth of the G7 countries. Due to the unfavorable effects of the real estate crisis and credit crunch on manufacturing output, jobs and ultimately consumer behavior, the economic situation in the United States will probably continue to cool; US gross domestic product in 2008 is unlikely to grow by more than around 1 to 1.5% in real terms. The economic woes in the United States are also curtailing global economic growth. In the Eurozone economic growth in 2008/2009 is likely to fall below the 2% threshold. The sustained improvement in the state of the labor market in Europe as a whole and Germany in particular should help to stabilize the economic trend. With inflation easing and jobless figures falling, we therefore expect the German economy to remain on a solid growth course.

Interest rates on the bond market are, if anything, likely to trend upwards in the United States and Europe in 2008. On the equity market the positive fundamentals for European industrial stocks remain intact. The moderate valuation of European and especially Germany equities opens up price potential – subject to a cooling macroeconomic trend that does not, however, slip into recession.

Future state of the industry

The insurance industry is not only dependent on the overall economic development, it is also subject to a number of other internal and external influencing factors. Remarks about the future state of the industry should therefore not only be viewed in connection with the assessment of the economic trend, but also as contingent on other framework conditions and the flow of internal market currents. The competitive behavior of providers also plays a major role in the market tendencies, but of course so do the needs of customers as well as their purchasing power and buying patterns. Insurance markets around the world present a very heterogeneous picture; for Talanx, the German insurance market is the most important single market in the primary insurance segments.

In the years ahead, too, the German **life insurance** market will profit from the need for individual retirement provision among other population groups, although the anticipated premium growth is likely to be rather moderate with a gain of barely 2% due to fierce competition and the limited capacity of prospective customers to take out provision. The volume of new business that can be generated from the available potential will crucially depend on the extent to which the industry is successful in asserting itself against the growing competition from other financial services providers – first and foremost banks and retail funds – and persuading customers of the specific advantages offered by their products. Above all, we have in mind here the broad variety of offerings that can be optimally harmonized with individual provision requirements. Further factors are the broadly favorable business environment for the various means of implementing occupational retirement provision, the introduction of the flat-rate tax on investments (Abgeltungssteuer) and the availability of state-subsidized products such as the so-called Riester annuity.

With premium income in the German **property and casualty insurance** market on the decline since 2005, it is to be hoped that the stimuli coming out of the largely positive economic climate might help to prevent further premium contraction in 2008 and 2009. Yet it remains to be seen whether the economic thrust needed for this purpose is sufficiently strong that it will be reflected in rising demand for insurance protection. What is more, the indicators – especially in motor insurance, by far the most significant line of property/casualty insurance – do not suggest a fundamental turning away from fiercely competitive behavior. In industrial property and liability insurance, too, sustained cutthroat competition with further selective premium erosion must be anticipated. This forecast is also supported by the relatively favorable claims situation in recent years and the entry of new players into the market. Moderate premium growth can, however, be expected in some lines of private customer business.

On the international level we consider the climate for life insurance and life/health reinsurance to be positive. Growth in this area derives primarily from the rising demand for individual old-age provision. This trend, which goes hand-in-hand not only with increasing affluence but also with the limited ability of state systems of provision to pay benefits, can be observed in already highly developed industrial nations and in emerging markets alike; it is being fostered by the demographic trend towards generally higher life expectancy. In view of their relatively modest market size, the emerging countries will not normally be able to keep pace with the industrial nations in the foreseeable future, but given the considerable pace of their economic expansion and their vast population potential they offer healthy growth prospects. In international non-life (re)insurance we expect the softening of the insurance cycle to continue, which is likely to be reflected principally in a tendency towards declining rates. What is more, going forward we expect the burden of losses from natural disasters and man-made events to trend upwards. Our assessment of the outlook for insurance sales through banks is similarly upbeat. In the international arena this concept offers good opportunities for marketing expansion as well as possible starting points for leveraging synergies in the interplay of banking and insurance business. In the medium term, another area offering scope for the development of innovative products and service solutions is likely to be the extensive field of long-term care benefits and assistance services.

Orientation of the company over the next two financial years

Over the next two financial years we shall continue to strive to cement the long-term future security of the Talanx Group. Under our strategy we have defined broader diversification and an optimally balanced Group structure as a vital cornerstone of this future security. With a view to optimizing our portfolio of participating interests we are therefore aiming for further expansion, first and foremost in private customer business.

Now that Talanx has already enhanced its financial flexibility in recent years by opening up to the capital market, the further reinforcement of our financial strength and flexibility constitutes another major building block in the safeguarding of our Group's future. The next logical step as we tap into the capital market should therefore be an Initial Public Offering, a move which is dependent upon both internal and external factors.

Sales markets

In the context of the targeted expansion in private customer business, a sizeable strategic acquisition could be financed with immediately available cash and through funds from a going public. In the primary insurance segments our stated aim is to continue to grow selectively in foreign markets. In the years ahead the structure of our premium income should evolve in such a way that half derives from the German market and half emanates from markets abroad. This would complement the existing strong focus in primary business on the German insurance market and further improve regional risk diversification. Yet this strategy in no way implies a turning away from the German market, in which we have appreciably stepped up our presence through the acquisition of the Gerling, BHW and PB companies. Using this reinforced basis as our platform, we intend to continue offering domestic customers our know-how and expertise on the level to which they have become accustomed.

In the reinsurance segment further strengthening of the portfolio – such as through acquisitions – is conceivable only in life/health reinsurance.

New methods, products and services

We regard the multi-brand strategy which enables us to tailor our products and services specifically to the needs of our customers and distribution partners as one of our Group's major advantages. In our assessment, our decentralized approach is a proven strength, reflecting our Group's intimacy with its various markets and clients. In the coming years we shall continue to make use of this edge in order to cater quickly and professionally to our customers' expectations. The principle of high operational impact through locally positioned brands is complemented by the way in which Talanx AG bundles central Group tasks and in this role generates value added for the Group, for example by leveraging synergies.

A key starting point for the release of synergies within the Group companies is to be found, inter alia, in the organization of information technology – an area whose potential extends from the computer centre through procurement to software development. Over the coming years we shall consistently enhance our system landscape with the aim of putting in place state-of-the-art, flexible and secure systems that provide efficient support for our business processes. We do not see investment in IT merely as a necessary step to maintain our technical infrastructure, but rather as a match-winning performance factor in our competitive strength going forward.

Anticipated development of the Group

Property/Casualty Primary Insurance

Premium income in the Property/Casualty Primary Insurance segment is likely to contract slightly in 2008. This expectation is based mainly on the protracted downward slide in rates for industrial business as well as our disciplined underwriting policy in this line. A minimal volume of integration-related erosion is also to be anticipated. From 2009 onwards premium income is expected to climb again – first and foremost on foreign markets. For the German HDI-Gerling companies, on the other hand, the potential for growth will likely be minimal in view of the sluggish market and likely sustained level of fierce competition. All in all, we expect profitability to rise in comparison with 2007, in spite of declining premium income.

Life Primary Insurance

In 2008 we see good prospects of our domestic companies in the Life Primary Insurance segment surpassing the premium growth of 1 to 2% forecast for the German life insurance market by the German Insurance Association (GDV). First-time recognition of BHW Lebensversicherung AG for a full financial year and the initial full consolidation of PB Lebensversicherung AG for a full financial year will also boost the premium volume. In 2009, too, the segment envisages further growth in gross written premium including savings elements of premium under unit-linked policies and an increase in profitability.

Non-Life Reinsurance

Overall, we do not regard non-life reinsurance as a growth market. On the one hand, the capital base of primary insurers has grown in recent years to facilitate the carrying of higher retentions, while on the other the hard market has now passed its peak for the time being. Nevertheless, thanks to our positioning as a multi-specialist we are still able to operate profitably even in a progressively softening market. In accordance with our strategy we do not pursue any growth targets in this segment, but are instead guided exclusively by a profit target – expressed as an increase in operating profit (EBIT) that is to be generated each year.

Life/Health Reinsurance

Given our favorable assessment of the situation in life/health reinsurance and our advantageous positioning, we are looking to double-digit growth and rising profits for this segment in 2008. In the Asian economic region the existing infrastructure is to be further expanded through the establishment of new locations. In Europe the enhanced annuities market in the United Kingdom and bancassurance business in France are highly promising areas of concentration. In the United States we anticipate further growth, inter alia through the writing of block assumption transactions as well as in Medicare supplement business for senior citizens. The newly established company in Bermuda will reinforce Hannover Life Re's global network. We also envisage stepping up our activities in Sub-Saharan countries, in which we have identified profitable growth opportunities, from our base in South Africa.

Financial Services

The profitability of this segment is dependent, among other things, on the asset management fees typically collected in this market from other Group segments. As far as AmpegaGerling is concerned, it is our expectation that the growing impact of the merged companies following the bringing together of all staff at our Cologne location and the establishment of the new, joint business operation will increasingly make itself felt in this and the coming year. For 2008 and 2009, therefore, the segment is expected to deliver a consistently good performance.

Group as a whole

Given a further weakening in the US dollar compared to 2007, we expect to see a slight contraction in gross written premium to around EUR 19 billion. The anticipated positive cash flow from the technical account and the asset portfolio should be reflected in further improvement in the Group's investment income. Since the anticipated changes in the profits booked by the Group segments will probably almost entirely offset each other overall, it is our expectation that Group EBIT in 2008 will be roughly on a par with 2007.

Turning to the return on equity generated by the Talanx Group, it remains our goal in the coming years to surpass the average risk-free market interest rate over the past five years for ten-year German government bonds by at least 750 basis points. With the aid of our performance management system, we are able to ensure that the individual profit targets of the Group companies/segments arrived at from our value-based management approach at least produce the return on equity defined for the Group as a whole. We are, however, confident not only of exceeding this targeted minimum return but of being able to measure ourselves against Europe's most profitable insurance groups.

The accomplishment of these policy goals is realistic under our planning, but must remain subject to the reservation that the Group is not impacted by exceptionally large natural catastrophes or major loss events that go beyond the bounds of our planning parameters. At the same time, our profit expectations are guided by the assumption that capital markets will develop without any major disruptions.

Consolidated balance sheet as at 31 December 2007

Assets	Note			31.12.2007	31.12.2006 [1]
Figures in EUR million					
A. Intangible assets					
a. Goodwill	1		637		421
b. Other intangible assets	2		2,490		2,188
				3,127	**2,609**
B. Investments					
a. Real estate used by third parties	3		616		782
b. Investments in affiliated companies and participating interests	4		59		66
c. Investments in associated companies	5		152		148
d. Loans and receivables	6		29,243		25,644
e. Other financial instruments					
i. Held to maturity	7	1,477			1,571
ii. Available for sale	8	25,877			25,663
iii. At fair value through profit or loss	9	865			1,042
iv. Trading	10/12	18			63
			28,237		**28,339**
f. Other investments					
i. Funds held by ceding companies			8,055		8,173
ii. Other invested assets	11		3,262		2,786
				69,624	**65,938**
C. Investments for the account and risk of holders of life insurance policies				4,314	3,468
D. Reinsurance recoverables on technical provisions				7,552	7,428
E. Accounts receivable on insurance business	13			3,758	4,453
F. Deferred acquisition costs	14			3,278	3,168
G. Cash				2,038	1,670
H. Deferred tax assets	27			237	577
I. Other assets	15			1,450	1,743
J. Assets of disposal groups classified as held for sale				—	1,910
Total assets				**95,378**	**92,964**

[1] *Adjusted on the basis of IAS 8*

Liabilities	Note			31.12.2007	31.12.2006 [1]
Figures in EUR million					
A. Shareholders' equity	16				
a. Common shares		260			260
b. Reserves		3,522			3,238
c. Cumulative other comprehensive income (other reserves) of disposal groups		—			–3
Total shareholders' equity excluding minorities			**3,782**		**3,495**
d. Minority interests		2,379			1,990
e. Minority interests in cumulative other comprehensive income (other reserves) of disposal groups		—			–3
Total minority interests			**2,379**		**1,987**
Total shareholders' equity				**6,161**	**5,482**
B. Subordinated liabilities	17		2,168		2,170
C. Technical provisions					
a. Unearned premium reserve	18	4,755			5,092
b. Benefit reserve	19	35,987			33,319
c. Loss and loss adjustment expense reserve	20	26,651			26,682
d. Provision for premium refunds	21	1,388			1,319
e. Other technical provisions		226			242
			69,007		**66,654**
D. Technical provisions in the area of life insurance insofar as the investment risk is borne by policyholders			4,314		3,468
E. Other provisions					
a. Provision for pensions	22	1,251			1,241
b. Provision for taxes	23	725			511
c. Sundry provisions	24	582			546
			2,558		**2,298**
F. Liabilities					
a. Notes payable and loans	25	600			74
b. Funds held under reinsurance treaties		4,733			5,418
c. Other liabilities	26	4,682			4,587
			10,015		**10,079**
G. Provision for deferred taxes	27		1,155		1,770
Total liabilities/provisions				**89,217**	**86,439**
H. Debts of disposal groups classified as held for sale				—	1,043
Total liabilities				**95,378**	**92,964**

[1] *Adjusted on the basis of IAS 8*

Consolidated statement of income for the 2007 financial year

	Note			2007	2006 [1)]
Figures in EUR million					
1. Gross written premium including premium from unit-linked life and annuity insurance				19,130	19,368
2. Savings elements of premium from unit-linked life and annuity insurance				944	718
3. Ceded written premium				3,278	3,545
4. Change in gross unearned premium				181	153
5. Change in ceded unearned premium				194	239
Net premium earned	28			**14,895**	**15,019**
6. Investment income	29				
a. Income from investments			3,385		3,092
b. Expenses for investments			683		576
				2,702	2,516
thereof profit/loss from investments in associated companies			11		5
7. Other income	32			1,204	706
Total income				**18,801**	**18,241**
8. Claims and claims expenses (gross)	30	14,855			13,264
Reinsurers' share		2,725			1,398
Claims and claims expenses (net)			**12,130**		**11,866**
9. Acquisition costs and administrative expenses (gross)	31	4,194			4,143
Reinsurers' share		760			615
Acquisition costs and administrative expenses (net)			**3,434**		**3,528**
10. Other expenses	32		1,608		1,483
Total expenses				**17,172**	**16,877**
Profit before amortization of insurance-related intangible assets and goodwill impairments				**1,629**	**1,364**
11. Amortization of insurance-related intangible assets and goodwill impairments	33			178	78
Operating profit/loss (EBIT)				**1,451**	**1,286**
12. Interest on hybrid capital				123	121
13. Taxes on income	34			329	438
Net income				**999**	**727**
thereof minority interest in profit or loss				522	333
thereof Group net income				477	394

[1)] *Adjusted on the basis of IAS 8*

Consolidated statement of changes in shareholders' equity

	Common shares	Additional paid-in capital	Retained earnings	Cumulative other comprehensive income (other reserves)			Minority interests	Share-holders' equity
				Unrealized gains/ losses on investments	Gains/ losses from currency translation	Other changes in sharehold-ers' equity		
Figures in EUR million								
Balance as at 01.01.2006	**260**	**630**	**2,141**	**165**	**154**	**–8**	**1,635**	**4,977**
Adjustments pursuant to IAS 8	—	—	–145	—	–126	112	81	–78
Adjusted balance as at 01.01.2006	**260**	**630**	**1,996**	**165**	**28**	**104**	**1,716**	**4,899**
Change in proportionate holding	—	—	—	—	—	—	18	18
Deferred taxes on profit components recognized directly in equity	—	—	—	25	7	1	31	64
Disposal groups pursuant to IFRS 5	—	—	—	—	—	–3	–3	–6
Changes without effect on income	—	—	—	7	–80	–39	–98	–210
Net income	—	—	394	—	—	—	333	727
Dividends paid	—	—	—	—	—	—	–10	–10
Balance as at 31.12.2006	**260**	**630**	**2,390**	**197**	**–45**	**63**	**1,987**	**5,482**
Change in proportionate holding	—	—	—	—	—	–131	40	–91
Deferred taxes on profit components recognized directly in equity	—	—	—	10	1	–2	–10	–1
Changes without effect on income		—	—	–21	–67	20	–38	–106
Net income	—	—	477	—	—	—	522	999
Dividends paid	—	—	—	—	—	—	–122	–122
Balance as at 31.12.2007	**260**	**630**	**2,867**	**186**	**–111**	**–50**	**2,379**	**6,161**

Cash flow statement for the 2007 financial year

	2007	2006
Figures in EUR million		
I. 1. Net income	999	727
I. 2. Changes in technical provisions	1,893	2,501
I. 3. Changes in deferred acquisition costs	–228	–563
I. 4. Changes in funds held and in accounts receivable and payable	–867	398
I. 5. Changes in other receivables and liabilities	414	–653
I. 6. Changes in financial instruments held for trading	29	–21
I. 7. Net gains and losses on investments	–242	–170
I. 8. Changes in other balance sheet items	–109	–404
I. 9. Other non-cash expenses and income as well as adjustments to net income	1,448	1,577
I. Cash flows from operating activities	**3,337**	**3,392**
II. 1. Cash inflow from the sale of consolidated companies	384	—
II. 2. Cash outflow from the purchase of consolidated companies	–527	–100
II. 3. Cash inflow from the sale of real estate	756	261
II. 4. Cash outflow from the purchase of real estate	–53	–52
II. 5. Cash inflow from the sale and maturity of financial instruments	14,868	16,116
II. 6. Cash outflow from the purchase of financial instruments	–17,632	–20,814
II. 7. Changes in investments for the account and risk of holders of life insurance policies	–704	–765
II. 8. Changes in other invested assets	–535	2,126
II. Cash flows from investing activities	**–3,443**	**–3,228**
III. 1. Net changes in contract deposits	207	655
III. 2. Dividends paid	–122	–10
III. 3. Net changes from other financing activities	408	–164
III. Cash flows from financing activities	**493**	**481**
Change in cash and cash equivalents (I. + II. + III.)	**387**	**645**
Cash and cash equivalents at the end of the previous year	**1,670**	**1,119**
Cash and cash equivalents – exchange rate differences on cash	**–19**	**–47**
Cash and cash equivalents of disposal groups pursuant to IFRS 5	**—**	**47**
Cash and cash equivalents at the end of the financial year	**2,038**	**1,670**

Notes on the cash flow statement

The cash flow statement shows how the cash and cash equivalents of the Talanx Group changed in the course of the year under review due to inflows and outflows. In this context a distinction is made between cash flow movements from operating activities and those from investing and financing activities.

The cash flows within the Talanx Group are presented in accordance with IAS 7 and the principles set out in German Accounting Standard (DRS) No. 2 regarding the preparation of cash flow statements, which were supplemented and specified more closely by DRS 2-20 for insurance enterprises.

The cash flow statement was drawn up using the indirect method. The liquid funds are limited to cash and cash equivalents and correspond to the balance sheet item "Cash".

The cash flow movements of the Talanx Group are influenced principally by the business model of an insurance and reinsurance enterprise. Normally, we first receive premiums for risk assumption and subsequently make payments for claims. The effects of exchange rate differences and the influences of changes in the consolidated group are eliminated in the cash flow statement. The acquisition of new companies is captured in the line "Cash outflow from the purchase of consolidated companies"; the sum total of paid purchase prices less acquired cash and cash equivalents is recognized here. The sale of consolidated companies is reported in the line "Cash inflow from the sale of consolidated companies"; the sum total of the disposal prices less sold cash and cash equivalents is carried here.

Assets and liabilities added as a consequence of the acquisition of the BHW companies are shown in the following table:

Figures in EUR million	
Intangible assets	402
Investments	1,468
Investments for the account and risk of holders of life insurance policies	43
Reinsurance recoverables on technical provisions	4
Other assets	26
Total assets	**1,943**
Technical provisions	1,622
Technical provisions in the area of life insurance insofar as the investment risk is borne by policyholders	43
Other provisions	6
Liabilities	102
Total liabilities	**1,773**

The cash assets of the companies amounted to EUR 8 million and the purchase price was EUR 379 million.

The assets and liabilities of the acquired PB insurers immediately before and at the time of acquisition (in each case the figures for 100%) are indicated in the section "Business combinations in the reporting period". The figures as at 30 September were included at 50% in the Group until 1 October 2007 (transition to full consolidation).

The additions in connection with the increase in interests from 50% to 100% encompass the measurement differences recognized in relation to the existing interests as at 1 October and the new interests added effective 1 October, including the assets and liabilities carried for the first time in the acquisition balance sheet. The total value of the assets added amounted to EUR 528 million (thereof PB Pensionsfonds: EUR 55 million), the additional liabilities totaled EUR 473 million (thereof PB Pensionsfonds: EUR 50 million). The cash assets of the PB insurers stood at EUR 4 million (thereof PB Pensionsfonds: EUR 0.4 million) and the purchase price for the three units combined came to EUR 160 million.

Assets and liabilities retired as a consequence of the deconsolidation of the Praetorian Group sold in the financial year are shown in the following table:

Figures in EUR million	
Intangible assets	6
Investments	815
Reinsurance recoverables on technical provisions	803
Other assets	68
Total assets	**1,692**
Subordinated liabilities	62
Technical provisions	954
Other provisions	12
Liabilities	217
Total liabilities	**1,245**

The cash assets of the company amounted to EUR 206 million and the disposal price was EUR 600 million.

In the context of the deconsolidation of the Gerling-at-Lloyd's Group, which was also sold within the year, investments of EUR 36 million, reinsurance recoverables on technical provisions of EUR 56 million and other assets of EUR 19 million were retired. The retired liabilities were composed of technical provisions totaling EUR 103 million and other provisions and liabilities of EUR 19 million. The cash assets of the company amounted to EUR 12 million and the disposal price was EUR 2 million.

Taxes paid in the reporting period amounted to EUR 103 (138) million, while interest paid stood at EUR 237 (159) million.

Segment report

The segment reporting of the Talanx Group in the present financial statement is based on IAS 14 “Segment Reporting” and the principles set out in German Accounting Standard No. 3 “Segment Reporting” (DRS 3) of the German Standards Council (DSR), supplemented by the requirements of DRS 3-20 “Segment Reporting of Insurance Enterprises”.

The breakdown of the overall activities into the segments of the primary reporting format is based upon the areas of responsibility within the Group’s Board of Management, i.e. for the most part the allocation of business activities to segments is determined by their affiliation with the areas of responsibility defined within the Board of Management of the Group’s holding company (Talanx AG).

In 2007 the Board of Management determined that the personal accident insurers in the Bancassurance Division recognized up to and including 2006 in the Property/Casualty Primary Insurance segment should be recognized in the Life Primary Insurance segment in the 2007 annual financial statement. Our Italian company HDI Assicurazioni S.p.A., which had previously been recognized in the Property/Casualty Primary Insurance and Life Primary Insurance segments, will only be allocated to the Property/Casualty Primary Insurance segment from 2007 onwards. The figures for the previous year have been adjusted accordingly.

The Talanx Group’s operational segments are structured as follows for the purposes of primary segmentation:

- Primary Insurance
  a) Property/Casualty
  b) Life
- Reinsurance
  a) Non-Life
  b) Life/Health
- Financial Services

The various business segments are shown in the segment report after consolidation of internal transactions within individual segments. Consolidation effects across segments are reported in the “Consolidation” column. Transactions between Group companies were effected in accordance with arm’s length principles.

Segment report. Balance sheet

Assets	Property/Casualty Primary Insurance 31.12.2007	Property/Casualty Primary Insurance 31.12.2006 [1)]	Life Primary Insurance 31.12.2007	Life Primary Insurance 31.12.2006 [1)]
Figures in EUR million				
A. Intangible assets				
a. Goodwill	211	203	414	160
b. Other intangible assets	215	229	2,216	1,889
	426	**432**	**2,630**	**2,049**
B. Investments				
a. Real estate used by third parties	101	130	498	634
b. Investments in affiliated companies and participating interests	14	12	3	9
c. Investments in associated companies	—	—	8	8
d. Loans and receivables	5,868	5,507	22,044	19,112
e. Other financial instruments				
i. Held to maturity	326	309	256	253
ii. Available for sale	4,514	4,183	6,880	6,783
iii. At fair value through profit or loss	286	341	400	502
iv. Trading	1	22	17	41
	5,127	4,855	7,553	7,579
f. Other investments				
i. Funds held by ceding companies	132	133	55	48
ii. Other invested assets	667	758	951	817
	11,909	**11,395**	**31,112**	**28,207**
C. Investments for the account and risk of holders of life insurance policies	18	25	4,296	3,443
D. Reinsurance recoverables on technical provisions	4,649	4,319	3,063	2,793
E. Accounts receivable on insurance business	1,401	1,947	265	231
F. Deferred acquisition costs	208	244	1,050	841
G. Cash	355	336	1,285	933
H. Deferred tax assets	77	116	78	117
I. Other assets	707	718	655	845
J. Assets of disposal groups classified as held for sale	—	—	—	382
Total assets	**19,750**	**19,532**	**44,434**	**39,841**

[1)] *Adjusted on the basis of IAS 8*

Non-Life Reinsurance		Life/Health Reinsurance		Financial Services		Consolidation		Total	
31.12.2007	31.12.2006 [1)]	31.12.2007	31.12.2006	31.12.2007	31.12.2006	31.12.2007	31.12.2006	31.12.2007	31.12.2006 [1)]
8	61	—	—	3	3	1	–6	637	421
46	38	10	6	2	2	1	24	2,490	2,188
54	**99**	**10**	**6**	**5**	**5**	**2**	**18**	**3,127**	**2,609**
16	16	1	1	—	1	—	—	616	782
4	1	—	—	—	—	38	44	59	66
137	115	2	—	—	—	5	25	152	148
1,229	925	154	98	1	1	–53	1	29,243	25,644
1,437	1,538	52	64	—	—	–594	–593	1,477	1,571
11,981	12,434	2,496	2,260	5	3	1	—	25,877	25,663
144	156	35	43	—	—	—	—	865	1,042
—	—	—	—	—	—	—	—	18	63
13,562	14,128	2,583	2,367	5	3	–593	–593	28,237	28,339
871	1,012	8,358	8,186	—	—	–1,361	–1,206	8,055	8,173
1,281	953	147	164	46	47	170	47	3,262	2,786
17,099	**17,150**	**11,245**	**10,816**	**52**	**52**	**–1,794**	**–1,682**	**69,624**	**65,938**
—	—	—	—	—	—	—	—	4,314	3,468
2,461	2,549	366	577	—	—	–2,987	–2,810	7,552	7,428
1,311	1,981	1,148	536	—	—	–367	–242	3,758	4,453
262	301	1,545	1,923	—	—	213	–141	3,278	3,168
246	272	86	79	48	46	18	4	2,038	1,670
48	186	4	9	—	3	30	146	237	577
897	884	41	35	37	65	–887	–804	1,450	1,743
—	1,646	—	—	—	—	—	–118	—	1,910
22,378	**25,068**	**14,445**	**13,981**	**142**	**171**	**–5,772**	**–5,629**	**95,378**	**92,964**

Segment report. Balance sheet

Liabilities	Property/Casualty Primary Insurance 31.12.2007	Property/Casualty Primary Insurance 31.12.2006 1)	Life Primary Insurance 31.12.2007	Life Primary Insurance 31.12.2006 1)
Figures in EUR million				
B. Subordinated liabilities	306	309	171	171
C. Technical provisions				
a. Unearned premium reserve	1,619	1,699	2,020	1,894
b. Benefit reserve	1,187	1,079	29,287	26,689
c. Loss and loss adjustment expense reserve	10,623	10,156	619	399
d. Provision for premium refunds	39	26	1,349	1,293
e. Other technical provisions	42	42	2	2
	13,510	**13,002**	**33,277**	**30,277**
D. Technical provisions in the area of life insurance insofar as the investment risk is borne by policyholders	18	25	4,296	3,443
E. Other provisions				
a. Provision for pensions	429	431	117	109
b. Provision for taxes	227	182	73	66
c. Sundry provisions	313	238	180	191
	969	**851**	**370**	**366**
F. Liabilities				
a. Notes payable and loans	32	4	—	4
b. Funds held under reinsurance treaties	109	400	2,352	2,175
c. Other liabilities	1,673	1,751	2,197	2,483
	1,814	**2,155**	**4,549**	**4,662**
G. Provision for deferred taxes	98	314	264	298
Total liabilities/provisions	**16,715**	**16,656**	**42,927**	**39,217**
H. Debts of disposal groups classified as held for sale	—	—	—	—

Non-Life Reinsurance		Life/Health Reinsurance		Financial Services		Consolidation		Total	
31.12.2007	**31.12.2006 [1]**	**31.12.2007**	**31.12.2006**	**31.12.2007**	**31.12.2006**	**31.12.2007**	**31.12.2006**	**31.12.2007**	**31.12.2006 [1]**
1,373	1,372	—	—	—	—	318	318	2,168	2,170
1,149	1,524	38	41	—	—	–71	–66	4,755	5,092
—	—	6,143	6,109	—	—	–630	–558	35,987	33,319
15,114	16,032	1,441	1,328	—	—	–1,146	–1,233	26,651	26,682
—	—	—	—	—	—	—	—	1,388	1,319
147	160	37	41	—	—	–2	–3	226	242
16,410	**17,716**	**7,659**	**7,519**	**—**	**—**	**–1,849**	**–1,860**	**69,007**	**66,654**
—	—	—	—	—	—	—	—	4,314	3,468
53	50	14	15	11	10	627	626	1,251	1,241
160	177	42	22	5	2	218	62	725	511
58	81	9	9	17	12	5	15	582	546
271	**308**	**65**	**46**	**33**	**24**	**850**	**703**	**2,558**	**2,298**
41	56	—	—	—	—	527	10	600	74
344	565	4,284	4,361	—	—	–2,356	–2,083	4,733	5,418
555	754	1,482	907	82	116	–1,307	–1,424	4,682	4,587
940	**1,375**	**5,766**	**5,268**	**82**	**116**	**–3,136**	**–3,497**	**10,015**	**10,079**
609	757	199	317	3	3	–18	81	1,155	1,770
19,603	**21,528**	**13,689**	**13,150**	**118**	**143**	**–3,835**	**–4,255**	**89,217**	**86,439**
—	**1,093**	**—**	**—**	**—**	**—**	**—**	**–50**	**—**	**1,043**

Shareholders' equity [2]	**6,161**	**5,482**
Total liabilities	**95,378**	**92,964**

[1] *Adjusted on the basis of IAS 8*
[2] *Group shareholders' equity incl. minority interests*

Segment report. Statement of income

	Property/Casualty Primary Insurance		Life Primary Insurance	
	2007	2006 1)	2007	2006 1)
Figures in EUR million				
1. Gross written premium including premium from unit-linked life and annuity insurance	6,012	5,632	5,354	4,603
thereof with other segments	7	58	—	—
thereof with outside third parties	6,005	5,574	5,354	4,603
2. Savings elements of premium from unit-linked life and annuity insurance	—	—	944	718
3. Ceded written premium	2,322	2,162	576	544
4. Change in gross unearned premium	53	336	–99	–191
5. Change in ceded unearned premium	33	23	–68	–78
Net premium earned	**3,709**	**3,783**	**3,803**	**3,228**
6. Investment income				
a. Income from investments	574	458	1,463	1,222
b. Expenses for investments	92	69	371	361
	482	389	1,092	861
thereof profit/loss from investments in associated companies	—	—	—	—
7. Other income	631	430	264	217
Total income	**4,822**	**4,602**	**5,159**	**4,306**
8. Claims and claims expenses (gross)	4,699	4,020	4,149	3,484
Reinsurers' share	1,902	1,168	219	205
Claims and claims expenses (net)	**2,797**	**2,852**	**3,930**	**3,279**
9. Acquisition costs and administrative expenses (gross)	1,313	1,100	831	714
Reinsurers' share	409	452	208	172
Acquisition costs and administrative expenses (net)	**904**	**648**	**623**	**542**
10. Other expenses	846	729	335	333
Total expenses	**4,547**	**4,229**	**4,888**	**4,154**
Profit before amortization of insurance-related intangible assets and goodwill impairments	**275**	**373**	**271**	**152**
11. Amortization of insurance-related intangible assets and goodwill impairments	35	34	143	41
Operating profit/loss (EBIT)	**240**	**339**	**128**	**111**
12. Interest on hybrid capital	19	13	10	8
13. Taxes on income	125	166	44	22
Net income	**96**	**160**	**74**	**81**

Non-Life Reinsurance		Life/Health Reinsurance		Financial Services		Consolidation		Total	
2007	2006 [1]	2007	2006	2007	2006	2007	2006	2007	2006 [1]
5,584	7,143	3,083	2,794	—	—	–903	–804	19,130	19,368
520	400	376	346	—	—	–903	–804	—	—
5,064	6,743	2,707	2,448	—	—	—	—	19,130	19,368
—	—	—	—	—	—	—	—	944	718
997	1,289	285	407	—	—	–902	–857	3,278	3,545
222	38	—	–22	—	—	5	–8	181	153
206	254	3	–9	—	—	20	49	194	239
4,603	**5,638**	**2,795**	**2,374**	**—**	**—**	**–15**	**–4**	**14,895**	**15,019**
1,037	1,080	345	352	3	5	–37	–25	3,385	3,092
192	155	32	7	70	54	–74	–70	683	576
845	925	313	345	–67	–49	37	45	2,702	2,516
9	5	2	—	—	—	—	—	11	5
357	75	82	46	144	121	–274	–183	1,204	706
5,805	**6,638**	**3,190**	**2,765**	**77**	**72**	**–252**	**–142**	**18,801**	**18,241**
4,176	4,493	2,285	1,943	—	—	–454	–676	14,855	13,264
784	471	215	255	—	—	–395	–701	2,725	1,398
3,392	**4,022**	**2,070**	**1,688**	**—**	**—**	**–59**	**25**	**12,130**	**11,866**
1,523	1,690	906	917	—	—	–379	–278	4,194	4,143
328	165	74	55	—	—	–259	–229	760	615
1,195	**1,525**	**832**	**862**	**—**	**—**	**–120**	**–49**	**3,434**	**3,528**
332	278	58	69	17	17	20	57	1,608	1,483
4,919	**5,825**	**2,960**	**2,619**	**17**	**17**	**–159**	**33**	**17,172**	**16,877**
886	**813**	**230**	**146**	**60**	**55**	**–93**	**–175**	**1,629**	**1,364**
—	—	—	—	—	—	—	3	178	78
886	**813**	**230**	**146**	**60**	**55**	**–93**	**–178**	**1,451**	**1,286**
80	83	—	—	—	—	14	17	123	121
146	255	–2	27	25	27	–9	–59	329	438
660	**475**	**232**	**119**	**35**	**28**	**–98**	**–136**	**999**	**727**
				thereof minority interest in profit or loss				**522**	**333**
				thereof Group net income				**477**	**394**

[1] *Adjusted on the basis of IAS 8*

Segment report. Secondary segmentation

The secondary segmentation is based upon the regional origin of business.

Investments excluding funds held by ceding companies	31.12.2007	31.12.2006
Figures in EUR million		
Germany	41,684	36,620
United Kingdom	1,690	1,558
Rest of Europe	9,370	10,391
United States	6,329	6,808
Rest of North America	629	606
Asia and Australia	1,135	980
Rest of the world	732	802
Total	**61,569**	**57,765**

Gross written premium	2007	2006
Figures in EUR million		
Germany	8,800	7,705
United Kingdom	1,714	1,655
Rest of Europe	3,876	4,081
United States	2,421	3,722
Rest of North America	394	388
Asia and Australia	1,059	997
Rest of the world	866	820
Total	**19,130**	**19,368**

Notes. Contents

General information

As a financial and management holding company Talanx AG heads Germany's third-largest insurance group, with premium income of EUR 19.1 (19.4) billion in 2007. Talanx transacts business worldwide in more than 150 countries in the areas of property/casualty insurance, non-life reinsurance, life insurance, life/health reinsurance and financial services.

Talanx operates extremely successfully on international markets in promising sectors of the financial services industry with a variety of brands. These include first and foremost the HDI-Gerling insurers, with their core fields of non-life insurance for industrial and private clients as well as life insurance, Hannover Re, one of the world's leading reinsurance groups, the bancassurance specialists Neue Leben, CiV, PB and BHW Lebensversicherung, Aspecta, which markets its insurance products through brokers and multiple agents, and the investment fund provider and asset manager AmpegaGerling.

At the end of 2007 the companies belonging to the Talanx Group employed a total global workforce* of 15,996 (16,576). Talanx AG is a joint-stock company and has its registered office in Hannover, Germany. It is entered in the commercial register of Hannover County Court under the number HR Hannover B 52546 with the address "Riethorst 2, 30659 Hannover".

General accounting principles and adoption of International Financial Reporting Standards (IFRS)

Talanx AG is a wholly-owned subsidiary of HDI Haftpflichtverband der Deutschen Industrie V.a.G. (HDI V.a.G.). In accordance with §§ 341 i ff. of the German Commercial Code (HGB) HDI V.a.G. is obliged to prepare consolidated annual accounts that include the annual financial statements of Talanx AG and its subsidiaries. The consolidated annual accounts of the parent company are published in the Electronic Federal Gazette. Pursuant to the exemption rule of § 291 of the German Commercial Code (HGB) Talanx AG has drawn up the present consolidated financial statement on a voluntary basis.

Pursuant to § 315 a of the German Commercial Code (HGB) in conjunction with EU Regulation (EC) No. 1606/2002, the consolidated financial statement has been drawn up in accordance with International Financial Reporting Standards and International Accounting Standards (IFRS, IAS) in the form adopted for use under European law.

Since 2002 the standards adopted by the International Accounting Standards Board (IASB) have been referred to as "International Financial Reporting Standards" (IFRS); the standards dating from earlier years still bear the name "International Accounting Standards" (IAS). Standards are cited in our Notes accordingly; in cases where the Notes do not make explicit reference to a particular standard, the term IFRS is used.

All IFRS, application of which was required for the financial year, were observed in the preparation of the consolidated financial statement. In addition, the German Accounting Standards (DRS) adopted by the German Accounting Standards Committee (DRSC) have been observed insofar as they do not conflict with currently applicable IFRS standards.

**Full-time equivalents as at 31.12.2007*

The consolidated financial statement was drawn up in euros (EUR). The amounts shown have been rounded to EUR millions (EUR million), unless figures are required in EUR thousands (EUR thousand) for reasons of transparency. This may give rise to rounding differences in the tables presented in this report. Figures indicated in brackets refer to the previous year.

Newly adopted standards

The amended version of IAS 1 "Presentation of Financial Statements" effective 1 January 2007, which requires detailed disclosures in the Notes on the objectives and methods of capital management as well as supplementary information on changes in shareholders' equity, has been satisfied partly in the context of the new section "Capital and performance management" in the management report and partly in the section "(16) Shareholders' equity" in the Notes.

With effect from 1 January 2007 IFRS 7 "Financial Instruments: Disclosures" superseded IAS 30 "Disclosures in the Financial Statements of Banks and Similar Financial Institutions" and IAS 32 "Financial Instruments: Disclosure and Presentation". The new standard additionally requires extensive disclosures on risks associated with financial instruments. The modified and extended disclosure requirements arising out of IFRS 7 have been satisfied in supplementary and additional disclosures of the present consolidated financial statement. The risk disclosures required by IFRS 7 have been provided largely in the context of the risk report contained in the Group management report as well as in the section "Nature of risks associated with insurance contracts and financial instruments".

IFRIC 8 "Scope of IFRS 2", which clarifies the scope of IFRS 2 "Share-based Payment", is mandatory for financial years beginning on or after 1 May 2006. The interpretation had no implications for the present consolidated financial statement.

In July 2006 the IFRIC published IFRIC 10 "Interim Financial Reporting and Impairment", which addresses the possible conflict between the requirements contained in IAS 34 "Interim Financial Reporting", IAS 36 "Impairment of Assets" and IAS 39 "Financial Instruments: Recognition and Measurement". The interpretation prohibits the reversal of an impairment loss taken on relevant assets in a prior interim period. The interpretation had no implications for the consolidated financial statement since our current practice already reflects the principles set out therein.

Standards or changes in standards that have not yet entered into force

Application of IFRS 8 "Operating Segments", which was endorsed in European law at the end of November 2007 and replaces IAS 14 "Segment Reporting", is mandatory for financial years beginning on or after 1 January 2009. It contains new rules governing segment reporting and in particular requires adoption of the "management approach" for reporting on the economic development of segments. We are not applying IFRS 8 earlier than required. In our assessment, the successive adjustments made to the segment definitions within the Talanx Group in 2006 and 2007 are already in conformity with the requirements of IFRS 8, and first-time application of the new standard to the segment reporting is therefore unlikely to give rise to any significant need for further adjustment.

In March 2007 the IASB published changes to IAS 23 "Borrowing Costs". The major change compared to the version currently in force is the abolition of the option of immediately expensing borrowing costs directly attributable to a qualifying asset. The revised standard is to be applied to financial years beginning on or after 1 January 2008. The change is not expected to have a significant effect on the assets, financial position or net income of the Talanx Group.

In June 2007 the IFRIC published IFRIC 13 "Customer Loyalty Programmes". The interpretation addresses the accounting of customer loyalty award schemes run by the providers of goods or services themselves or by third parties. IFRIC 13 is to be applied to financial years beginning on or after 1 July 2008. The change is not expected to have any significant effect on the assets, financial position or net income of the Talanx Group.

The IASB published an amendment of IAS 1 "Presentation of Financial Statements" in September 2007. The revised standard contains new requirements regarding the consolidated statement of changes in shareholder's equity. In addition, it grants the option of presenting income and expense items and the components of comprehensive income either in one statement with a subtotal or in two separate statements. The revised standard is to be applied to financial years beginning on or after 1 January 2009. We are currently exploring the implications of application of the revised IAS 1 for the presentation of the consolidated financial statement.

In January 2008 the IASB published revised versions of IFRS 3 "Business Combinations" and IAS 27 "Consolidated and Separate Financial Statements". The new provisions primarily cover the recognition of minority interests, measurement issues in connection with successive acquisition, changes in a participating interest with or without a loss of control and adjustments to acquisition costs depending upon future events and their effects on goodwill. The revised standards are mandatory for financial years beginning on or after 1 July 2009. The changes to IAS 27 are to be applied retrospectively with a few exceptions. We are currently investigating the possible implications of application of these revised standards for the consolidated financial statement.

The amendment of IFRS 2 "Share-based Payment" published by the IASB in January 2008 principally clarifies the treatment of vesting conditions. The amendment is applicable to financial years beginning on or after 1 January 2009. We are currently exploring the implications of application of the revised standard for the consolidated financial statement.

In February 2008 the IASB published amendments to IAS 32 "Financial Instruments: Disclosure and Presentation" and IAS 1 "Presentation of Financial Statements" with regard to so-called "puttable instruments and obligations arising on liquidation". The revised version will permit the balance sheet classification of puttable financial instruments as equity in the future under certain conditions. The changes are applicable to financial years beginning on or after 1 January 2009. We are currently investigating the possible implications of the amendments of IAS 32 and IAS 1 for the consolidated financial statement.

IFRIC 11 "IFRS 2: Group and Treasury Share Transactions" and IFRIC 14 "IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction", which are applicable for the first time from 1 January 2008 onwards, contain guidance for the application of IFRS 2 "Share-based Payment" and clarify how the upper limit in IAS 19 "Employee Benefits" is to be measured in relation to the surplus in a pension plan that can be recognized as an asset – especially if a minimum funding contribution is required. Overall, it is our assumption that the new requirements arising out of IFRIC 11 and IFRIC 14 will not have any significant effect on the assets, financial position or net income of the Talanx Group.

Summary of major accounting policies

Adjustments in accordance with IAS 8

In the year under review further steps were taken to bring about a definition of segments according to areas of responsibility on the Board of Management of the Group holding company Talanx AG. The following companies were reallocated to a different segment: the life insurance business of HDI Assicurazioni S.p.A. is now reported in the Property/Casualty Primary Insurance segment (previously in: Life Primary Insurance). The personal accident insurers in the Bancassurance Division – HDI Magyar Posta Biztosító Részvénytársaság, CiV Versicherung AG, PB Versicherung AG and Neue Leben Unfallversicherung AG – were recognized in the Life Primary Insurance segment (previously in: Property/Casualty Primary Insurance). The newly added companies are recognized in the relevant segments after intrasegment consolidation (in this context the relations of the reallocated companies within the respective new segments were eliminated). Relations with companies from the segment to which the companies previous belonged are now eliminated in the "Consolidation" column. The new segment affiliations reflect the allocation to the various areas of Board responsibility at Talanx AG. These measures did not give rise to any changes in the consolidated balance sheet and statement of income of the Talanx Group. They are evident only in the segmental balance sheet and segmental statement of income, since they merely involve shifts between Group segments and the "Consolidation" column. The figures for the previous year were adjusted accordingly.

In the 2007 financial year the previous year's figures with respect to the following circumstances were adjusted retrospectively and directly in equity in accordance with the requirements of IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors":

a) Effective 28 December 2007 guarantees were transferred from Hannover Rückversicherung AG to Hannover Reinsurance (Ireland) Ltd. These guarantees given by Talanx AG relate to a group of reinsurance contracts and provide for cash compensation from the guarantor in the event that the technical balances plus interest paid on certain measurement dates are not covered by the present value of future profits from these contracts. The contracts in question are classified as financial instruments with the character of loans and receivables in accordance with IAS 39 and measured at amortized cost. In the Life Primary Insurance and Life/Health Reinsurance segments this led to a reclassification of deferred acquisition costs under a loan extended to affiliated companies, which in accordance with IAS 14.16 (b) is not recognized in the segment. The corresponding interest income, which is to be reclassified from the technical result, is similarly not shown. In the partner segment of Life Primary Insurance the corresponding amounts, which are to be reclassified from the retired deferred acquisition costs, are also eliminated. The interest expense associated with the loan is not recognized. The figures for the previous year, which changed to the extent of the amounts no longer shown in the technical account, have been adjusted. Appropriate adjustments have also been made in the statement of income.

b) Goodwill of EUR 11 million was derecognized with implications for previous years. This amount derives from the sale of interests in E+S Rückversicherung AG by HDI V.a.G. to Hannover Rückversicherung AG in 1995. In the subsequent year Hannover Rückversicherung AG was included in the predecessor company of Talanx AG. The consolidated financial statements of the subsequent Talanx AG were not drawn up as subgroup accounts (accounts of entities under common control), and to this extent the goodwill arising out of the transaction was not eliminated in the Talanx Group. Derecognition of the remaining amount brings uniformity to the principles used in preparing the accounts of all entities under the common control of the parent company HDI V.a.G.

c) As at 31 December 2007 we reported as financial assets at fair value through profit or loss technical derivatives previously recognized in the trading portfolio in an amount of EUR 19 (23) million that were separated from the underlying transaction and measured at fair value. In addition, put options on the DAX and EURO STOXX 50 indices previously reported in the trading portfolio with a fair value of EUR 2 million were recognized in this item for the first time as at 31 December 2007. The corresponding disclosure for the previous year has been adjusted accordingly. The change in recognition in the balance sheet had no effect on income.

d) In the context of consistent Group accounting the surplus distributions of all life insurance companies have been allocated in the year under review to "Claims and claims expenses" from "Other technical expenses". The previous year's figure of EUR 144 million was adjusted accordingly. The adjusted recognition in the statement of income had no implications for the balance sheet or Group net income.

e) In the year under review the disclosure of consolidation differences arising out of consolidation now differentiates according to cause in the statement of income between the technical and non-technical account. The disclosure for the previous year has been adjusted accordingly. This adjustment had no implications for the balance sheet or Group net income.

The adjustments made in the 2007 financial year pursuant to IAS 8 have the following effects on the Group balance sheets as at 31 December 2005 and 2006. Reflecting the explanatory remarks provided above, the specific circumstances are labeled with the letters a) to e):

Consolidated balance sheet		31.12.2005 as reported	Changes from adjustments pursuant to IAS 8 in 2005		31.12.2005
Figures in EUR million			Re a)	Re b)	
Assets					
A. a.	Goodwill	290	—	–11	279
F.	Deferred acquisition costs	2,817	–52	—	2,765
H.	Deferred tax assets	455	1	—	456
Liabilities					
A.	Reserves	2,950	–15	–11	2,924
F. b.	Funds held under reinsurance treaties	3,116	–11	—	3,105
G.	Deferred tax liabilities	1,325	–25	—	1,300

Consolidated balance sheet		31.12.2006 as reported	Changes from adjustments pursuant to IAS 8 in 2005	Changes from adjustments pursuant to IAS 8 in 2006		31.12.2006
Figures in EUR million				Re a)	Re c)	
Assets						
A. a.	Goodwill	432	–11	—	—	421
B. e. iii.	Financial assets at fair value through profit or loss	1,019	—	—	23	1,042
B. e. iv.	Financial assets held for trading	86	—	—	–23	63
D.	Reinsurance recoverables on technical provisions	7,427	—	1	—	7,428
F.	Deferred acquisition costs	3,223	–52	–3	—	3,168
H.	Deferred tax assets	474	1	102	—	577
Liabilities						
A.	Reserves	3,264	–26	—	—	3,238
C. d.	Provision for premium refunds	1,341	—	–22	—	1,319
F. b.	Funds held under reinsurance treaties	5,428	–11	1	—	5,418
G.	Deferred tax liabilities	1,674	–25	121	—	1,770

The effects on the consolidated statement of income for the 2006 financial year were as follows:

Consolidated statement of income	31.12.2006 as reported	Changes from adjustments pursuant to IAS 8			31.12.2006
Figures in EUR million		Re a)	Re d)	Re e)	
7. Other income	693	–8	—	21	706
8. Claims and claims expenses					
Gross	13,141	–21	144	—	13,264
Net	11,743	–21	144		11,866
9. Acquisition costs and administrative expenses					
Gross	4,144	–1	—	—	4,143
Reinsurers' share	610	5	—	—	615
Net	3,534	–6	—	—	3,528
10. Other expenses	1,586	20	–144	21	1,483

Adjustments in recognition and presentation

The presentation of the segment reporting has been expanded to include disclosure of interest on hybrid capital as well as taxes on income. All items are now broken down to exactly the same level of detail as that shown in the consolidated statement of income.

Recognition of insurance contracts

Since 2005 the accounting of insurance contracts has been governed by IFRS 4 "Insurance Contracts" for a transitional period (Phase 1) until the IASB is able to deal definitively with the recognition and measurement of insurance contracts. IFRS 4 requires that all contracts written by insurance companies be classified either as insurance contracts or investment contracts. An insurance contract exists if one party (the insurer) assumes a significant insurance risk from another party (the policyholder) by agreeing to pay the policyholder compensation if a defined uncertain future event detrimentally impacts the policyholder.

For the purposes of recognizing insurance contracts within the meaning of IFRS 4 "Insurance Contracts", insurance companies are permitted to retain their previously used accounting practice for insurance contracts for the duration of the currently applicable project stage (Phase 1). Underwriting items in the consolidated financial statement of Talanx AG are therefore recognized in accordance with US GAAP (United States Generally Accepted Accounting Principles).

All contracts without a significant underwriting risk are treated as investment contracts pursuant to IFRS 4. Investment contracts that carry a discretionary surplus participation are also recognized in accordance with US GAAP. Investment contracts that do not have a discretionary surplus participation are treated as financial instruments pursuant to IAS 39.

The following special features should be noted with respect to the accounting of life insurance contracts:

Shadow accounting

IFRS 4.30 allows unrealized, but recognized profits and losses (these derive predominantly from changes in the fair value of assets classified as "available for sale") reported in equity (Other Comprehensive Income, OCI) to be included in the measurement of technical items. This may affect the following items: deferred acquisition costs, present values of future profits (PVFPs), provisions for maturity bonuses of policyholders, provisions for deferred costs and the provision for premium refunds. The aforementioned assets and liabilities items and their corresponding amortization schemes are determined on the basis of the estimated gross profits (EGPs). The latter are modified accordingly following subsequent recognition of unrealized profits and losses. The resulting adjustments are carried as so-called "shadow adjustments" to the affected items. The contra item in equity (OCI) is reported analogously to the underlying changes in value.

Categorization of life insurance products

Life insurance products must be divided into the following categories for accounting purposes:

- Insurance products with a "natural" surplus distribution that share in the actual profit generated by the life insurance enterprise inasmuch as they receive surplus distributions in accordance with their share in the total result. Such insurance products are to be recognized in accordance with FAS 120 (Financial Accounting Standards) in conjunction with SOP 95-1 (Statements of Principles).
- Short-term contracts with no surplus distribution that are to be recognized in accordance with FAS 60.
- Insurance products with a separate account to which the premium payments less expenses and plus interest are credited (unit-linked life insurance). These products are accounted pursuant to FAS 97.

Coinsurance contracts in life insurance business

Under coinsurance contracts the amounts carried over from the lead companies in the balance sheet and statement of income are allocated – according to their economic status – to the corresponding items in the individual financial statements for the portions attributable to the life insurers belonging to the Talanx Group.

Types of surplus distribution in life insurance

The German life insurance companies belonging to the Talanx Group enable insureds to share in the profits generated. Depending upon the extent to which surpluses arise in the portfolio groups, accounting series and tariff groups, the following regular profit shares can in principle be allowed in addition to the actuarial interest rate:

- Interest profit shares, with which our insureds share in the surpluses from investments. These arise out of the higher income generated by our investments compared to the guaranteed actuarial interest rate.
- Risk profit shares, which reflect the profits or losses arising out of a comparison of the estimated risk experience with the actual risk experience.
- Cost and basic profit shares, which reflect profits or losses arising out of a comparison of the estimated cost trend with the actual cost trend. Tariffs in life insurance are not adjusted during the policy period in light of changes in the cost situation. Since the tariffs are based on different cost calculations, profits or losses may arise out of a comparison of the estimated and current operating costs.

This is recognized by way of a profit equalization, which increases or reduces the profit shares for the year. In addition, maturity bonuses may be defined that result from surpluses which cannot be directly allocated. The maturity bonuses are payable together with the insurance benefit in accordance with the terms and conditions of the insurance. A reduced maturity bonus is due in the event of death or cancellation – as appropriate, after expiry of a waiting period.

Surplus distribution in life reinsurance

Generally speaking, Hannover Life Re does not participate in surpluses distributed by ceding companies to their policyholders. The only exceptions are Italian “rivalutabile” business and a very small proportion of German business in which the distribution practice is defined by the cedant. As a general principle, the companies belonging to the Hannover Re Group are not obliged to allow their cedants to share in the surpluses generated by reinsurance contracts. The extent of the actual profit commission is instead determined on a contract-by-contract basis.

Major discretionary decisions and estimates

The preparation of the consolidated financial statement in accordance with IFRS necessitates discretionary decisions and estimates which affect the disclosure, recognition and measurement of some items in the balance sheet and statement of income as well as the information on contingent claims and liabilities as at the balance sheet date. This is especially true of the establishment and amortization of insurance-related intangible assets, the provisions which are calculated on the basis of biometric assumptions or assumptions regarding the loss incidence in the future (technical reserves, provisions for pensions), the calculation of fair values and impairment losses on assets and liabilities which are not based on publicly accessible prices of an active market, the categorization of financial assets as held to maturity and the assessment of the realizability of deferred tax assets. Insofar as estimates played a major role, these are described in the accounting policies and in the Notes (cf. inter alia information in the Notes on provisions for pensions and technical reserves and the description of the impairment test pursuant to IAS 36).

Currency translation

The euro (EUR) is the reporting currency in which the consolidated financial statement of Talanx AG is prepared. The financial statements of subsidiaries included in the consolidated financial statement of Talanx AG are drawn up in the respective national currency, which therefore constitutes the functional currency. The annual financial statements of subsidiaries whose functional currency is not the euro were converted into the reporting currency in accordance with IAS 21 "The Effects of Changes in Foreign Exchange Rates".

The conversion of foreign currency items in the balance sheets of the individual companies and the transfer of these items to the consolidated financial statement are effected at the mean rates of exchange on the balance sheet date. Foreign currency items in the individual companies' statements of income are converted into the respective functional national currency at the average rates of exchange. The statements of income of these individual companies prepared in the national currencies are converted into euro at the average rates of exchange and transferred to the consolidated financial statement.

Translation differences, also to the extent that they arise out of the capital consolidation, are netted with shareholders' equity outside the statement of income. Exchange differences from the translation of monetary assets and liabilities are recognized directly under other income/expenses in the statement of income of the individual companies.

Currency translation differences from the translation of non-monetary assets measured at fair value via the statement of income are recognized as profit or loss from fair value measurement changes under other income/expenses. Other exchange differences from non-monetary items are recognized under other comprehensive income (other reserves).

The exchange rates for the Talanx Group's key foreign currencies were as follows:

		Balance sheet (Mean rate on balance sheet date)		Statement of income (Average rate)	
Currency and country		31.12.2007	31.12.2006	2007	2006
1 Euro corresponds to					
AUD	Australia	1.6775	1.6681	1.6385	1.6638
BRL	Brazil	2.6205	2.8138	2.6722	2.7464
CAD	Canada	1.4440	1.5294	1.4700	1.4221
GBP	United Kingdom	0.7346	0.6714	0.6861	0.6823
PLN	Poland	3.5928	3.8413	3.7879	3.9044
HUF	Hungary	252.3250	251.6750	251.3804	263.2804
USD	United States	1.4716	1.3181	1.3743	1.2569
ZAR	South Africa	10.030	9.2150	9.6499	8.5425

Assets

Intangible assets and property, plant and equipment

Intangible assets and property, plant and equipment – with the exception of goodwill and insurance-related intangible assets – are recognized at amortized costs less accumulated scheduled straight-line depreciation and impairment losses. A useful life was established for all intangible assets with the exception of goodwill.

The following useful lives were taken as a basis:

Software (self-developed or purchased)	3–10 years
Own-use real estate	50 years
Insurance-related intangible assets	Until approx. 2056
Furniture and office equipment	2–10 years

Write-downs of intangible assets in connection with insurance portfolios are spread over the period of the corresponding insurance portfolios.

Goodwill

The goodwill arising out of corporate acquisitions is the difference between the cost of acquisition and the pro-rata fair value of identified assets, liabilities and contingent liabilities. In accordance with IFRS 3 “Business Combinations” scheduled depreciation is not taken on goodwill; instead, goodwill is tested for impairment at least annually and an impairment loss is taken where necessary.

For the purposes of the impairment test, goodwill is allocated pursuant to IAS 36 “Impairment of Assets” to so-called “cash generating units” (CGUs).

In order to determine a possible impairment the recoverable amount – defined as the higher of the value in use or the fair value less costs to sell – of a CGU is established and compared with its carrying value in the Group before capital consolidation including goodwill. If the carrying value including allocated goodwill exceeds the recoverable amount, an impairment expense is recognized. The amount of the impairment loss is netted, first, with goodwill allocated to the CGU and then pro rata with the relevant carrying amounts of the other assets of the CGU subject to IAS 36. Goodwill impairments are not reversed in the event of a subsequent revaluation uplift.

The recoverable amount of the Property/Casualty Primary Insurance and Financial Services segments, which each represent one CGU, is determined on the basis of the value in use (VIU) using the calculation of the present value of future cash flows. The point of departure for establishing the value in use consists of the financial budgets of the individual companies, which are aggregated to arrive at a consolidated overall budget on the segment level. The planning figures (after factoring out special effects where appropriate) for the two financial years subsequent to the year under review are used. The third planning period, which in the calculation assumes the function of a result that is presumed to be sustainably recoverable, constitutes the mean of five (as envisaged according to IAS 36) planning years.

The value in use is arrived at by discounting the planned future cash flows using a capitalization rate that allows for both the time value of the money and a suitable risk deduction.

	Property/Casualty Primary Insurance	Financial Services
Risk-free discount rate	4.75	4.75
Risk loading	6.1	6.1
Capitalization rate	10.85	10.85

The Life Primary Insurance segment is divided into three CGUs:

- the group of companies combined under HDI-Gerling Leben Serviceholding AG, comprised of HDI-Gerling Lebensversicherung AG and its subsidiaries as well as the Aspecta Group
- the Neue Leben Group
- the PB, BHW and CiV insurers

The CGUs in the Life Primary Insurance segment are tested for impairment using a step-by-step method. The embedded value (EV) is used as the impairment threshold for the fair value of a life insurance enterprise. Companies belonging to the individual CGUs that do not transact insurance business are recognized at the present value of future cash flows or (for reasons of simplicity) at book value. If the sum total of embedded values and present values of future cash flows/book values is higher than the tested book value of the CGU, the impairment test is complete. In a second step, an indicative fair value of the life insurance enterprises can be calculated and recognized using an externally or internally determined multiplier for the EVs. Alternatively, an indicative fair value can be determined by extrapolating an existing present value of future profits (PVFP). In this case, the shareholders' portion of the PVFP is extrapolated over the planning periods permitted by IAS 36, making allowance for the planned amortizations and a factor derived from the company's data that reflects the new business presumed to be sustainably recoverable.

For the reinsurance segments of Non-Life Reinsurance and Life/Health Reinsurance, which together correspond to the Hannover Re Group, reference is made to the market price of the Hannover Re share as the first step for the purposes of the impairment test. The stock market value of Hannover Re is divided between the two segments on the basis of the average net return on premium over the past three years. The recoverable amount determined in this way is compared with the carrying value including the goodwill allocated to the segment in question. Alternatively, should the stock market price of the Hannover Re share be significantly adversely affected on a balance sheet date by factors that do not reflect the sustainable profit potential of the Hannover Re Group, a method based on the present value of future cash flows (as described above for the Property/Casualty Primary Insurance and Financial Services CGUs) may be used. If this second step also indicates the need to take an impairment, the lower difference between book value and fair value (fair value less costs to sell) or value in use is recognized as an impairment expense.

Insurance-related intangible assets

The present value of future profits (PVFP) refers to the present value of the expected future net cash flows from life insurance contracts existing at the time of acquisition. It consists of a shareholders' portion, on which deferred taxes are established, and a policyholders' portion. Amortization is taken according to the assumed experience of the insurance contracts underlying the PVFP. A test is conducted once a year to review the variables used in the calculation of the PVFP and to determine the amount of amortization. The amortization of the shareholders' portion is taken as a charge against future earnings. A provision for deferred premium refunds is established for the policyholders' portion.

Intangible assets established pursuant to IFRS 4.31 as part of the acquisition of primary insurance companies constitute the difference between the fair value of the acquired technical obligations and the carrying amounts in the original balance sheets. The subsequent measurement of the intangible assets is carried out in harmony with the measurement of the corresponding liabilities. Amortization is taken according to the discounted cash flows which are assumed on the basis of actuarial measurements from which the capitalization is derived. The assumptions made in this connection (interest rates, claims experiences) are reviewed annually. Amortization is therefore taking according to the experience of the corresponding portfolios.

Software

Software consists of purchased and self-developed software. Intangible assets acquired for a consideration are recognized at amortized costs. Self-developed software is carried at production cost. Scheduled straight-line depreciation is taken on software according to the useful life. Service and maintenance costs are expensed immediately; expenditures incurred for extending the useful life are capitalized. In the case of the insurance companies depreciation on software is allocated to the functional units; insofar as allocation to functional units is not possible, it is recognized under other expenses. If there are indications that no longer support the expected benefit, write-downs are taken. In addition, an impairment test is performed once a year pursuant to IAS 38.111 in conjunction with IAS 36.

Investments including income and expenses

All financial assets including all derivative financial instruments are carried in the balance sheet in accordance with IAS 39. They are recognized as at the settlement date. Financial instruments are measured at fair value on the date on which they are added to the portfolio. Depending on their categorization, the transaction costs directly connected with the acquisition may be recognized. Subsequent measurement of financial instruments depends on the categories pursuant to IAS 39 to which they were allocated at the time of acquisition.

The fair value of financial instruments is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. The fair value of financial instruments is determined on the basis of market prices and observable market data as at the key date and using recognized measurement models. Insofar as securities and derivatives are traded with sufficient liquidity on active markets, and market prices are therefore available, or if tradable prices are provided by active market participants, these prices are consulted for the establishment of fair value. In this context financial assets are measured at the bid prices and financial liabilities at the asked prices. In cases where no prices are available from liquid markets, methods are used that draw on market data as their measurement basis. Fair values of illiquid securities are determined on the basis of discounted cash flows, using the market rates applicable for the remaining term of the financial instruments. Insofar as they are not exchange-listed, options are valued using recognized option pricing models. Financial instruments due on demand are recognized at face value. Such instruments include cash in hand and funds held by ceding companies.

With respect to real estate, a distinction is made between investment property and own-use real estate based on the following criteria: investment and own-use real estate for mixed-use properties is classified separately if the portions used by third parties and for own use could be sold separately. If this is not the case, properties are only classified as investment property if less than 10% is used by Group companies.

In addition to **real estate used entirely by third parties**, the portion of third-party use attributable to a mixed-use property is recognized here. Investment property is measured at cost less scheduled depreciation and impairment. Scheduled depreciation is taken on a straight-line basis over a useful life of 50 years. An impairment expense is taken if the market value (recoverable amount) determined using recognized valuation methods is less than the carrying amount.

For a large portion of the (centrally managed) portfolio a qualified external opinion is drawn up (for each object) every five years on the basis of the discounted cash flow method (calculation of the discounted cash flows from rents etc. that can be generated from an object). Expert opinions are obtained at shorter intervals if special facts or circumstances exist that may affect the value. In addition, internal assessments are drawn up per object on each balance sheet date in order to review the fair value. Qualified external opinions are obtained for the portfolio that is not centrally managed, usually at shorter rotating intervals (normally every two years). Along with the discounted cash flow method it is possible to use alternative methods (especially for properties that are not rented out) that take into account various factors such as age and state of modernization of the buildings, location and prices obtained for comparable properties that were sold recently.

Maintenance costs and repairs are expensed in investment income; value-enhancing expenditures are capitalized if they extend the useful life.

The item **“Investments in affiliated companies and participating interests”** consists of investments in companies that are not consolidated because of their subordinate importance for the financial position, assets and net income of the Talanx Group. Investments in listed enterprises are recognized at fair value on the balance sheet date; other investments are recognized at cost, as appropriate less unscheduled depreciation.

Investments in associated companies are valued at equity on the basis of the proportionate shareholders’ equity attributable to the Group. The portion of an associated company’s year-end result relating to the Group is included in the net investment income and shown separately. As a general rule, the shareholders’ equity and year-end result are taken from the associated company’s latest available annual financial statement.

Loans and receivables encompass financial instruments with fixed or determinable payments that are not listed on an active market and are not intended to be sold at short notice. They consist primarily of fixed-income securities in the form of borrower’s note loans, registered debentures and mortgage loans. They are carried at amortized cost, deriving from the historical costs after allowance for amounts repayable, premiums or discounts deducted or added within the statement of income using the effective interest rate method and any unscheduled depreciation due to impairment. The individual receivables are tested for impairment as at the balance sheet date. Unscheduled depreciation is taken if full repayment of the loan or receivable is no longer expected. Reversals are recognized in earnings via the statement of income. The upper limit of the write-up is the amortized costs that would have arisen at the measurement date without unscheduled depreciation.

Financial assets held to maturity are comprised of financial assets that entail fixed or determinable payments and have a defined due date, but which are not loans or receivables. Talanx has the intention and ability to hold the securities recognized here until maturity. The procedure for measuring and testing impairment is the same as for the “loans and receivables”.

Financial assets classified as available for sale are financial assets that Talanx does not immediately intend to sell and that cannot be allocated to any other category. These securities are carried at fair value. Premiums and discounts are spread over the maturity period so as to achieve a constant effective interest rate. Unrealized gains and losses arising out of changes in the fair value of securities held as available for sale are recognized – with the exception of currency valuation differences on monetary items – in shareholder’s equity after deduction of deferred taxes.

Impairments taken due to changes in credit quality and realized measurement gains/losses are recognized in the statement of income. IAS 39.61 states that in the case of securities with the character of equity a significant or prolonged decrease in fair value below acquisition cost constitutes the trigger event for impairment. A decrease in the fair value of securities by more than 20% below acquisition cost was defined as the material criterion within the Talanx Group. A prolonged decrease exists if the fair value falls consistently below cost for a period of nine months or more.

Reversals on fixed-income securities are recognized in income up to the level of the amortized costs. Any further amount is recognized directly in equity. Reversals on securities with the character of equity are recognized directly in equity.

Financial assets at fair value through profit or loss consist of securities irrevocably categorized as financial assets measured at fair value through profit or loss since the date of acquisition. Structured products are also recognized in this category subject to application of the fair value option provided in IAS 39. Structured financial instruments requiring separation from the host contract – the fair value of which can be reliably established – that would have had to have been broken down into their constituent components (host contract and one or more embedded derivatives) had they been allocated to another category are recognized in this context. All unrealized gains or losses from this valuation are recognized in net investment income.

Securities held for trading encompass all fixed-income and variable-yield securities that the Talanx Group acquired for trading purposes and with the aim of generating short-term gains. In addition, derivative financial instruments that do not satisfy the requirements for recognition under hedge accounting are carried here. We use derivative financial instruments to a limited extent to hedge parts of our portfolio against interest rate and market price risks, optimize returns or realize intentions to buy/sell. Talanx invests in structured asset products so as to realize yield advantages. In this context we take special care to limit the risks, select first-class counterparties and rigorously monitor the standards defined by investment guidelines. If the underlying transaction and the derivative are not carried as one unit, the derivative is recognized under "Securities held for trading" or under the "Other liabilities".

Funds held are receivables due to reinsurers from their clients in the amount of their contractually withheld cash deposits; they are recognized at acquisition cost (nominal amount). Appropriate allowance is made for credit risks.

Other invested assets consist predominantly of short-term investments (especially overnight money, time deposits and money market securities). These financial assets are for the most part recognized at nominal value. Insofar as equity instruments also recognized here are not listed on public markets (e.g. participating interests in private equity firms), they are carried at the latest available "net asset value" as an approximation of fair value.

Investments for the account and risk of holders of life insurance policies

This item refers principally to policyholders' investments under unit-linked life insurance policies. The insurance benefits under these insurance contracts are linked to the unit prices of investment funds or a portfolio of separate financial assets. The assets are kept and invested separately from other invested assets. They are recognized at fair value. The unrealized gains or losses are opposed by changes in the corresponding technical provisions in the same amount. Policyholders are entitled to the profits and income generated; they are likewise liable for the incurred losses.

Reinsurance recoverables on technical provisions

The reinsurers' portions of the technical provisions are calculated according to the contractual conditions of the underlying reinsurance treaties using a simplified method; the reader is referred to the explanatory notes on the corresponding liabilities-side items. Appropriate allowance is made for credit risks.

Deferred acquisition costs

Deferred acquisition costs principally consist of commissions paid and other variable costs directly connected with the acquisition/renewal of new/existing insurance contracts. These acquisition costs are capitalized – subject to regular impairment testing – and amortized over the period of the underlying contracts. Marketing-related payments are recognized using the same method and same assumptions.

In the case of property/casualty primary insurance and non-life reinsurance, acquisition costs are normally deferred pro rata for the unearned portion of the premiums. In life primary insurance and life/health reinsurance, the deferred acquisition costs (directly allocable costs and appropriate portions of the acquisition overhead) under life and annuity policies with regular premium payments are determined in light of the period of the contracts, the expected surrenders, the lapse expectancies and the anticipated interest income. The amount of amortization depends on the gross margins of the contracts calculated for the corresponding year of the contract period. Depending on the type of contract, amortization is taken either in proportion to the premium income or in proportion to the expected profit margins.

In the case of life reinsurance treaties classified as "universal life-type contracts", the deferred acquisition costs are amortized on the basis of the expected profit margins from the reinsurance treaties, making allowance for the period of the insurance contracts. A discount rate based on the interest rate for medium-term government bonds was applied to such contracts. In the case of annuity policies with a single premium payment, these values refer to the expected policy period or period of annuity payment. In other reinsurance lines and in property/casualty primary insurance the deferred acquisition costs are amortized on a straight-line basis across the average contract period.

Deferred tax assets

IAS 12 "Income Taxes" requires that assets-side deferred taxes be established if asset items are to be recognized in a lower amount or debit items in a higher amount in the consolidated balance sheet than in the tax balance sheet of the relevant group company and if these differences will lead to reduced tax burdens in the future. In principle, such valuation differences may arise between the tax balance sheets drawn up in accordance with national standards and the IFRS balance sheets of the companies included in the consolidated financial statement drawn up in accordance with uniform group standards. Deferred tax assets are also recognized for tax credits and on tax loss carry-forwards. The assessment as to whether deferred tax claims from tax loss carry-forwards can be used, i.e. are not impaired, is guided by the results planning of the company and concretely realizable tax strategies. Value adjustments are taken on impaired deferred tax assets.

Deferred taxes are based on the current tax rates. In the event of a change in the tax rates on which the calculation of the deferred taxes is based, appropriate allowance is made in the year in which the change in the tax rate is stipulated in law. Deferred taxes at the Group level are booked using the Group tax rate of 31.6 (40.0)%, unless they can be allocated to specific companies. The Group tax rate was reduced in 2007 after the German Federal Council approved the 2008 Business Tax Reform Act, which results inter alia in a cut in the tax rates for corporations effective 1 January 2008.

Other assets

Other assets are carried at amortized cost. This means that property, plant and equipment are recognized at cost of acquisition less accumulated scheduled depreciation spread across the expected useful life and impairment expenses. Own-use real estate recognized under other assets is treated in the same way as investment property.

Disposal groups pursuant to IFRS 5

Pursuant to IFRS 5 assets and liabilities of a disposal group classified as held for sale must be carried in separate (unoffset) amounts on the face of the balance sheet. A breakdown of the major items is provided in the Notes. In addition, cumulative income and expenses recognized in shareholders' equity in connection with the disposal group are to be carried separately. At the date of classification as a disposal group a revaluation shall initially be made in accordance with the pertinent IFRS.

The assets or the disposal group held for sale are measured at the lower of carrying amount and fair value less costs to sell. If the fair value is lower than the carrying amount, impairment is taken in the amount of the difference. If hidden reserves are disclosed within the scope of the revaluation, a write-up can be taken that is not in excess of the cumulative, previously recognized impairment losses under an impairment test pursuant to IAS 36. Regular depreciation for the assets within the disposal group that fall under the measurement provisions of IFRS 5 is suspended until sale. Subsequent revaluation increases of the fair value less costs to sell are recognized to the extent to which impairment losses were previously recognized as part of a revaluation pursuant to IFRS 5 or impairment test pursuant to IAS 36.

At the time of retirement of the assets (and liabilities) the original reclassifications to the balance sheet items "Assets of disposal groups classified as held for sale" (and "Debts of disposal groups classified as held for sale") are reversed with their continued carrying amounts. Retirement is recognized via the changes "Disposals" or negatively as a "Change in the scope of consolidation".

More detailed information on the assets and disposal groups held for sale is contained in the section "Disposal groups".

Liabilities

Shareholders' equity

The common shares, reserves (additional paid-in capital, retained earnings) and cumulative other comprehensive income are recognized in equity. The common shares and additional paid-in capital are comprised of the amounts paid in by the shareholders of Talanx AG on its shares. The retained earnings consist of profits generated and reinvested by Group companies and special investment funds since they have belonged to the Group. In addition, in the event of a retrospective change of accounting policies, the adjustment for previous periods not included in the financial statement is recognized in the opening balance sheet value of the retained earnings and comparable items of the earliest reported period. Unrealized gains and losses from changes in the fair value of financial assets held as available for sale are carried in cumulative other comprehensive income; translation differences resulting from the currency translation of separate financial statements of foreign subsidiaries are also recognized under the "other reserves". In addition, write-ups on available-for-sale non-monetary securities are recognized under this item of shareholders' equity. In the year under review interest rate swaps were used as hedge instruments under a cash flow hedge. The fluctuations in value are recognized in a separate reserve item in equity.

Minority interests are shown in the consolidated statement of income following the net income. Minority interests in shareholders' equity are consequently recognized as a component of shareholders' equity. They refer to the shares held by companies outside the Group in the shareholders' equity of subsidiaries.

Technical provisions (gross)

The technical provisions are shown for gross account in the balance sheet, i.e. before deduction of the portion attributable to reinsurers; the reader is referred here to the explanatory notes on the corresponding asset items. The reinsurers' portions of the technical provisions are calculated and recognized on the basis of the individual reinsurance treaties.

Unearned premiums correspond to already collected premiums that are apportionable to future risk periods. These premiums are deferred by specific dates for insurance contracts (predominantly in primary insurance); in reinsurance business global methods are sometimes used if the accounting data required from prior insurers for a calculation pro rata temporis is unavailable. Unearned premiums occur principally in connection with short-term insurance contracts (e.g. property/casualty policies).

Benefit reserves are calculated and recognized in life insurance business using actuarial methods for commitments arising out of guaranteed claims of policyholders in life insurance and of ceding companies in life/health reinsurance. They are calculated as the difference between the present value of future expected payments to policyholders/cedants and the present value of future expected net premium still to be collected from policyholders/cedants.

The method involves the use of assumptions regarding the best estimate of investment income, life expectancy and the disability risk. These assumptions are based on customer and industry data.

The **loss and loss adjustment expense reserves** are constituted for payment obligations from insurance claims that have occurred but have not yet been settled. They relate to payment obligations under insurance and reinsurance contracts in respect of which the amount of the insurance benefit or the due date of payment is still uncertain. The loss and loss adjustment expense reserves are subdivided into reserves for claims reported by the balance sheet date and reserves for claims that have already been incurred but not yet reported (IBNR) by the balance sheet date.

Reserves for claims reported by the balance sheet date are based on recognized actuarial methods used to estimate future claims expenditure including expenses associated with loss adjustment.

In order to measure the "ultimate liability" the expected ultimate loss ratios are calculated for all lines of non-life business with the aid of actuarial methods such as the "chain ladder" method. The development of a claim until completion of the run-off is projected on the basis of statistical triangles. In this context it is assumed that the future rate of inflation of the loss run-off will be analogous to the average rate of the past inflation contained in the data. The more recent underwriting years in actuarial projections are subject to greater uncertainty, although this is reduced with the aid of a variety of additional information.

Particularly in reinsurance business, it is the case that the estimation of the loss and loss adjustment expense reserves entails elements of uncertainty and the actual amounts payable may therefore prove to be higher or lower. A considerable period of time may elapse between the occurrence of an insured loss, notification by the insurer and pro-rata payment of the loss by the reinsurer. The realistically estimated future settlement amount, calculated in principle on the basis of the information provided by ceding companies, is brought to account. This estimate draws on past experience and assessments of the future development, taking account of market information. The amount of the reserves and their allocation to occurrence years are determined using established forecasting methods of non-life actuarial science. A case-by-case approach is also used for special loss events in connection with major claims, primarily in public liability and industrial fire business.

Reserves are constituted for claims that have occurred but not yet been notified by the balance sheet date in order to make allowance for the estimated costs associated with claims already incurred but not yet reported (IBNR) to the risk-carrying entities of the Talanx Group. These reserves are established – like the reserves for already reported claims – in order to take account of the estimated expenditure and loss adjustment expenses required until final claim settlement.

Since no information is available as yet about the occurrence of such claims, the Talanx Group draws on empirical values adjusted according to current trends and other relevant factors. These reserves are constituted using actuarial and statistical models of the expected costs for final settlement and administration of claims. The analyses are based upon currently known facts and circumstances, projections of future events, estimates of the future inflationary trend as well as other social and economic factors. The latest trends observed in claim notifications, the extent of losses, increases in risk and future inflation are all factors considered for the calculation of IBNR reserves. The reserves are reviewed and revised on a regular basis.

The procedure used to estimate reserves for claims known by the balance sheet date and for claims that have occurred but not yet been reported by the balance sheet date is of course imprecise, since the final loss amounts are influenced by a large number of variables. The Talanx Group strives to reduce the uncertainties associated with the estimation of reserves by drawing upon a variety of actuarial methods for calculating the reserves and by performing various analyses of the assumptions on which these methods are based.

Sufficient statistical data is not yet available for major losses. In these instances appropriate reserves are established after analysis of the portfolio subject to such risks and, as appropriate, after individual scrutiny. These reserves represent the best estimates of the Talanx Group.

With the exception of a few reserves, the loss and loss adjustment expense reserves are not discounted. The reserves assumed for insurance contracts taken over in the context of the acquisition of the Gerling companies are measured pursuant to IFRS 4.31 in accordance with the general accounting policies of the Talanx Group and an intangible asset reflecting the difference between the carrying amount of these reserves and their fair value is recognized.

The **provision for premium refunds** consists of amounts allocated to policyholders in accordance with national regulations or contractual provisions and amounts resulting from temporary differences between the IFRS consolidated financial statement and the local annual financial statements (provision for deferred premium refunds, shadow provision for premium refunds) that will have a bearing on future calculations of the surplus distribution.

Technical provisions in the area of life insurance insofar as the investment risk is borne by policyholders

In the case of life insurance products under which policyholders carry the investment risk themselves (e.g. in unit-linked life insurance), the benefit reserves and other technical provisions reflect the fair value of the corresponding investments; these provisions are recognized separately under the item specified in the title above. We would refer the reader to the explanatory notes on the assets-side item "Investments for the account and risk of holders of life insurance policies".

Provisions for pensions and other post-employment benefit obligations

The companies belonging to the Talanx Group normally grant their employees pension commitments based on defined contributions or defined benefits. The type and amount of the commitments depends on the pension plans in force at the time when the commitment was given. They are based principally on an employee's length of service and salary level.

In addition, since the mid-1990s various German companies have offered the opportunity to obtain pension commitments through deferred compensation. The employee-funded commitments included in the provisions for accrued pension rights are protected by insurance contracts with HDI-Gerling Lebensversicherung AG, Cologne, and Neue Leben Lebensversicherung AG, Hamburg.

Furthermore, Group employees have the opportunity to accumulate additional old-age provision by way of deferred compensation through contributions to special insurance companies known as "Pensionskassen". The benefits are guaranteed for their members and surviving dependants and comprise traditional pension plans with bonus increases as well as unit-linked hybrid annuities.

In addition to these pension plans, executive staff and Board members, in particular, enjoy individual commitments as well as commitments given under the benefits plan of the Bochumer Verband. Additional similar obligations based upon length of service exist at some Group companies.

In the case of pensions commitments based on defined contributions the companies pay a fixed amount to an insurer or pension fund. The commitment given by the company is finally discharged upon payment of the contribution. Under pension commitments based on defined benefits the employee receives a specific pension commitment from the company or a pension fund. The contributions payable by the company to fund the commitment are not fixed in advance.

If the pension commitments are balanced against assets of a legally independent entity (e.g. a fund) that may be used solely to cover the pension assurances given and cannot be seized by any creditors, the pension commitments are to be recognized less the assets.

Pension commitments under defined benefit plans are measured in accordance with IAS 19 "Employee Benefits" using the projected unit credit method. Not only are the benefit entitlements and current annuities existing as at the balance sheet date measured, but allowance is also made for their future development. The interest rate used for discounting the pension commitments is based upon the rates applicable to first-rate fixed-income corporate bonds in accordance with the currency and duration of the pension commitments.

The amounts payable under defined contribution plans are expensed when they become due.

Actuarial gains or losses from pension commitments and plan assets derive from divergences between the estimated risk experience and the actual risk experience (irregularities in the risk experience, effects of changes in the calculation parameters and unexpected gains or losses on plan assets). They are determined using the "corridor method" defined in IAS 19. In this context actuarial gains or losses are only recognized in profit or loss to the extent that they exceed the higher of the following amounts at the commencement of the financial year: 10% of the present value of the earned pension entitlements or 10% of the fair value of any plan assets.

Other provisions

Provisions are discounted – insofar as they do not contain an interest element – as soon as the resulting effect is material. The interest rate used reflects the same risks and uncertainties as the provision in question.

The carrying amount of the provisions is reviewed as at each balance sheet date. Provisions in foreign currencies are translated at the exchange rate on the balance sheet date.

Liabilities and subordinated liabilities

Liabilities including subordinated liabilities, insofar as they do not involve funds held under reinsurance treaties or liabilities from derivatives, are reported at amortized costs. Funds held under reinsurance treaties are carried at nominal value and liabilities from derivatives are recognized at fair value. Interest rate swaps used as hedge instruments under a cash flow hedge are shown under the liabilities. These are measured at fair value.

Deferred tax liabilities

Deferred tax liabilities must be recognized in accordance with IAS 12 if assets are to be recognized in a higher amount or liabilities in a lower amount in the consolidated balance sheet than in the tax balance sheet of the group company in question and if this – as a temporary difference – will lead to additional tax loads in the future; cf. the explanatory notes on deferred tax assets.

Liabilities associated with disposal groups pursuant to IFRS 5

With regard to the liabilities associated with disposal groups recognized in the balance sheet, please see the remarks under “Assets”.

Consolidation

Consolidation principles

The consolidated financial statement was drawn up in accordance with uniform Group accounting policies. As a general rule, the subsidiaries included in the consolidated financial statement prepare an annual financial statement as at 31 December. Certain special funds and private equity companies have diverging financial years; they are consolidated on the basis of interim financial statements as at 31 December.

The capital consolidation of the subsidiaries and special funds follows the purchase method. All assets and liabilities of the subsidiary are recognized at fair value at the time of acquisition or at the time when a controlling interest is obtained. A difference arising out the netting of the acquisition costs with the fair value of the assets and liabilities is recognized as goodwill under intangible assets. Immaterial and negative goodwill are recognized in the statement of income in the year of their occurrence – scheduled amortization is not taken. The book value of goodwill is tested for impairment annually, or within the year if there are indications of possible impairment. Unscheduled amortization is taken if a goodwill impairment is established.

Minority interests in shareholders' equity or in the net income of majority-owned subsidiaries of Talanx AG are shown separately in equity in the item "Minority interests" or in the statement of income in the item "Minority interest in profit or loss".

All intra-group receivables and liabilities as well as income, expenses, and profits and losses resulting from intragroup transactions were eliminated within the scope of the debt and earnings consolidation.

Associated companies are included in the consolidated financial statement at equity. If a company recognized at equity applies different accounting policies, appropriate adjustments to comply with the Group's IFRS requirements are made in an auxiliary calculation. Income from shares in associated companies is recognized separately in the consolidated statement of income in accordance with IAS 1.81 (c).

Shares in subsidiaries not included in the consolidated financial statement because of their subordinate importance are recognized at fair value or, if this cannot be reliably established, at amortized cost under the investments.

Consolidation of special purpose entities

Investments

Within the scope of asset management activities our subsidiary Hannover Re has participated in numerous special purpose entities since 1988, which for their part transact certain types of equity and debt capital investments. On the basis of our analysis of the relations with these entities we concluded that the Group does not bear the majority of the economic benefits or risks arising out of this activity and a consolidation requirement therefore does not exist.

Since May 1994 Hannover Re has participated in a number of special purpose entities for the securitization of catastrophe risks by taking up certain capital market securities known as disaster bonds (or “cat bonds”). Based on economic consideration in light of Interpretation 12 of the Standing Interpretation Committee (SIC 12), Hannover Re does not exercise a controlling influence in any of these transactions either and hence there is no consolidation requirement.

With the aim of transferring peak exposures deriving from natural disasters to the capital market, Hannover Re issued a catastrophe (“cat”) bond in 2006 that can be traded on a secondary market – the first time it had used such a tool. The cat bond with a volume of USD 150 million was placed with institutional investors by Eurus Ltd., a special purpose entity domiciled in the Cayman Islands. Hannover Re does not bear the majority of the opportunities or risks arising out of this transaction.

Securitization of reinsurance risks

The securitization of settlement and reinsurance risks is largely structured through the use of special purpose entities. The existence of a consolidation requirement in respect of such entities is to be examined in accordance with SIC-12 “Consolidation – Special Purpose Entities”. In cases where IFRS do not currently contain any specific standards, Talanx’s analysis – in application of IAS 8.12 “Accounting Policies, Changes in Accounting Estimates and Errors” – again falls back on the relevant standards of US GAAP.

Since November 2000 Hannover Re had held voting equity interests in the special purpose entity Mediterranean Re PLC for the securitization of reinsurance risks in France and Monaco. The securitization ended as per the contractual agreement on 18 November 2005. The bonds issued as security were repaid in full to investors and the additional paid-in capital was repaid to the partners. The special purpose entity was finally wound up in the first quarter of 2008.

Under a transaction designated “K5” Hannover Re again uses the capital market to securitize reinsurance risks. The transaction was topped up in 2007 to USD 530 million and had a volume of EUR 360 (314) million as at the balance sheet date. The portfolio assembled for the securitization consists of non-proportional reinsurance treaties in the property, catastrophe, aviation and marine lines. A cell of Kaith Re Ltd., a special purpose entity domiciled in Bermuda, was used for the transaction. The planned term of the transaction runs until 31 December 2008.

In March 2007 Hannover Re placed on the capital market a protection cover on its worldwide natural catastrophe business in an amount of USD 200 million with a term of two years. It provides the company with aggregate excess of loss coverage. The special purpose entity Kepler Re, a separate cell within Kaith Re Ltd., was used for the transaction. The volume as at the balance sheet date totaled EUR 136 million. The underlying portfolio consists of the natural catastrophe business retained under the existing “K5” securitization. The cover attaches upon occurrence of an aggregated 83-year-event for “K5” and is fully utilized upon occurrence of a 250-year accumulation. Within this spread the outside investors in this and the “K5” transaction combined assume 90% of the “K5” losses, while the remaining 10% remain with Hannover Re. Kepler Re is not included in the consolidated financial statement.

In February 2007 Hannover Re for the first time transferred risks from reinsurance recoverables to the capital market. With this securitization, which has a term of five years, the default risk associated with reinsurance recoverables is reduced. The portfolio of recoverables underlying the transaction has a nominal value of EUR 1 billion and is comprised of exposures to retrocessionaires. The securities serving as collateral are issued through the special purpose entity Merlin CDO I B.V. A payment is triggered by the insolvency of one or more retrocessionaires as soon as our contractually defined cumulative deductible of EUR 60 million over the term of the contract is exceeded. The special purpose entity is not included in the consolidated financial statement.

Consolidated companies

Talanx AG is the parent company of the Group. In accordance with IAS 27 "Consolidated and Separate Financial Statements" the consolidated financial statement includes Talanx AG (as the parent company) and all major domestic and foreign Group companies in which Talanx AG indirectly or directly holds a majority voting interest or de facto power of control (subsidiaries). In addition, the consolidated group includes seven companies that are valued at equity as associated companies. They are of subordinate importance for the Group's net assets, financial position and results. The consolidated financial statement does not include 14 subsidiaries, the overall influence of which on the Group's net assets, financial position and results is considered minimal.

Consolidated subsidiaries (fully consolidated)	Germany	Abroad	Total
31.12.2006	90	63	153
Additions	11	6	17
Disposals	9	5	14
31.12.2007	92	64	156

The 17 additions consist of twelve new establishments and five acquisitions. The 14 disposals result from ten mergers and four sales.

The scope of consolidation of the Talanx Group has changed as follows since 31 December 2006:

Establishments

InChiaro Assicurazioni S.p.A., Rome, (Italy), was established on 28 February 2007. On 20 September 2007 the company was licensed by the Italian regulator as an insurance company in the area of property/casualty insurance. The Group's interest in the company stands at 51% and is held by HDI Finanziaria S.p.A.

HDI-Gerling America Insurance Company, Chicago, (USA), was established on 7 March 2007. It supports the insurance business of Gerling America Insurance Company, Chicago, (USA). The company is seeking to obtain all necessary licenses to transact insurance business in all US states so as to be able to operate as an insurer in property/casualty lines.

HDI-Gerling Leben Betriebsservice GmbH, Cologne, was established on 21 March 2007. The object of the company is to assume administrative and service tasks for companies, especially life insurance companies, belonging to the Talanx Group. All shares in the company are held by Group companies (75% HDI-Gerling Lebensversicherung AG, 25% Aspecta Lebensversicherung AG).

Strakhovaya Kompaniya CiV Life, Moscow, (Russia), was established on 30 March 2007. The object of the company is to transact all types of insurance, principally all types of personal insurance lines. The shareholders are Talanx AG (90%) and CiV Versicherung AG (10%).

Riethorst Grundstücksgesellschaft mbH, Hannover, was established on 11 July 2007. The object of the company is the acquisition, development, management and sale of real estate. The sole shareholder is AmpegaGerling Immobilien Management GmbH.

ProACTIV Vermögensverwaltungs-AG, Hannover, was established on 12 July 2007. On 11 December 2007 the company was renamed Proactiv Holding AG, and its registered office is now located in Hilden. The company is intended to operate as a management holding company and hold participating interests in domestic and foreign insurance companies. The sole shareholder is Talanx AG.

R.E.RE Investors GmbH, Cologne, equal shares of which are held by Hannover Re and E+S Rück, was established on 23 July 2007. The company was included in the consolidated financial statement for the first time in the third quarter. In the fourth quarter of 2007 the company name was amended to Hannover Re Euro RE Holdings GmbH pursuant to the revised memorandum of association. The object of the company is to acquire, hold, manage and sell real estate, property and participating interests in real estate funds in Germany and abroad as well as in funds that participate in real estate, property or real estate funds. The company's financial year begins on 1 October and ends on 30 September of the following calendar year.

CiV Hayat Sigorta A.S., Istanbul, (Turkey), was established on 25 July 2007. The object of the company is to transact all types of insurance, principally all types of personal insurance lines. The focus is on the writing of life insurance business. The shareholders are Talanx AG (90%) and CiV Lebensversicherung AG (10%).

Hannover Life Reassurance Bermuda Ltd., based in Hamilton, Bermuda, was established on 10 August 2007. Zweite Hannover Rück Beteiligung Verwaltungs-GmbH holds the shares in the company, which commenced its business operations with effect from 4 October 2007. The object of the company, which was included in the consolidated financial statement for the first time in the fourth quarter of 2007, is the writing of life, health, annuity and personal accident reinsurance business as well as the acceptance of blocks of in-force life reinsurance business.

HDI-Gerling Beschäftigungs- und Qualifizierungsgesellschaft mbH, Hannover, was established on 10 October 2007. The object of the company is the employment, skills training and placement of employees of companies affiliated with Talanx AG. Talanx AG holds all shares in this company.

Effective 23 November 2007 Hannover Re established HILSP Komplementär GmbH, Hannover. The object of the company is participation as a personally liable managing partner in Hannover Insurance-Linked Securities Partners GmbH & Co. KG. The company's financial year begins on 1 October and ends on 30 September of the following calendar year. The company was included in the consolidated financial statement for the first time in the fourth quarter of 2007.

HDI Servizi S.r.l., the registered office of which is located in Rome (Italy), was established on 18 December 2007. The object of the company is to act as a service company for the Group companies operating in Italy. All shares in this company are held by HDI Assicurazioni S.p.A.

Acquisitions

Following completion of the acquisition of all interests in the capital stock of BHW Lebensversicherung AG and BHW Pensionskasse AG by Talanx AG under a contract dated 18 July 2007, the scope of consolidation of the present consolidated financial statement has been enlarged. The companies were consolidated for the first time as at 30 September/1 October 2007. In addition, the remaining 50% interests in the capital stock of PB Lebensversicherung AG, PB Versicherung AG and PB Pensionsfonds AG – which had been previously been included in the consolidated financial statement on a proportionate basis – were acquired and the companies were fully consolidated with effect from the balance sheet date. Further information on these circumstances is to be found in the section "Business combinations in the reporting period".

Successive acquisition

In the year under review Talanx AG acquired the remaining 5% of the shares in Gerling-Konzern Allgemeine Versicherungs-AG, Cologne, under a squeeze-out procedure. Talanx AG had already acquired the other 95% of the shares in 2006, and following the squeeze-out it held all shares in the company – thereby fulfilling a vital precondition for the restructuring activities under company law within the non-life group described in the section "Mergers". The compensation paid out to the former shareholders of Gerling-Konzern Allgemeine Versicherungs-AG totaled EUR 86 million; in addition, incidental acquisition costs of around EUR 15 million were incurred. This transaction resulted in a reduction of Group shareholders' equity by altogether EUR 101 million; of this amount, EUR 61 million was attributable to Group shareholders' equity and EUR 40 million to minority interests.

Disposals

Effective 8 January 2007 Hannover Re sold its 49% interest in DSP Deutsche Senior Partner AG, Bonn – which was recognized at equity in the consolidated financial statement – at book value to the company's majority shareholder.

The four companies belonging to the Gerling at Lloyd's Group – Gerling Syndicate Holdings Ltd., Gerling at Lloyd's Ltd., Gerling Syndicate Services Ltd. and Gerling Corporate Capital Ltd. – were sold in the year under review.

The sale of the Praetorian Group was closed on 31 May 2007.

Further information on the circumstances of the latter two transactions are provided in the section "Disposal groups".

Mergers

The following significant changes were made under company law in connection with the integration of the Gerling companies:

Gerling Vertrieb Industrie AG was merged into Gerling Vertrieb Deutschland GmbH effective 15 August 2007.

Effective 24 September 2007 Gerling-Konzern Allgemeine Versicherungs-AG was merged into the former HDI Industrie Versicherung AG, which was renamed HDI-Gerling Industrie Versicherung AG with effect from the same date.

Effective 25 September 2007 the direct insurance business of HDI-Gerling Industrie Versicherung AG was spun off to HDI Privat Versicherung AG, which has traded as HDI Direkt Versicherung AG since the same date.

In addition, effective 26 September 2007 the commercial and private insurance unit of HDI-Gerling Industrie Versicherung AG was transferred by way of a spin-off to ASPECTA Versicherung AG, which was renamed HDI-Gerling Firmen und Privat Versicherung AG on the same date.

The legal protection insurance business of HDI-Gerling Industrie Versicherung AG was first spun off to HDI-Gerling Firmen und Privat Versicherung AG and effective 27 September 2007 subsequently transferred to HDI Rechtsschutz Versicherung AG, which now trades as HDI-Gerling Rechtsschutz Versicherung AG.

Gerling Rechtsschutz Schadenregulierungs-GmbH was merged into HDI-Gerling Rechtsschutz Versicherung AG with effect from 28 September 2007.

Effective 28 September 2007 Gerling Vertrieb Deutschland GmbH was merged into HDI-Gerling Industrie Versicherung AG.

The following additional mergers took place in 2007:

GERLING Pensions-Management GmbH was merged into HDI-Gerling Pensionsmanagement AG (formerly HDI Pensionsmanagement AG) under a contract dated 17 April 2007.

On 9 May 2007 GEREON Forderungsmanagement GmbH and GERLING Finanz- und Vorsorgemanagement GmbH were merged into HDI-Gerling Leben Serviceholding AG.

Effective 1 May 2007 Zweite HDI Beteiligungsgesellschaft mbH and HDI Verwaltungs-Service GmbH were merged into Talanx AG.

Gerling-Gruppe Versicherungs-Service GmbH, Vienna, (Austria), was merged into HDI Hannover Versicherung AG, Vienna (Austria), with effect from 5 October 2007.

The following major companies are included in the consolidated financial statement:

Name and registered office of the company	Participation		Capital and reserves		Result for the last financial year
Figures in currency units of 1,000	%		EUR [1]		EUR [1]
Property/Casualty Primary Insurance					
HDI Asekuracja Towarzystwo Ubezpieczen S.A., Warsaw/Poland	100.00	PLN	235,370	PLN	36,511
HDI Assicurazioni S.p.A., Rome/Italy	100.00		151,687		14,087
HDI Direkt Versicherung AG (formerly: HDI Privat Versicherung AG), Hannover	100.00		162,000		108,580
HDI HANNOVER International España, Cía de Seguros y Reaseguros S.A., Madrid/Spain	100.00		38,230		5,007
HDI Hannover Versicherung AG, Vienna/Austria	99.97		29,313		5,307
HDI Seguros S.A., São Paulo/Brazil	99.99	BRL	426,039	BRL	38,396
HDI-Gerling Firmen und Privat Versicherung AG (formerly: ASPECTA Versicherung AG), Hannover	100.00		170,367		–70,702
HDI-Gerling Industrie Versicherung AG (formerly: HDI Industrie Versicherung AG), Hannover	100.00		301,709		182,807
HDI-Gerling Rechtsschutz Versicherung AG (formerly: HDI Rechtsschutz Versicherung AG), Hannover	100.00		18,951		–30,784
HDI-Gerling Sach Serviceholding AG (formerly: HDI Service AG), Hannover	100.00		1,056,000		146,269
HDI-Gerling Verzekeringen N.V., Rotterdam/Netherlands	100.00		53,220		9,720
Life Primary Insurance					
ASPECTA Assurance International Luxembourg S.A., Luxembourg/Luxembourg	100.00		9,103		–925
ASPECTA Lebensversicherung AG, Cologne	100.00		42,243		3,243
BHW Lebensversicherung AG, Hamelin	100.00		63,515		20,100
CiV Versicherung AG, Hilden	100.00		6,342		18,391
CiV Lebensversicherung AG, Hilden	100.00		33,315		32,915
HDI-Gerling Leben Serviceholding AG, Cologne	100.00		955,965		22,637
HDI-Gerling Lebensversicherung AG, Cologne	100.00		198,839		34,000
HDI-Gerling Pensionskasse AG, Cologne	100.00		26,737		1,150
Neue Leben Lebensversicherung AG, Hamburg	67.50		56,781		12,000
Neue Leben Unfallversicherung AG, Hamburg	67.50		3,526		4,410
PB Lebensversicherung AG, Hilden	100.00		16,909		1,013
PB Versicherung AG, Hilden	100.00		18,337		2,664
Non-Life Reinsurance					
E+S Rückversicherung AG, Hannover	32.03		600,281		180,000
Hannover Re (Bermuda) Ltd., Hamilton/Bermuda	50.22		968,000		138,652
Hannover Reinsurance (Ireland) Ltd., Dublin/Ireland	50.22		443,732		9,188
Hannover Reinsurance Group Africa (Pty) Ltd., Johannesburg/South Africa	50.22	ZAR	182,048	ZAR	125,191
Hannover Rückversicherung AG, Hannover	50.22		1,865,816		271,955
International Insurance Company of Hannover Ltd., Bracknell/United Kingdom	50.22	GBP	96,988	GBP	920

Name and registered office of the company	Participation		Capital and reserves		Result for the last financial year
Figures in currency units of 1,000	%		EUR [1]		EUR [1]
Life/Health Reinsurance					
Hannover Life Re of Australasia Ltd, Sydney/Australia	50.22	AUD	168,515	AUD	28,040
Hannover Life Reassurance (Ireland) Ltd., Dublin/Ireland	50.22		278,346		38,686
Hannover Life Reassurance (UK) Ltd., Virginia Water/United Kingdom	50.22	GBP	48,233	GBP	9,595
Hannover Life Reassurance Bermuda Ltd., Hamilton/Bermuda	50.22		120,150		876
Hannover Life Reassurance Company of America, Orlando/USA	50.22	USD	136,570	USD	30,319
Financial Services					
AmpegaGerling Asset Management GmbH, Cologne	100.00		83,600		41,637
AmpegaGerling Investment GmbH, Cologne	100.00		29,400		12,464
Protection Reinsurance Intermediaries AG, Hannover	100.00		387		14,952

[1] *Differing currencies are specified*

The companies included in the consolidated financial statement of Talanx AG form part of the complete list of shareholdings, which is published in connection with the consolidated financial statement of HDI Haftpflichtverband der Deutschen Industrie V.a.G. in the Electronic Federal Gazette.

Business combinations in the reporting period

On 18 July 2007 Talanx AG closed a purchase agreement regarding the acquisition of a further 50% of the shares in each of the PB insurers (PB Versicherung AG, its wholly owned subsidiary PB Pensionsfonds AG and PB Lebensversicherung AG) with Deutsche Postbank AG. The stake held by Talanx AG in each of the PB insurers was thereby raised to 100%. On the same date Talanx AG and Deutsche Postbank AG agreed within the framework of the same contractual arrangements on the acquisition of all shares in BHW Lebensversicherung AG and BHW Pensionskasse AG by Talanx AG. The closing took place at midnight on 30 September/1 October. The BHW companies were therefore consolidated for the first time on 1 October 2007. The PB insurers are fully (previously proportionately) included in the consolidated financial statement from this date onwards.

In cooperation with Postbank, PB Lebensversicherung AG markets individual products for old-age provision that are specially developed for this distribution channel. In addition, all methods of implementing occupational retirement provision are offered in cooperation with further sales partners. PB Versicherung AG offers personal accident insurance policies. PB Pensionsfonds sells primarily unit-linked products. The registered office of the PB companies is in Hilden. The core areas of business served by the BHW companies are endowment and unit-linked life insurance, annuity insurance and credit life policies in conjunction with private loans. The BHW companies are based in Hamelin.

The purchase price of altogether EUR 550 million, which was paid in cash, was divided among the acquired units as follows:

Acquired units	
Figures in EUR million	
PB insurers (50%)	160
BHW Lebensversicherung AG	379
BHW Pensionskasse AG	11
Total purchase price	**550**

The volume of costs incurred directly in connection with the acquisition was not significant.

As part of the preparation of the acquisition balance sheets, the assets and liabilities of the acquired companies were revalued and recognized at fair value. The PB insurers, which had been half-owned by the Talanx Group prior to acquisition of the second tranche, were completely revalued. The following table shows the assets and liabilities of the PB insurers (with the exception of PB Pensionsfonds, since the company was not included in the Talanx Group prior to 1 October and consequently no data is available as at 30 September) immediately before and at the time of acquisition:

Assets	30.09.2007	01.10.2007	Liabilities	30.09.2007	01.10.2007
Figures in EUR million			Figures in EUR million		
Investments	639	614	Shareholders' equity	37	73
Investments for the account and risk of holders of life insurance policies	93	93	Technical liabilities [1]	827	809
Technical assets	122	90	Other provisions	10	27
Other assets	**30**	122	Other liabilities	**10**	10
Total	**884**	**919**	**Total**	**884**	**919**

[1] *Including the technical provisions in the area of life insurance, insofar as the investment risk is borne by policyholders, amounting to EUR 93 million*

The major differences result from the disclosure of hidden liabilities in the investments of PB Lebensversicherung AG, lower measurement of the technical liabilities and assets as well as the capitalization of insurance-related intangible assets. A PVFP of altogether EUR 87 million was established for PB Lebensversicherung AG. In this connection the deferred acquisition costs of around EUR 30 million recognized as at 30 September 2007 were written back, leading to a corresponding reduction of the technical assets compared to the position as at 30 September 2007 – while the newly established PVFP increased the other assets.

Of the total amount of the PVFP, EUR 61 million was allocable to the shareholders' portion, while the policyholders' share was EUR 26 million. The deferred tax liabilities allocable to the PVFP were carried separately.

In the area of the technical provisions, the disclosure of the hidden liabilities in investments served to reduce the provision for deferred premium refunds, while the arithmetical increase in the provision for deferred premium refunds in the amount of the policyholders' share of the PVFP had an opposite effect. The increase in the other provisions derived principally from the recognition of deferred tax liabilities in connection with the capitalization of the PVFP. For PB Versicherung AG a PVFP of EUR 15 million was capitalized, representing the value of the in-force portfolio at the time of acquisition.

No comparable information is available for the BHW companies, from whose Commercial Code (HGB) accounts as at 30 September 2007 the IFRS figures as at 1 October 2007 (date of transfer of control) were obtained in a single step, because the additional preparation of an IFRS financial statement at the point in time immediately prior to acquisition would have necessitated an unreasonably high effort. A PVFP of altogether EUR 381 million was recognized in the acquisition balance sheet of BHW Lebensversicherung AG (in conjunction with the write-back of deferred acquisition costs). Of this total amount, EUR 186 million was allocable to the shareholders' portion and EUR 195 million to policyholders. The deferred tax liabilities allocable to the PVFP were carried separately. For BHW Pensionskasse AG a PVFP of EUR 8 million amounting to the value of in-force business at the time of acquisition was capitalized.

The transaction gave rise to goodwill of altogether EUR 306 million, divided as follows between the PB and BHW companies:

Acquired units

Figures in EUR million	
PB insurers	91
BHW companies	215
Total goodwill	**306**

The goodwill reflects the sales cooperation with Postbank that was signed parallel to the purchase agreements; this cooperation now grants the companies belonging to the Talanx Group exclusive access to the distribution network of Deutsche Postbank AG for certain product groups and types of marketing (mobile sales, direct sales, branch sales) until 2022. The contractually agreed product categories encompass endowment insurance, term life insurance, personal accident insurance, disability insurance, insurance for reduced working capacity, involuntary unemployment insurance and personal accident riders, mortgage protection insurance and various annuity insurance products, including so-called "Riester" and "Rürup" subsidized annuities. Since the final value of the sales cooperation emerged from the actual subsequent business experience and hence could not be established with adequate certainty at the time of acquisition, no intangible assets were recognized in the acquisition balance sheets in this regard. The aforementioned goodwill thus arose within the scope of the initial capital consolidation in the amount of the apportionable pro-rata purchase price which was not covered by the net assets of the acquired units at the time of acquisition (IFRS shareholders' equity as at 1 October 2007).

Until 30 September the consolidated statement of income included 50% of the expenses and income of the PB insurers previously included on a proportionate basis. For the fourth quarter 100% of the expenses and income were included. The expenses and income of the BHW companies have been fully included since their initial consolidation as at 1 October. The following table shows the premium volume as well as the profit contribution of the acquired units since the date of initial consolidation. The "as if" presentation of the gross premiums shows the full gross premium income of the PB insurers recognized under IFRS since 1 January 2007. For the BHW companies the gross premiums booked in accordance with the Commercial Code (HGB) are shown since that date. The profit contributions since 1 January are not presented on an "as if" basis on account of the unreasonably high effort that would have been needed to determine them.

Gross premium, profit contribution

Figures in EUR million		
Gross premium from 01.10.2007		219
Gross premium on as-if basis from 01.01.2007		
BHW companies ("as if" = HGB)	400	
PB insurers	301	
As-if from 01.01.2007 total		**701**
Profit contribution from 01.10.2007		9

Disposal groups

Under the item "Assets of disposal groups classified as held for sale" amounts of EUR 1,646 million and EUR 382 million were shown in the Non-Life Reinsurance and Life Primary Insurance segments respectively as at 31 December 2006.

The amount recognized in the Non-Life Reinsurance segment represents the assets of the Praetorian Group, which was sold effective 31 May 2007 by a subsidiary of Hannover Re – Hannover Finance Inc., Wilmington, (USA) – to the Australian QBE Insurance Group. The debts of a disposal group recognized on the liabilities side (and the amounts recognized on the assets and liabilities sides in the consolidation column) relate entirely to the Praetorian Group. A selling price of USD 806 million was realized at the time of the change of control. The purchase price was increased by USD 5 million as at 31 December 2007 to altogether USD 811 million. The disposal profit after taxes and after deduction of minority interests amounted to EUR 29 million as at the balance sheet date. In addition to the sales proceeds and the derecognition of assets and liabilities, it consists of the derecognition of the Group interest in goodwill apportionable to the Praetorian Group totaling EUR 42 million, the release of a provision constituted in 2006 in an amount of EUR 18 million and the resulting deferred tax assets of EUR 7 million.

The amount of EUR 382 million shown in the Life Primary Insurance segment as at 31 December 2006 refers to two real estate packages sold at the end of March 2007 that encompassed both residential and commercial properties. The seller was HDI-Gerling Lebensversicherung AG. The disposal profit, arising out of derecognition of the assets and booking of the purchase price, amounted to EUR 28 million after taxes.

In addition, the Gerling-at-Lloyd's Group was sold within the year by the former Gerling-Konzern Allgemeine Versicherungs-AG (GKA). The group consisted of four companies: Gerling Syndicate Holdings Ltd., Gerling at Lloyd's, Gerling Syndicate Services Ltd. and Gerling Corporate Capital. From the standpoint of the Talanx Group this produced a disposal loss of EUR 11 million, composed of the disposal price of EUR 2 million, the negative balance of derecognized assets and liabilities totaling around EUR 1 million and the write-off of EUR 12 million on a loan extended by the former GKA to Gerling Corporate Capital.

Nature of risks associated with insurance contracts and financial instruments

The disclosures provided below complement the risk reporting in the management report and reflect the requirements of German Accounting Standard DRS 5-20, IFRS 4 and IFRS 7. For fundamental qualitative statements, e.g. regarding the organization of our risk management or the assessment of the risk situation, please see the risk report in the management report.

Risks from insurance contracts

The focus of the Talanx Group's business activities is on the sale and administration of insurance products in all standard lines of property/casualty and life insurance as well as non-life and life/health reinsurance.

Risks from these insurance contracts consist principally of the insurance risk, default risks, liquidity risks and market risks.

Insurance risk

The insurance risks in property/casualty insurance are considered separately from those in life insurance because of the significant differences between them.

In **property/casualty insurance and non-life reinsurance** the insurance risks derive primarily from the premium/loss risk and the reserving risk.

Insurance business is based upon the assumption of individual risks from policyholders (in primary insurance) or cedants (in reinsurance) and the equalization of these risks in the community of (re)insureds and over time. For the insurer, the fundamental risk lies in providing insurance benefits, the amount and due date of which are unknown, from premiums calculated in advance that cannot be changed.

We counter the assumed premium/loss risk by means of numerous mechanisms and functions. In addition to claims analyses and modeling, we reduce this risk through selective underwriting and regular monitoring of the loss experience as well as through adequate reinsurance protection. The volume of reinsurance protection relative to the gross written premium can be measured according to the level of retained premium; shown below broken down by segments, this indicates the proportion of written risks retained for our risk.

Retention by segments	31.12.2007	31.12.2006	31.12.2005 [1]	31.12.2004 [1]	31.12.2003 [1]
%					
Property/Casualty Primary Insurance	59.4	58.2	62.0	42.3	41.9
Life Primary Insurance	86.9	86.0	85.2	78.7	74.6
Non-Life Reinsurance	82.2	82.0	76.1	83.9	76.8
Life/Health Reinsurance	90.8	85.4	92.8	91.2	85.6
Total	**82.0**	**81.0**	**80.8**	**76.5**	**73.4**

[1] *Due to changes in segment allocation the years 2005, 2004 and 2003 are of only limited comparability*

The sharp rise in the level of retained premium from 2005 to 2006 in the Property/Casualty Primary Insurance segment results from the first-time consolidation of the Gerling companies, which traditionally carried a higher retention than the companies previously allocated to this segment. The increase in the retention in this segment was also attributable to the modifications made to the segment definition in 2006 and 2007. In 2006 moves were initiated to align the segments with the responsibilities of the Talanx Board of Management. In the first instance, reallocations were made between the Property/Casualty Primary Insurance and Non-Life Reinsurance segments. In 2007 the implementation of the revised segment definition moved forward with the reallocation of the life insurance business of the Italian subsidiary HDI Assicurazioni to the Property/Casualty Primary Insurance segment. The life insurance business written by the Italian company traditionally has a higher retention than that carried by the non-life insurers. In both years the immediately previous year was also adjusted accordingly.

The net loss ratio by segemts took the following development during the last five years:

Net loss ratios	2007	2006	2005 [2]	2004 [2]	2003 [1] [2]
%					
Property/Casualty Primary Insurance	72.7	73.7	69.4	77.2	70.3
Non-Life Reinsurance	72.4	70.3	82.4	76.3	90.1
Total	**72.5**	**71.5**	**78.8**	**76.6**	**80.0**

[1] According to US GAAP
[2] Due to changes in segment allocation the years 2005, 2004 and 2003 are of only limited comparability

The moderate level of the loss ratios in past years reflects our prudent underwriting policy and successes in active claims management.

An increase of five percentage points in the net loss ratio in both these segments would reduce the net profit after tax by EUR 274 million.

The adequate measurement of loss reserves for asbestos-related claims and pollution damage is a highly complex matter, since in some cases several years or even decades may elapse between the causation of the loss or injury and its notification. The exposure of the Talanx Group to asbestos-related claims and pollution damage is, however, relatively slight.

Net combined ratios	2007	2006	2005 [2]	2004 [2]	2003 [1] [2]
%					
Property/Casualty Primary Insurance	99.8	92.7	91.3	100.6	90.7
Non-Life Reinsurance	98.9	98.2	109.4	97.7	103.5
Total	**99.2**	**96.1**	**104.4**	**98.7**	**96.9**

[1] According to US GAAP
[2] Due to changes in segment allocation the years 2005, 2004 and 2003 are of only limited comparability

Peak exposures from accumulation risks are protected against through the use of carefully and individually selected reinsurance covers. In this way we are able to effectively limit – and hence render plannable – large individual losses and the impact of accumulation events.

Within the scope of our risk management we take into account the scenarios that we consider to be relevant. The following table shows the exposure potential posed by various natural catastrophe accumulations:

Accumulation scenarios for the Talanx Group in 2007	**Net**
Figures in EUR million	
US windstorm	537
US (California) earthquake	443
US (New Madrid) earthquake	270
European windstorm	318
Tokyo earthquake	542
Japanese windstorm	103
Sydney earthquake	209

Along with interest rate risks, biometric risks and lapse risks are of special importance in **Life Primary Insurance** and **Life/Health Reinsurance**. We measure sensitivity to these risks using an embedded value analysis. The Market-Consistent Embedded Value (MCEV) is a key risk management tool. It refers to the present value of future shareholders' profits plus the shareholders' equity less the cost of capital for the life insurance and life/health reinsurance portfolio after appropriate allowance for all risks underlying this business. The embedded value is market-consistent inasmuch as it is arrived at using a capital market valuation that meets certain requirements: free of arbitrage, risk-neutral, the modeling of the financial instruments provides the current market prices.

The MCEV is calculated for all our major life insurers (HDI-Gerling Lebensversicherung AG, the life insurers of the Aspecta Group, CiV Lebensversicherung AG, Neue Leben Lebensversicherung AG, HDI Assicurazioni S.p.A., BHW Lebensversicherung AG and PB Lebensversicherung AG) as well as the life/health reinsurance business written by Hannover Re.

Sensitivity analyses of the MCEV pinpoint the areas in which the Group's life insurers and hence the Group as a whole (in the life sector) are exposed, and they provide pointers as to the areas which should be emphasized from a risk management standpoint. Sensitivities to mortalities, lapse rates, administrative expenses as well as interest rate and equity price levels are considered in the analyses.

Sensitivities to mortalities

The degree of exposure of the Group's life insurers varies according to the type of insurance product. Thus, a lower-than-expected mortality has a positive effect on products primarily involving a death and/or disability risk and a negative impact on products with a longevity risk – with corresponding implications for the MCEV.

Sensitivities to lapse rates

Under contracts with a right of surrender the recognized benefit reserve is at least as high as the corresponding surrender value, and hence the economic impact of the lapse pattern tends to be more influenced by the level of lapse discounts and other product characteristics. A higher-then-expected lapse rate would negatively affect the MCEV.

Sensitivities to administrative expenses

Higher-then-expected administrative expenses would result in a reduction of the MCEV.

Sensitivities to interest rate and equity price levels

The commitment to generate the minimum return for the contractually guaranteed benefits gives rise to a considerable interest guarantee risk. The fixed-income investments normally have a shorter duration than the obligations under the insurance contracts (durations mismatch). This creates a reinvestment risk for already accumulated credit balances and a new investment risk for future premiums. If the investment income generated across the remaining settlement period of the liabilities falls short of the interest due under the guarantees, this leads to a reduction in income and a decrease in the MCEV. A decline in the equity price level would also negatively impact the MCEV.

Default risks

Bad debts may arise on receivables due under insurance business. In order to limit this risk we take care to ensure the good credit quality of debtors, as measured on the basis of standard market rating categories.

Accounts receivable from policyholders and insurance intermediaries are unsecured. The default risk on these receivables is subject to constant monitoring within the scope of our risk management. At stake here are a large number of receivables in relatively modest single amounts, which are due from a diversified array of debtors. Such accounts receivable are normally due from policyholders that do not have a rating. Only commercial clients in excess of certain dimensions are able to obtain external assessments of their credit status. The insurance intermediaries are either individual brokers or broker organizations, which similarly do not normally have a rating.

With a view to countering possible delays in or defaults on premium payment in collections directly from policyholders or from intermediaries, each of the Group companies operates an effective collections procedure intended to minimize outstandings. Intermediaries are also subject to credit checks.

Credit risks also arise in primary insurance business in connection with accounts receivable from reinsurers and in reinsurance business from recoverables due from retrocessionaires on account of the fact that the gross business written is not always fully retained, but instead portions are (retro)ceded as necessary. In passive reinsurance we pay close attention to a high level of financial soundness on the part of the reinsurer, especially in the case of long-tail accounts.

As the equivalent of the maximum exposure to default risks on the balance sheet date, the book value of financial assets deriving from the insurance business – irrespective of collateral or other agreements and debts provisions that serve to minimize the default risk – was as follows:

Statement of book values of financial assets deriving from insurance contracts	31.12.2007 Property/Casualty Primary Insurance	Non-Life Reinsurance	Life Primary Insurance	Life/Health Reinsurance
Figures in EUR million				
Receivables				
Policy loans	2	—	194	14
Accounts receivable from policyholders	538	—	171	—
Accounts receivable from insurance intermediaries	310	257	85	—
Accounts receivable from reinsurance business	614	1,244	32	1,153
Other assets				
Reinsurance recoverables on technical reserves	4,649	2,461	3,064	365
Total	**6,113**	**3,962**	**3,546**	**1,532**

	31.12.2006 Property/Casualty Primary Insurance	Non-Life Reinsurance	Life Primary Insurance	Life/Health Reinsurance
Figures in EUR million				
Receivables				
Policy loans	2	—	198	14
Accounts receivable from policyholders	862	—	142	—
Accounts receivable from insurance intermediaries	155	393	101	—
Accounts receivable from reinsurance business	980	1,727	20	541
Other assets				
Reinsurance recoverables on technical reserves	4,319	2,548	2,794	577
Total	**6,318**	**4,668**	**3,255**	**1,132**

With respect to business ceded, the Talanx Group reduces the default risk on accounts receivable from reinsurers by carefully selecting reinsurers through our Group's internal reinsurance broker Protection Reinsurance Intermediaries AG and reviewing their credit status on the basis of opinions from internationally respected rating agencies.

In the Property/Casualty Primary Insurance and Life Primary Insurance segments the claims arising out of passive reinsurance, i.e. the cession of our assumed risks – the reinsurance recoverables on unpaid claims – amounted to altogether EUR 7.7 (7.1) billion. The accounts receivable from reinsurers under primary insurance business totaled EUR 443 (725) million.

The ratings of the counterparties for the reinsurance recoverables on technical reserves were as follows:

	AAA	AA	A	BBB	< BBB	No rating
%						
Reinsurance recoverables on technical reserves	13 (8)	42 (38)	32 (32)	2 (4)	1 (11)	10 (7)

89 (82)% of our reinsurers have an investment grade rating (AAA to BBB), of which 87 (78)% are rated A or better. In addition, many of our reinsurance recoverables are secured by deposits or letters of credit.

In the two segments of Non-Life Reinsurance and Life/Health Reinsurance the claims due from retrocessions amounted to EUR 2.8 (3.3) billion as at the balance sheet date. Altogether 96% of retrocessionaires have an investment grade rating. Of these, more than 92% are rated A or better. The large proportion of reinsurers with top ratings reflects our policy of avoiding default risks in this area wherever possible.

The accounts receivable from insurance business that were overdue but not impaired at the balance sheet date can be broken down as follows:

	31.12.2007		31.12.2006	
Analysis of overdue but not individually impaired financial assets deriving from insurance contracts	> 3 months < 1 year	> 1 year	> 3 months < 1 year	> 1 year
Figures in EUR million				
Accounts receivable from policyholders	44	5	51	8
Accounts receivable from insurance intermediaries	73	—	33	1
Accounts receivable from reinsurance business	125	176	158	76
Total	**242**	**181**	**242**	**85**

The overdue receivables from insurance business are composed of accounts receivable that had not been paid by the due date and were still outstanding as at the balance sheet date. The presentation dispenses with the short duration range of “1 day to 3 months” in view of the different processes used throughout the Group in this regard. Responsibility for receivables management in the Talanx Group is borne locally by the individual subsidiaries. The receivables management process – reflecting the underlying business risks – consequently varies (inter alia differing treatment of receivables at risk of default (derecognition or value adjustment); differing points in time when receivables management is activated and differing tools used in receivables management). Only once a receivable is overdue by more than 90 days do the aforementioned reasons become insignificant, hence making Group-wide observations possible.

Accounts receivable from policyholders and insurance intermediaries in primary insurance business that were overdue by more than 90 days as at the balance sheet date totaled EUR 105 (180) million and EUR 94 (36) million respectively. These figures were equivalent to 15 (18)% and 24 (14)%. The accounts receivable from passive reinsurance business with arrears of more than 90 days amounted to altogether EUR 93 (180) million, corresponding to a level of 21 (25)%. The average default rate over the past three years was 1.7 (2.1)%.

Relative to the major companies of the Hannover Re Group, which make up the reinsurance segments of the Talanx Group, EUR 238 million – or 9% – of our accounts receivable from reinsurance business totaling EUR 2.5 billion were older than 90 days as at the balance sheet date. The average default rate over the past three years was less than 1%.

Of our total reinsurance recoverables, 31% are secured by deposits or letters of credit. In the case of most of our retrocessionaires we also function as reinsurer, meaning that a potential normally exists for offsetting against our own liabilities.

In the year under review we were able to significantly reduce the remaining credit risks through the first-ever securitization of default risks arising out of reinsurance recoverables. Under the innovative transaction dubbed “Merlin”, default risks associated with a portfolio of reinsurance recoverables totaling EUR 1 billion were transferred to the capital markets using a CDO (Collateralized Debt Obligation) structure. In this regard please see our remarks on securitization transactions in the section “Consolidation”.

Value adjustments were not taken insofar as the default risk associated with the assets is reduced by collateral (such as letters of credit, cash deposits, securities deposits).

The adjusted receivables can be broken down as follows:

	31.12.2007			31.12.2006		
Analysis of individually adjusted financial assets deriving from insurance contracts	**Risk provision**	**thereof 2007**	**Book value after risk provision**	**Risk provision**	**thereof 2006**	**Book value after risk provision**
Figures in EUR million						
Accounts receivable from policyholders	28	5	681	23	3	980
Accounts receivable from insurance intermediaries	56	12	596	44	–41	606
Accounts receivable from reinsurance business	196	36	2,481	161	5	2,867
Total	**280**	**53**	**3,758**	**228**	**–33**	**4,453**

The value adjustments on accounts receivable from insurance business that we recognize in separate adjustment accounts developed as follows in the year under review:

Development of value adjustments on accounts receivable from insurance business	2007
Figures in EUR million	
Cumulative value adjustments as at 31.12. of the previous year	228
Change in consolidated group	4
Value adjustments in the financial year	52
Write-ups	19
Release	24
Exchange-rate fluctuations	5
Other changes	–4
Cumulative value adjustments as at 31.12. of the year under review	**280**

The default risks on financial assets deriving from insurance contracts were determined on the basis of individual analyses. Any existing collateral was taken into account. The proportion of impaired receivables stood at 7 (5)%.

Specifically, the annual write-down rates were as follows:

Write-down rates	31.12.2007	31.12.2006	31.12.2005
%			
Accounts receivable from policyholders	4.0	2.3	6.3
Accounts receivable from insurance intermediaries	8.6	7.0	9.9
Accounts receivable from reinsurance business	7.3	5.3	5.0

The annual default rates were as follows:

Default rates	31.12.2007	31.12.2006	31.12.2005
%			
Accounts receivable from policyholders	2.1	3.9	9.3
Accounts receivable from insurance intermediaries	1.8	1.9	2.3
Accounts receivable from reinsurance business	0.3	0.1	0.3

Liquidity risks

The liquidity risk is the risk of not being able to meet payment obligations – especially those arising out of insurance contracts – at all times. This risk is very largely eliminated by matching the duration of investments used to cover payment obligations.

For a presentation of the major technical provisions (benefit reserve, loss and loss adjustment expense reserve, provision for premium refunds) and investments (broken down according to their expected or contractual maturities) please see the explanatory remarks on the corresponding items in the balance sheet.

Derivatives embedded in life insurance contracts that are not recognized separately

Insurance products may include the following major options on the part of the policyholder, insofar as they were agreed upon when the contract was taken out:

- Possibility of surrender and premium waiver for the contract
- Increase in insured benefit without another medical examination – usually with the actuarial bases applicable at the time with respect to biometric risks and guaranteed interest rate (index-linked adjustment, supplementary insurance guarantees in the event of certain changes in living conditions)
- Possibility of payment of the insured benefit (lump-sum option) under deferred annuities instead of pension transition

Under unit-linked products the policyholder can opt for transfer of the relevant units upon maturity of the contract instead of payment of their equivalent value.

Risks arising out of financial assets

The structure of the asset portfolios is regularly examined in order to review the strategic asset allocation. The breakdown for the Talanx Group (excluding funds held by ceding companies) as at 31 December 2007 was as follows:

Weighting of major asset classes	Parameter as per investment guidelines	Position as at 31.12.2007
%		
Asset classes		
Bonds (direct holdings and investment funds)	At least 50	80
Listed equities (direct holdings and investment funds)	At most 25	8
Real estate (direct holdings and investment funds)	At most 5	2

In accordance with the company's risk-carrying capacity and regulatory requirements, the investment goals of security, profitability, liquidity as well as mix and spread are given adequately balanced consideration under our holistic asset/liability management systems. The main opposing risks are default risks, liquidity risks and market risks.

Default risks

The risks of counterparty default requiring monitoring consist of counterparty credit risks and issuer's risks. Along with the lists of counterparties and issuers specified by the Chief Financial Officer, monitoring of the limits defined per rating category constitutes a vital precondition for investment decisions. Key indicators here are the ratings assigned by external agencies such as S&P or Moody's. New investments are restricted to investment grade securities in order to limit the credit risk.

The maximum default risk exposure on the balance sheet date, exclusive of collateral or other agreements that serve to minimize the default risk, was as follows:

2007	Cost or amortized cost		Fair value		
	Fixed-income investments and loans	Other invested assets	Fixed-income investments	Variable-yield investments	Total
Figures in EUR million					
Financial assets					
Held to maturity	1,477	—	—	—	1,477
Loans and receivables	29,243	—	—	—	29,243
Available for sale	—	—	21,257	4,620	25,877
At fair value through profit or loss	—	—	730	135	865
Trading	—	—	2	16	18
Other invested assets	1,626	—	402	1,293	3,321
Other investments					
Investment property	—	616	—	—	616
Investments in associated companies	—	152	—	—	152
Funds held by ceding companies	—	8,055	—	—	8,055
Total	**32,346**	**8,823**	**22,391**	**6,064**	**69,624**

2006	Cost or amortized cost		Fair value		
	Fixed-income investments and loans	Other invested assets	Fixed-income investments	Variable-yield investments	Total
Figures in EUR million					
Financial assets					
Held to maturity	1,571	—	—	—	1,571
Loans and receivables	25,644	—	—	—	25,644
Available for sale	—	—	21,457	4,206	25,663
At fair value through profit or loss	—	—	770	272	1,042
Trading	—	—	22	41	63
Other invested assets	1,547	—	114	1,191	2,852
Other investments					
Investment property	—	782	—	—	782
Investments in associated companies	—	148	—	—	148
Funds held by ceding companies	—	8,173	—	—	8,173
Total	**28,762**	**9,103**	**22,363**	**5,710**	**65,938**

As a general rule, the investments are not secured. The exceptions are mortgage loans secured by a charge over property. The contractual provisions envisage realization of real estate liens only in case of default on performance.

Investments are serviced regularly by the debtors. Only the mortgage loans show arrears – totaling EUR 20 (25) million. Since these receivables are adequately secured by charges over property, no value adjustment was taken. There were no investments that would have been overdue or impaired if their terms had not been renegotiated.

The fixed-income investments and loans (excluding other invested assets) are divided between the following debtor groups with the corresponding credit structure:

2007	Measured at cost or amortized cost	Measured at fair value	Measured at fair value (trading)	Total
Figures in EUR million				
EU member states	693	2,034	1	2,728
Foreign governments	344	2,084	—	2,428
Semi-governmental entities	8,726	4,043	—	12,769
Corporations	8,270	4,781	1	13,052
Mortgage bonds/asset-backed securities	10,221	3,898	—	14,119
Mortgage loans	1,668	—	—	1,668
Investment fund units (debt securities)	—	4,724	—	4,724
Other	798	423	—	1,221
Total	**30,720**	**21,987**	**2**	**52,709**

2006	Measured at cost or amortized cost	Measured at fair value	Measured at fair value (trading)	Total
Figures in EUR million				
EU member states	666	1,755	18	2,439
Foreign governments	368	2,450	—	2,818
Semi-governmental entities	7,855	4,217	—	12,072
Corporations	7,000	4,917	4	11,921
Mortgage bonds/asset-backed securities	8,783	3,536	—	12,319
Mortgage loans	1,673	—	—	1,673
Investment fund units (debt securities)	—	4,840	—	4,840
Other	870	512	—	1,382
Total	**27,215**	**22,227**	**22**	**49,464**

The ratings of the fixed-income investments were as follows:

Rating structure of fixed-income securities

Rating	Government bonds		Securities issued by semi-governmental entities		Corporate bonds		Mortgage bonds/ asset-backed securities		Other	
	%	EUR million	%	EUR million	%	EUR million	%	EUR million	%	EUR million
AAA	79	4,050	30	3,887	4	485	75	10,633	24	1,369
AA	2	127	61	7,824	46	6,012	23	3,170	21	1,195
A	12	608	8	1,018	44	5,738	1	200	10	564
BBB	5	245	1	33	5	703	—	48	35	2,040
< BBB	2	125	—	7	1	114	1	68	10	567
Total	**100**	**5,155**	**100**	**12,769**	**100**	**13,052**	**100**	**14,119**	**100**	**5,735**

At the end of the reporting period the issuers of 98 (96)% of our investments in fixed-income securities had an investment grade rating (AAA to BBB), while 92 (91)% were rated A or better. Borrower's note loans and registered debentures are assigned an internal rating on acquisition.

Loans secured by a charge over property with a total volume of EUR 1,668 (1,673) million were granted to private individuals who do not have a rating.

Liquidity risks

The liquid asset structure of our investments also ensures that at all times Talanx will have sufficient funds available to meet its payment obligations.

For a presentation of the fixed-income investments broken down by contractual maturities or expected maturities please see the notes on the corresponding asset items.

Market risks

The market risk consists primarily of the risk of changes in the market prices of fixed-income assets and equities as well as the exchange-rate risk associated with fluctuations in exchange rates if there is no matching cover. This may necessitate value adjustments or lead to the realization of losses in the event of disposal of financial assets. A decline in the interest rate level can also lead to reduced investment income.

The value at risk (VaR) is a vital tool used for managing market price risks. As part of these calculations the probability of losing a certain portion of the portfolio is determined. The calculation of this maximum loss potential is performed on the basis of a confidence level of 95% and a holding period of ten days. The VaR as at 17 December 2007 amounted to EUR 458 million, a figure less than 1% of the assets under consideration. The range of management tools is complemented by stress tests and scenario analyses.

Scenarios for changes in the fair value of assets held by the Group as at the balance sheet date

Portfolio	Scenario		Portfolio change based on fair value
Equity securities	Share prices	+20%	+EUR 779 m
	Share prices	+10%	+EUR 401 m
	Share prices	–10%	–EUR 420 m
	Share prices	–20%	–EUR 832 m
Fixed-income securities	Yield increase	+100 basis points	–EUR 2,697 m
	Yield increase	+200 basis points	–EUR 5,031 m
	Yield decrease	–100 basis points	+EUR 2,602 m
	Yield decrease	–200 basis points	+EUR 5,478 m
Exchange-rate-sensitive investments	Change in exchange rates [1)]	+10%	–EUR 1,430 m
	Change in exchange rates [1)]	–10%	+EUR 1,430 m

[1)] *Exchange-rate fluctuations of +/–10% against the euro based on balance sheet values*

Hedge accounting

In the year under review we took out interest rate swaps as part of a cash flow hedge to hedge floating-rate commitments against rising interest rates. We took out a floating-rate bank liability in an amount of EUR 550 million with a value date of 28 September 2007 so as to finance the purchase price for the interests in BHW Lebensversicherung AG and BHW Pensionskasse AG as well as the remaining 50% stakes in Postbank Lebensversicherung AG and Postbank Versicherung AG. The floating rate tracks the three-month EURIBOR. Four interest rate swaps were taken out with the same value date, also in a nominal amount of altogether EUR 550 million. We receive floating interest from this interest rate swap in the same amount as we are required to pay on the basis of the liability, and in exchange we pay fixed interest. The selection of highly rated counterparties ensures that we avoid entering into any significant additional credit risk

We adopted cash flow hedge accounting pursuant to IAS 39.86 (b) in the year under review. The interest rate swaps serve to hedge future cash flows. They are recognized at fair value under cash flow hedge accounting. The hedging relationship is fully effective. The measurement gains or losses on the interest rate swaps are therefore recognized directly in equity in a separate item (cash flow hedge reserve) after allowance for deferred taxes. The current interest payments are recognized in other income/expenses after allowance for correct allocation to applicable accounting periods, since the hedged item constitutes an instrument used for corporate financing.

Since the liability carries floating-rate interest, changes in the interest rate level do not in principle affect the fair value of the liability. The situation is different as regards the interest rate swaps: the larger the spread between the fixed interest rate payable and the floating interest rate received, the higher the fair value amount of the interest rate swaps. The liability is repayable on 31 December 2012, and the interest rate swaps mature on the same date. Upon maturity the interest rate swaps have a fair value of EUR 0. All fluctuations in fair value are thus neutralized over the term of the swaps.

The fair value (dirty value) of the four interest rate swaps amounted to altogether –EUR 6.4 million as at the balance sheet date; it was influenced primarily by accrued interest of –EUR 6.5 million. The fair values of the individual interest rate swaps were as follows:

Counterparty	**31.12.2007**
Figures in EUR million	
LB Baden-Württemberg	–1.7
DZ Bank	–1.8
Calyon	–1.7
Morgan Stanley	–1.2
	–6.4

The fair value was calculated in the SimCorp Dimension investment management system used by AmpegaGerling Asset Management GmbH on the basis of the discounted cash flow method.

In 2007 the change in the fair value of the interest rate swaps since inception amounting to EUR 85,000 was booked directly in equity with no effect on income. In the first year this involves the fair value as at the balance sheet date exclusive of accrued interest.

The first date after the balance sheet date on which payments were received from the hedge transaction was 28 March 2008; both the floating and the fixed interest payments were due on that date.

Notes on the consolidated balance sheet – assets

(1) Goodwill

	2007	2006 [1]
Figures in EUR million		
Gross book value at 31.12. of the previous year	**423**	**292**
Adjustment for transition to common control	—	–11
Adjusted gross book value at 31.12. of the previous year	423	281
Currency translation at 01.01. of the year under review	9	–7
Gross book value after currency translation at 01.01. of the year under review	432	274
Change in consolidated group	306	150
Additions	—	6
Disposals	49	1
Disposal group pursuant to IFRS 5	—	–7
Currency exchange rate differences	—	1
Gross book value at 31.12. of the year under review	**689**	**423**
Accumulated depreciation and accumulated impairment losses at 31.12. of the previous year	2	2
Currency translation at 01.01. of the year under review	—	—
Accumulated depreciation and accumulated impairment losses after currency translation at 01.01. of the year under review	2	2
Impairments	50	—
Accumulated deprecation and accumulated impairment losses at 31.12. of the year under review	**52**	**2**
Balance at 31.12. of the previous year	421	279
Balance at 31.12. of the year under review	**637**	**421**

[1] *Adjusted on the basis of IAS 8*

In the year under review an impairment of EUR 50 million was taken on the goodwill allocated to the cash generating unit (CGU) "Neue Leben Group". The European Embedded Value (EEV) as at 31 December 2006 for Neue Leben Lebensversicherung was calculated in June 2007. The indicative fair value of Neue Leben Lebensversicherung calculated on this basis with the aid of a multiplier produced a fair value for the CGU that was lower than the corresponding book value by the amount of the impairment. The allocated goodwill originally amounting to EUR 83 million was written down by the specified amount, as a result of which the book value of the CGU as at 31 December 2007 corresponded to its fair value. The CGU "Neue Leben Group" is recognized in the Life Primary Insurance segment.

Goodwill of altogether EUR 306 million materialized within the scope of the increase in the interests held by the Group in the PB insurers to 100% (see section entitled "Business combinations in the reporting period") and the acquisition of 100% stakes in BHW Lebensversicherung AG and BHW Pensionskasse AG. The acquired units are allocated to the CGU "Bancassurance" in the Life Primary Insurance segment.

Figures in EUR million	Property/ Casualty Primary Insurance	Life Primary Insurance	Non-Life Reinsurance	Group function	Total
Balance at 31.12.2005	**101**	**115**	**74**	—	**290**
Adjustment for transition to common control [1)]	—	—	–11	—	–11
Adjusted balance at 31.12.2005	101	115	63	—	279
Currency translation at 01.01.2006	–1	—	–6	—	–7
Balance after currency translation at 01.01.2006	100	115	57	—	272
Change in consolidated group	102	46	2	—	150
Additions	—	—	3	3	6
Disposals	—	—	1	—	1
Disposal group pursuant to IFRS 5	—	—	–7	—	–7
Currency exchange rate differences	1	—	—	—	1
Balance at 31.12.2006	**203**	**161**	**54**	**3**	**421**
Currency translation at 01.01.2007	9	—	—	—	9
Balance after currency translation at 01.01.2007	212	161	54	3	430
Change in consolidated group	—	306	—	—	306
Disposals	—	2	47	—	49
Impairments	—	50	—	—	50
Balance at 31.12.2007	**212**	**415**	**7**	**3**	**637**

[1)] *Adjusted on the basis of IAS 8*

(2) Other intangible assets

	Insurance-related intangible assets	Software Purchased	Software Created	Other	2007	2006
Figures in EUR million						
Gross book value at 31.12. of the previous year	**2,310**	**230**	**50**	**53**	**2,643**	**583**
Currency translation at 01.01. of the year under review	—	—	—	—	—	—
Gross book value after currency translation at 01.01. of the year under review	2,310	230	50	53	2,643	583
Change in consolidated group	498	6	—	2	506	2,031
Additions	—	49	12	25	85	49
Disposals	—	30	6	7	43	18
Reclassification	46	—	—	–46	—	—
Currency exchange rate differences	—	—	—	–1	–1	–2
Gross book value at 31.12. of the year under review	**2,854**	**254**	**56**	**26**	**3,190**	**2,643**
Accumulated depreciation and accumulated impairment losses at 31.12. of the previous year	289	140	18	8	455	223
Currency translation at 01.01. of the year under review	—	—	—	—	—	—
Accumulated depreciation and accumulated impairment losses after currency translation at 01.01. of the year under review	289	140	18	8	455	223
Change in consolidated group	—	—	—	—	—	1
Disposals	1	2	—	–1	2	2
Depreciation						
Scheduled	203	28	3	5	239	179
Unscheduled	8	—	—	—	8	54
Reclassification	–7	—	—	7	—	—
Accumulated depreciation and accumulated impairment losses at 31.12. of the year under review	**494**	**166**	**21**	**19**	**700**	**455**
Balance at 31.12. of the previous year	2,021	90	32	45	2,188	360
Balance at 31.12. of the year under review	**2,360**	**88**	**35**	**7**	**2,490**	**2,188**

Present values of future profits (PVFPs) were determined in the context of the increase in the Group's interest in PB Lebensversicherung AG to 100% (previously: 50%) and the associated transition to full consolidation as well as the acquisition of all the shares in BHW Lebensversicherung AG.

The PVFP of PB Lebensversicherung AG, which was completed remeasured, constitutes the value of all the company's new business at the time of acquisition (including the 50% stake already owned by the Group before the increase). The total amount of the PVFP as at the balance sheet date stood at EUR 85 million, of which EUR 59 million was allocated to the shareholders' portion and EUR 26 million to the policyholders' portion.

A PVFP was also established for BHW Lebensversicherung, the amount of which totaled EUR 381 million as at the balance sheet date. The shareholders' portion accounted for EUR 186 million, while EUR 195 million was attributable to policyholders.

The deferred tax liabilities in connection with the PVFPs were carried separately in each case.

PVFPs for the PB and BHW companies	01.10.2007	31.12.2007
Figures in EUR million		
Shareholders' portion [1)]	251	245
Policyholders' portion	224	221
Balance	**475**	**466**

[1)] *Deferred taxes were attributable to the shareholders' portion of BHW Lebensversicherung AG in an amount of EUR 51 (52) million as at the balance sheet date (1 October 2007) and to that of PB Lebensversicherung AG in an amount of EUR 19 (19) million as at the balance sheet date (1 October 2007)*

PVFPs were also established for BHW Pensionskasse AG and PB Versicherung AG. These amounted to EUR 7 million and EUR 14 million respectively as at the balance sheet date.

(3) Investment property

	2007	2006
Figures in EUR million		
Gross book value at 31.12. of the previous year	**1,069**	**526**
Currency translation at 01.01. of the year under review	—	—
Gross book value after currency translation at 01.01. of the year under review	1,069	526
Change in consolidated group	—	1,063
Additions	17	20
Disposals [1]	395	173
Disposal groups pursuant to IFRS 5 [1]	361	–361
Reclassification	–124	—
Currency exchange rate differences	–1	–6
Gross book value at 31.12. of the year under review	**927**	**1,069**
Accumulated depreciation and accumulated impairment losses at 31.12. of the previous year	287	148
Currency translation at 01.01. of the year under review	—	—
Accumulated depreciation and accumulated impairment losses after currency translation at 01.01. of the year under review	287	148
Change in consolidated group	—	–16
Disposals [1]	6	–131
Write-ups	—	2
Depreciation		
Scheduled	19	20
Unscheduled	—	10
Disposal groups pursuant to IFRS 5 [1]	3	–3
Reclassification	8	—
Currency exchange rate differences	—	–1
Accumulated depreciation and accumulated impairment losses at 31.12. of the year under review	**311**	**287**
Balance at 31.12. of the previous year	782	378
Balance at 31.12. of the year under review	**616**	**782**

[1] *Regarding the presentation of the sale of partial portfolios recognized as assets and liabilities of a disposal group classified as held for sale as at 31 December of the previous year, please see our remarks in the section entitled "Summary of major accounting policies".*

The fair value of investment property amounted to EUR 660 (809) million as at the balance sheet date.

(4) Investments in affiliated companies and participating interests

	2007	2006
Figures in EUR million		
Affiliated companies	2	4
Participating interests	57	62
Balance at 31.12. of the year under review	**59**	**66**

(5) Investments in associated companies

	2007	2006
Figures in EUR million		
Balance at 31.12. of the previous year	**148**	**146**
Change in consolidated group	—	4
Additions	—	1
Disposals	—	2
Amortization	1	—
Adjustment recognized in income	4	3
Adjustment recognized outside income	1	–3
Currency exchange rate differences	—	–1
Balance at 31.12. of the year under review	**152**	**148**

The investments in associated companies include goodwill of EUR 24 million, an amount that was unchanged from the previous year.

(6) Loans and receivables

	Cost or amortized cost		Unrealized gains/losses		Fair value	
	31.12.2007	31.12.2006	31.12.2007	31.12.2006	31.12.2007	31.12.2006
Figures in EUR million						
Mortgage loans	1,668	1,673	–38	–16	1,630	1,657
Loans and prepayments on insurance policies	209	213	—	—	209	213
Loans and receivables due from governmental or semi-governmental entities	8,885	7,973	–421	–111	8,464	7,862
Corporate securities	7,913	6,607	–254	–113	7,659	6,494
Mortgage bonds, asset-backed securities	9,979	8,522	–502	–102	9,477	8,420
Participation rights	588	655	–41	–11	547	644
Other	1	1	—	—	1	1
Total	**29,243**	**25,644**	**–1,256**	**–353**	**27,987**	**25,291**

Changes	**2007**	**2006**
Figures in EUR million		
Balance at 31.12. of the previous year	**25,644**	**8,450**
Change in consolidated group	699	14,242
Additions	4,697	4,702
Disposals	1,853	2,055
Amortization	23	44
Value adjustments	18	2
Changes in accrued interest	66	106
Other changes	11	170
Currency exchange rate differences	–26	–13
Balance at 31.12. of the year under review	**29,243**	**25,644**

	Cost or amortized cost		Fair value	
Contractual maturity	**31.12.2007**	**31.12.2006**	**31.12.2007**	**31.12.2006**
Figures in EUR million				
Due in one year	1,238	1,397	1,212	1,392
Due after one through two years	1,609	1,109	1,593	1,103
Due after two through three years	2,312	1,943	2,211	1,911
Due after three through four years	1,177	2,471	1,151	2,413
Due after four through five years	1,468	1,336	1,435	1,329
Due after five through ten years	11,248	10,335	10,785	10,197
Due after ten years	10,191	7,053	9,600	6,946
Total	**29,243**	**25,644**	**27,987**	**25,291**

(7) Financial assets held to maturity

	Cost or amortized cost		Unrealized gains/losses		Fair value	
	31.12.2007	**31.12.2006**	**31.12.2007**	**31.12.2006**	**31.12.2007**	**31.12.2006**
Figures in EUR million						
Government debt securities of EU member states	98	84	–1	–1	97	83
US Treasury Notes	325	361	21	4	346	365
Other foreign government debt securities	19	7	—	—	19	7
Debt securities issued by semi-governmental entities	436	464	7	7	443	471
Corporate securities	357	394	–14	–3	343	391
Mortgage bonds, asset-backed securities	242	261	–10	–3	232	258
Total	**1,477**	**1,571**	**3**	**4**	**1,480**	**1,575**

Changes	2007	2006
Figures in EUR million		
Balance at 31.12. of the previous year	**1,571**	**395**
Change in consolidated group	—	1,221
Additions	40	48
Disposals	67	52
Amortization	6	5
Changes in accrued interest	–3	16
Currency exchange rate differences	–70	–62
Balance at 31.12. of the year under review	**1,477**	**1,571**

	Cost or amortized cost		Fair value	
Contractual maturity	31.12.2007	31.12.2006	31.12.2007	31.12.2006
Figures in EUR million				
Due in one year	127	67	124	67
Due after one through two years	5	118	5	116
Due after two through three years	30	—	29	—
Due after three through four years	194	22	196	22
Due after four through five years	256	203	260	204
Due after five through ten years	824	1,135	825	1,139
Due after ten years	41	26	41	27
Total	**1,477**	**1,571**	**1,480**	**1,575**

	Cost or amortized cost	
Rating structure	31.12.2007	31.12.2006
Figures in EUR million		
AAA	709	752
AA	324	351
A	359	397
BBB or lower	85	71
Total	**1,477**	**1,571**

The rating categories are based on the classifications of leading international rating agencies.

(8) Financial assets available for sale

	Cost or amortized cost		Unrealized gains/losses		Fair value	
	31.12.2007	31.12.2006	31.12.2007	31.12.2006	31.12.2007	31.12.2006
Figures in EUR million						
Fixed-income securities						
Government debt securities of EU member states	2,036	1,763	–7	–8	2,029	1,755
US Treasury Notes	1,560	2,043	46	–23	1,606	2,020
Other foreign government debt securities	408	372	—	–1	408	371
Debt securities issued by semi-governmental entities	3,938	4,153	–5	–54	3,933	4,099
Corporate securities	4,656	4,711	–121	–50	4,535	4,661
Investment funds	4,786	4,831	–125	–41	4,661	4,790
Other securities	4,165	3,780	–80	–19	4,085	3,761
Total fixed-income securities	**21,549**	**21,653**	**–292**	**–196**	**21,257**	**21,457**
Variable-yield securities						
Equities	925	654	76	101	1,001	755
Investment funds	3,264	3,109	334	321	3,598	3,430
Other securities	21	21	—	—	21	21
Total variable-yield securities	**4,210**	**3,784**	**410**	**422**	**4,620**	**4,206**
Total securities	**25,759**	**25,437**	**118**	**226**	**25,877**	**25,663**

Changes	**2007**	**2006**
Figures in EUR million		
Balance at 31.12. of the previous year	**25,663**	**20,364**
Change in consolidated group [1)]	–610	6,220
Additions	12,092	15,677
Disposals	10,783	13,587
Amortization	32	7
Value adjustments	166	21
Changes in accrued interest	4	58
Change in unrealized gains/losses	–131	–124
Other changes	–90	–1,312
Disposal group pursuant to IFRS 5 [1)]	718	–753
Currency exchange rate differences	–852	–866
Balance at 31.12. of the year under review	**25,877**	**25,663**

[1)] *Regarding the presentation of the sale of partial portfolios recognized as assets and liabilities of a disposal group classified as held for sale as at 31 December of the previous year, please see our remarks in the section entitled "Summary of major accounting policies".*

Contractual maturity of fixed-income securities	Fair value 31.12.2007	Fair value 31.12.2006	Cost or amortized cost 31.12.2007	Cost or amortized cost 31.12.2006
Figures in EUR million				
Due in one year	3,212	2,541	3,269	2,557
Due after one through two years	2,000	2,388	2,009	2,396
Due after two through three years	1,737	2,306	1,749	2,350
Due after three through four years	1,683	2,185	1,682	2,196
Due after four through five years	1,833	1,987	1,852	2,006
Due after five through ten years	5,241	6,535	5,316	6,620
Due after ten years	5,551	3,515	5,672	3,528
Total	**21,257**	**21,457**	**21,549**	**21,653**

Rating structure of fixed-income securities	Fair value 31.12.2007	Fair value 31.12.2006
Figures in EUR million		
AAA	9,353	10,329
AA	4,309	5,073
A	3,013	3,630
BBB or lower	4,582	2,425
Total	**21,257**	**21,457**

The rating categories are based on the classifications of leading international rating agencies.

(9) Financial assets at fair value through profit or loss

	Fair value	
	31.12.2007	31.12.2006 1)
Figures in EUR million		
Fixed-income securities		
Government debt securities of EU member states	4	—
Other foreign government debt securities	70	59
Debt securities issued by semi-governmental entities	110	118
Corporate securities	247	256
Mortgage bonds, asset-backed securities	199	222
Investment funds	63	50
Other securities	37	65
Total fixed-income securities	**730**	**770**
Variable-yield securities		
Investment funds	102	249
Other securities	12	—
Total variable-yield securities	**114**	**249**
Derivatives	**21**	**23**
Total securities	**865**	**1,042**

1) *Adjusted on the basis of IAS 8*

Changes	**2007**	**2006 1)**
Figures in EUR million		
Balance at 31.12. of the previous year	**1,042**	**801**
Change in consolidated group	884	199
Additions	150	233
Disposals	1,247	145
Amortization	20	17
Changes in accrued interest	–1	1
Change in unrealized gains/losses	–19	–24
Other changes	38	–27
Currency exchange rate differences	–2	–13
Balance at 31.12. of the year under review	**865**	**1,042**

1) *Adjusted on the basis of IAS 8*

Contractual maturity of fixed-income securities	Fair value 31.12.2007	Fair value 31.12.2006
Figures in EUR million		
Due in one year	117	191
Due after one through two years	51	22
Due after two through three years	42	5
Due after three through four years	238	16
Due after four through five years	42	255
Due after five through ten years	69	111
Due after ten years	171	170
Total	**730**	**770**

Rating structure of fixed-income securities	Fair value 31.12.2007	Fair value 31.12.2006
Figures in EUR million		
AAA	248	200
AA	234	196
A	121	110
BBB or lower	127	264
Total	**730**	**770**

The rating categories are based on the classifications of leading international rating agencies.

(10) Financial assets held for trading

	Fair value 31.12.2007	Fair value 31.12.2006 [1)]
Figures in EUR million		
Fixed-income securities		
Government debt securities of EU member states	2	18
Corporate securities	—	4
Total fixed-income securities	**2**	**22**
Variable-yield securities		
Investment funds	9	7
Total variable-yield securities	**9**	**7**
Derivatives	**7**	**34**
Total securities	**18**	**63**

[1)] *Adjusted on the basis of IAS 8*

Changes	**2007**	**2006 [1]**
Figures in EUR million		
Balance at 31.12. of the previous year	**63**	**3**
Change in consolidated group	—	23
Additions	**6**	**29**
Disposals	2	26
Changes in accrued interest	–1	—
Change in unrealized gains/losses	–25	—
Other changes	–24	34
Currency exchange rate differences	1	—
Balance at 31.12. of the year under review	**18**	**63**

[1] *Adjusted on the basis of IAS 8*

	Fair value	
Contractual maturity of fixed-income securities	**31.12.2007**	**31.12.2006**
Figures in EUR million		
Due in one year	1	7
Due after one through two years	—	2
Due after four through five years	1	13
Total	**2**	**22**

	Fair value	
Rating structure of fixed-income securities	**31.12.2007**	**31.12.2006**
Figures in EUR million		
AA	—	1
A	1	18
BBB or lower	1	3
Total	**2**	**22**

The rating categories are based on the classifications of leading international rating agencies.

(11) Other invested assets

The other invested assets comprise short-term deposits at banks in the amount of EUR 1,509 (1,306) million.

(12) Derivative financial instruments and structured products

Derivatives

Derivative financial instruments are financial products, the fair value of which is derived from an underlying such as equities, bonds, indices or foreign exchange. They have the character of a forward deal based on a unilateral or bilateral legal transaction (option feature). Settlement takes place through delivery of the underlying or cash settlement.

Derivatives and structured products containing elements that fall within the above definition are used in accordance with Circulars R 3/99, R 3/00 and R 1/02 of the Federal Financial Supervisory Authority (BaFin). In addition, the standards set out in the Group's internal investment guidelines are strictly observed and first-class counterparties are always selected. Derivatives are used to hedge against interest rate and market price risks and to a limited extent also to optimize returns or realize intentions to buy/sell.

The securities-related derivatives open at the balance sheet date are summarized in the following table:

Derivatives as at 31.12.2007	Held by	Maturity in years	Open volume
Figures in EUR million			
Positions (held for trading):			
Equity and index risks:			
Option DAX Put 7150 (EUR Long Put)	E+S AG [1)]	Up to 1 year	–5
Option EURO STOXX 50 Put 4050	E+S AG	Up to 1 year	–20
Capped Put Option DJ EURO STOXX 50	HG-LV [2)]	Up to 1 year	719
Interest rate risks:			
Receiver Swaptions	HG-LV	1 to 15 years	810

[1)] *E+S Rückversicherung AG*
[2)] *HDI-Gerling Lebensversicherung AG*

In the year under review the positions still open at the balance sheet date produced a profit of EUR 20 million; the positions closed in the year under review gave rise to a loss of EUR 4 million recognized in earnings.

In addition, technical derivatives of EUR 21 million that were separated from the underlying transaction (insurance contract) and measured at fair value were reported as at the balance sheet date in the category of financial assets at fair value through profit or loss.

Structured products

As at 31 December 2007 Group companies held structured products with a total book value of EUR 4.9 (5.1) billion. Structured products are allocated to the asset classes of loans and receivables, financial assets available for sale or financial assets at fair value through profit or loss. In accordance with this categorization, the book values are based either on amortized costs (loans and receivables) or on fair values. Further details are provided in the accounting policies.

Within the Talanx Group financial instruments – i.e. structured products – composed of a host contract and one of more derivative financial instruments (embedded derivatives) that require separation of the derivative component(s) from the underlying are recognized as financial assets at fair value through profit or loss in accordance with IAS 39.11A (fair value option on structured products), insofar as the embedded derivatives form an integral component of the contract that cannot be dealt with separately and separate measurement of the derivatives would not be reliable.

(13) Accounts receivable on insurance business

	31.12.2007	31.12.2006
Figures in EUR million		
Accounts receivable on direct written insurance business	1,277	1,586
thereof:		
from policyholders	681	980
from insurance intermediaries	596	606
Accounts receivable on reinsurance business	2,481	2,867
Total	**3,758**	**4,453**

(14) Deferred acquisition costs

	2007			2006 [1]		
	Gross business	Reinsurance recover-ables	Net business	Gross business	Reinsurance recover-ables	Net business
Figures in EUR million						
Balance at 31.12. of the previous year	**3,779**	**611**	**3,168**	**3,367**	**602**	**2,765**
Change in consolidated group [2]	–17	87	–104	—	—	—
Portfolio entries/withdrawals	–10	—	–10	–4	–4	—
Newly capitalized acquisition costs	881	64	817	1,209	127	1,082
Amortized acquisition costs	771	173	598	542	118	425
Disposal group pursuant to IFRS 5 [2]	97	—	97	–97	—	–97
Currency adjustments	–96	–5	–91	–66	–4	–62
Other changes	–5	–4	–1	–88	7	–95
Balance at 31.12. of the year under review	**3,858**	**579**	**3,278**	**3,779**	**611**	**3,168**

[1] *Adjusted on the basis of IAS 8*
[2] *Regarding the presentation of the sale of partial portfolios recognized as assets and liabilities of a disposal group classified as held for sale as at 31 December of the previous year, please see our remarks in the section entitled "Summary of major accounting policies".*

(15) Other assets

	31.12.2007	31.12.2006
Figures in EUR million		
Own-use real estate	577	466
Tax refund claims	145	178
Plant and equipment	116	124
Interest and rent due	25	20
Sundry assets	587	955
Total	**1,450**	**1,743**

Development of own-use real estate	**2007**	**2006**
Figures in EUR million		
Gross book value at 31.12. of the previous year	**597**	**423**
Currency translation at 01.01. of the year under review	—	—
Gross book value after currency translation at 01.01. of the year under review	597	423
Change in consolidated group	2	334
Additions	34	9
Disposals	5	169
Reclassification	126	—
Gross book value at 31.12. of the year under review	**754**	**597**
Accumulated depreciation and accumulated impairment losses at 31.12. of the previous year	**131**	**97**
Currency translation at 01.01. of the year under review	—	—
Accumulated depreciation and accumulated impairment losses after currency translation at 01.01. of the year under review	131	97
Disposals	—	–13
Depreciation		
Scheduled	41	16
Unscheduled	—	5
Reclassification	5	—
Accumulated depreciation and accumulated impairment losses at 31.12. of the year under review	**177**	**131**
Balance at 31.12. of the previous year	466	326
Balance at 31.12. of the year under review	**577**	**466**

The fair value of the own-use real estate amounted to EUR 630 (511) million as at the balance sheet date. The methods used to determine fair values are set out in the accounting policies.

Development of plant and equipment	**2007**	**2006**
Figures in EUR million		
Gross book value at 31.12. of the previous year	**316**	**262**
Currency translation at 01.01. of the year under review	—	—
Gross book value after currency translation at 01.01. of the year under review	316	262
Change in consolidated group	–6	42
Additions	70	71
Disposals	44	52
Reclassification	3	–4
Currency exchange rate differences	–4	–1
Gross book value at 31.12. of the year under review	**335**	**316**
Accumulated depreciation and accumulated impairment losses at 31.12. of the previous year	**192**	**163**
Currency translation at 01.01. of the year under review	—	—
Accumulated depreciation and accumulated impairment losses after currency translation at 01.01. of the year under review	192	163
Change in consolidated group	–3	10
Disposals	13	20
Depreciation		
Scheduled	43	41
Unscheduled	3	—
Reclassification	—	–1
Currency exchange rate differences	–3	–1
Accumulated depreciation and accumulated impairment losses at 31.12. of the year under review	**219**	**192**
Balance at 31.12. of the previous year	124	99
Balance at 31.12. of the year under review	**116**	**124**

Other assets	**31.12.2007**	**31.12.2006**
Figures in EUR million		
Trade accounts receivable	142	158
Receivables relating to investments	64	54
Receivables from non-group lead business	53	81
Other tangible assets	49	34
Claims under insurance for pension commitments	41	37
Prepaid insurance benefits	36	35
Surrender values	33	32
Prepaid expenses	26	23
Receivables from property sales	1	316
Sundry assets	142	185
Total	**587**	**955**

Notes on the consolidated balance sheet – liabilities

(16) Shareholders' equity

Shareholders' equity is shown as a separate component of the consolidated financial statement in accordance with IAS 1 "Presentation of Financial Statements" and IAS 32 "Financial Instruments: Disclosure and Presentation" in conjunction with IAS 39 "Financial Instruments: Recognition and Measurement". The change in shareholders' equity comprises not only the net income deriving from the statement of income but also the changes in the value of asset and liability items not recognized in the statement of income.

The share capital of Talanx AG remains unchanged at EUR 260 million and is divided into 260,000 registered no-par shares. The share capital is fully paid up.

Minority interests are established in accordance with the shares held by companies outside the Group in the shareholders' equity of the subsidiaries.

The equity-affecting changes in the available-for-sale portfolio before allowance for policyholders, minority interests and deferred taxes were as follows.

	2007	2006
Figures in EUR million		
Allocation of gains (+)/losses (–) from the fair value measurement of the available-for-sale portfolio	7	67
Transfer of gains (–)/losses (+) from the fair value measurement of the available-for-sale portfolio to the result for the reporting period	–77	–7
Total	**–70**	**60**

Minority interests	2007	2006
Figures in EUR million		
Unrealized gains and losses from investments	140	116
Minority interest in net profit	522	333
Other shareholder's equity	1,717	1,538
Total	**2,379**	**1,987**

Changes in shareholders' equity and minority interests

The amended version of IAS 1 "Presentation of Financial Statements" requires detailed disclosures in the Notes that enable the readers of the financial statements to understand the objectives, methods and processes of capital management and provide supplementary information on changes in shareholders' equity. The revised standard is mandatory for financial years beginning on or after 1 January 2007.

In this context please see the following remarks as well as the information contained in the management report regarding capital and performance management as well as value-based management.

Capital management

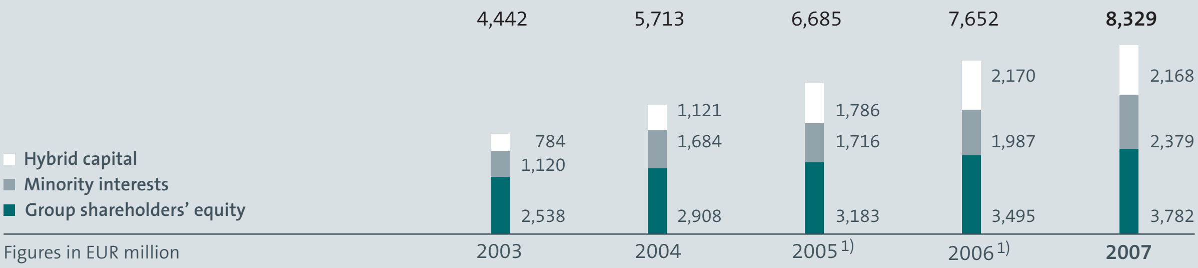
The preservation and consistent strengthening of its equity base is a key strategic objective for the Talanx Group. As part of its approach to capital management the Talanx Group considers the policyholders' surplus over and above the shareholders' equity reported in the balance sheet.

The policyholders' surplus is defined as the sum total of

- shareholders' equity excluding minority interests, composed of the common shares, additional paid-in capital, other comprehensive income and retained earnings,
- minority interests and
- hybrid capital used as an equity substitute, which encompasses our subordinated liabilities.

The policyholders' surplus totaled EUR 8.3 billion (7.7) billion as at the balance sheet date.

The chart below illustrates the growth of the policyholders' surplus over the last five reporting years.



[1] *Adjusted on the basis of IAS 8*

The Talanx Group uses "Intrinsic Value Creation" (IVC) as its central value-based management tool for measuring the value created by our Group companies and segments. This concept as well as the objectives and principles in accordance with which we conduct our enterprise management and capital management is described in our remarks on capital and performance management and on value-based management in the section of this report entitled "Financial position and assets".

The Talanx Group satisfies the capital expectations of the rating agencies that assess the Group's financial strength. Some Group companies are subject to additional national capital and solvency requirements. All Group companies met the applicable local minimum capital requirements in the year under review.

Within the scope of Group-wide capital management Talanx AG monitors the capital resources of its subsidiaries with the utmost diligence.

(17) Subordinated liabilities

In order to optimize the Group's capital structure and hence its cost of capital and to safeguard the liquidity (solvency) required (by regulators), Group companies have in the past taken out long-term liabilities that predominantly take the form of subordinated debt and are in some cases exchange-listed.

Specifically, the long-term subordinated debt is comprised of the following financial instruments:

		Book value	
		31.12.2007	31.12.2006
Figures in EUR million			
Hannover Finance Inc.	USD 20 million, floating rate, 1999/2029	14	15
The debt was originally issued in an amount of USD 400 million. Group companies bought back portions in 2004 and 2005 totaling USD 380 million. The debt may be redeemed by the issuer no earlier than 2009			
Hannover Finance (Luxembourg) S.A.	EUR 750 million, floating rate, 2004/2024	746	746
The subordinated debt was placed on the European capital market. It may be redeemed in 2014 at the earliest and at each coupon date thereafter			
Hannover Finance (Luxembourg) S.A.	EUR 500 million, 5%, 2005/no final maturity	476	473
Part of the volume of the subordinated debt was offered to the holders of the debt issued in 2001 by way of exchange. It may be called by the issuer on 1.6.2015 at the earliest			
Hannover Rückversicherung AG	EUR 138 million, 6.25%, 2001/2031	138	138
The debt was originally issued in an amount of EUR 350 million. The holders of this debt were offered the opportunity to exchange into the new debt issued in 2005. Nominal participation in the exchange was EUR 212 million. The debt may be called by the issuer in 2011 at the earliest			
HDI-Gerling Industrie Versicherung AG	EUR 250 million, floating rate, 2004/2024	276	279
The subordinated Eurobond issue may be called by the issuer in 2014 at the earliest			
HDI-Gerling Lebensversicherungs AG	EUR 160 million, 6.75%, 2005/no final maturity	170	171
The subordinated debt is listed on the Luxembourg Stock Exchange. It may be called by the issuer in 2015 at the earliest			
Talanx Finanz	EUR 350 million, 4.5%, 2005/2025	348	348
The subordinated debt is listed on the Luxembourg Stock Exchange			
Total		**2,168**	**2,170**

Praetorian Financial Group Inc., Wilmington (USA), which was classified as a disposal group pursuant to IFRS 5 in the previous year and sold effective 31 May 2007, had issued "Trust Preferred Securities" in 2005 in an amount of USD 80 million with a term of 30 years and a floating rate coupon. These "Trust Preferred Securities" were placed with institutional investors; they were retired from the Group as part of the aforementioned disposal.

The fair value of the subordinated liabilities (excluded deferred interest) amounted to EUR 2.2 (2.3) billion. The unrealized gains totaled EUR 2 million (previous year: losses of EUR 93 million).

The fair value of the extended subordinated loans is based on quoted, active market prices. If such price information was not available, fair value was determined on the basis of the recognized effective interest rate method or estimated using other financial assets with similar rating, duration and return characteristics. Under the effective interest rate method the current market interest rate levels in the relevant fixed-interest-rate periods are always taken as a basis.

The net result from subordinated liabilities in the year under review consisted of ordinary expenses in an amount of EUR 120 (115) million and income from amortization totaling EUR 1 (0) million.

Unearned premium reserve

2007	Ten to twenty years	More than twenty years	No maturity
Figures in EUR million			
	1,370	152	646

2006	Ten to twenty years	More than twenty years	No maturity
Figures in EUR million			
	1,373	153	644

(18) Unearned premium reserve

	2007			2006		
	Gross	Retro	Net	Gross	Retro	Net
Figures in EUR million						
Balance at 31.12. of the previous year	**5,092**	**516**	**4,576**	**4,162**	**624**	**3,538**
Change in the consolidated group[1)]	–172	121	–293	1,491	261	1,230
Portfolio entries/withdrawals	–1	—	–1	4	2	2
Allocations	1,193	135	1,058	874	–94	968
Releases	1,494	329	1,165	1,027	145	882
Other changes	–6	—	–6	–1	—	–1
Currency exchange rate differences	–103	–12	–91	–165	–26	–139
Disposal group pursuant to IFRS 5[1)]	246	106	140	–246	–106	–140
Balance at 31.12. of the year under review	**4,755**	**537**	**4,218**	**5,092**	**516**	**4,576**

[1)] *Regarding the presentation of the sale of partial portfolios recognized as assets and liabilities of a disposal group classified as held for sale as at 31 December of the previous year, please see our remarks in the section entitled "Summary of major accounting policies".*

(19) Benefit reserve

	2007			2006		
	Gross	Retro	Net	Gross	Retro	Net
Figures in EUR million						
Balance at 31.12. of the previous year	**33,319**	**1,333**	**31,986**	**13,743**	**199**	**13,544**
Change in the consolidated group	2,227	3	2,224	17,952	808	17,144
Portfolio entries/withdrawals	–514	–233	–281	–39	201	–240
Allocations	2,798	2	2,796	3,396	–308	3,704
Releases	1,497	–1	1,498	1,640	–442	2,082
Other changes	1	—	1	23	–5	28
Currency exchange rate differences	–347	–3	–344	–116	–4	–112
Balance at 31.12. of the year under review	**35,987**	**1,103**	**34,884**	**33,319**	**1,333**	**31,986**

	2007			2006		
Durations of the reserves	Gross	Retro	Net	Gross	Retro	Net
Figures in EUR million						
Less than one year	1,465	31	1,434	2,515	87	2,428
Between one and five years	9,459	268	9,191	8,248	270	7,978
Between five and ten years	8,304	269	8,035	7,518	243	7,275
Between ten and twenty years	7,795	238	7,557	7,314	246	7,068
After more than twenty years	5,002	98	4,904	3,760	79	3,681
Deposits	3,962	199	3,763	3,964	408	3,556
Total	**35,987**	**1,103**	**34,884**	**33,319**	**1,333**	**31,986**

(20) Loss and loss adjustment expense reserve (loss reserve)

	2007			2006		
	Gross	Retro	Net	Gross	Retro	Net
Figures in EUR million						
Balance at 31.12. of the previous year	**26,682**	**5,384**	**21,298**	**24,510**	**5,936**	**18,574**
Change in consolidated group [1)]	–249	162	–411	5,048	1,839	3,209
Portfolio entries/withdrawals	148	—	148	36	3	33
Plus incurred claims and claims expenses (net)						
Year under review	10,011	1,557	8,454	9,918	1,645	8,273
Previous years	2,775	1,124	1,651	1,279	–448	1,727
Total	12,786	2,681	10,105	11,197	1,197	10,000
Less claims and claims expenses paid (net)						
Year under review	5,131	621	4,510	5,797	696	5,102
Previous years	6,831	1,871	4,960	6,240	2,218	4,022
Total	11,962	2,492	9,470	12,037	2,914	9,124
Other changes	2	26	–24	—	—	—
Currency exchange rate differences	–1,335	–359	–978	–1,493	–409	–1,084
Disposal group pursuant to IFRS 5 [1)]	579	269	310	–579	–269	–310
Balance at 31.12. of the year under review	**26,651**	**5,671**	**20,980**	**26,682**	**5,384**	**21,298**

[1)] *Regarding the presentation of the sale of partial portfolios recognized as assets and liabilities of a disposal group classified as held for sale as at 31 December of the previous year, please see our remarks in the section entitled "Summary of major accounting policies".*

The carrying value of the reinsurance recoverables in the loss reserves in an amount of EUR 5.7 billion includes specific bad debt provisions of EUR 54 million. The total amount of the net reserves was EUR 21 billion. The following breakdown of the durations refers to this amount.

	2007			2006		
Durations of the reserves	Gross	Retro	Net	Gross	Retro	Net
Figures in EUR million						
Less than one year	7,811	1,896	5,915	7,987	1,737	6,251
Between one and five years	10,395	2,180	8,215	10,374	2,113	8,259
Between five and ten years	3,496	750	2,746	3,465	682	2,783
Between ten and twenty years	2,638	575	2,063	2,406	432	1,974
After more than twenty years	1,606	116	1,490	1,663	183	1,480
Deposits	705	154	551	788	237	551
Total	**26,651**	**5,671**	**20,980**	**26,682**	**5,384**	**21,298**

Gross loss reserve and its run-off	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Figures in EUR million										
Loss and loss adjustment expense reserve	9,347	14,915	17,162	24,139	19,201	18,850	17,551	20,895	25,563	24,568
Cumulative payments for the year in question and previous years										
One year later	3,101	3,971	4,347	3,844	4,142	4,828	6,300	6,580	5,222	
Two years later	4,824	6,037	6,107	6,373	7,892	9,903	10,006	10,220		
Three years later	6,000	7,042	7,660	9,339	11,906	12,650	12,179			
Four years later	6,623	8,025	9,652	12,825	14,144	14,393				
Five years later	7,179	9,546	11,890	14,489	15,517					
Six years later	8,153	10,795	12,890	15,572						
Seven years later	8,718	11,478	13,747							
Eight years later	9,238	12,023								
Nine years later	9,618									
Ten years later										
Loss and loss adjustment expense reserve (gross) for the year in question and previous years plus payments made to date on the original reserve at the end of the year										
One year later	12,403	14,893	17,668	17,083	17,152	17,962	20,166	25,137	23,609	
Two years later	12,256	14,971	13,299	16,002	16,875	20,237	23,621	24,543		
Three years later	12,092	11,697	12,683	16,197	18,810	23,053	23,549			
Four years later	9,727	11,162	12,618	17,757	20,813	23,283				
Five years later	9,421	11,185	13,841	19,315	21,039					
Six years later	9,253	12,110	15,200	19,656						
Seven years later	10,046	13,126	15,555							
Eight years later	10,770	13,389								
Nine years later	10,931									
Ten years later										
Run-off result of the loss reserve	**–1,584**	**1,526**	**1,607**	**4,483**	**–1,838**	**–4,433**	**–5,998**	**–3,648**	**1,954**	
Of which currency exchange rate differences	**–131**	**–259**	**119**	**–85**	**652**	**1,243**	**1,557**	**823**	**407**	
Run-off result excluding currency exchange rate differences	**–1,715**	**1,267**	**1,726**	**4,397**	**–1,186**	**–3,191**	**–4,441**	**–2,862**	**2,361**	
As percentage of original loss reserve	**–18**	**9**	**10**	**18**	**–6**	**–17**	**–25**	**–14**	**9**	

Net loss reserve and its run-off	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Figures in EUR million										
Loss and loss adjustment expense reserve	7,120	10,221	11,970	14,996	13,085	14,073	13,370	16,331	19,987	18,967
Cumulative payments for the year in question and previous years										
One year later	2,101	2,388	2,872	1,556	2,203	3,157	4,459	4,293	3,551	
Two years later	3,282	3,677	3,538	2,902	4,990	6,844	7,116	6,861		
Three years later	4,006	4,206	4,495	5,139	7,757	8,718	8,525			
Four years later	4,378	4,842	6,114	7,749	9,252	9,810				
Five years later	4,739	6,115	7,982	8,818	10,106					
Six years later	5,551	7,179	8,707	9,464						
Seven years later	6,042	7,699	9,208							
Eight years later	6,459	8,087								
Nine years later	6,734									
Ten years later										
Loss and loss adjustment expense reserve (net) for the year in question and previous years plus payments made to date on the original reserve at the end of the year										
One year later	8,817	10,091	11,496	10,454	11,737	13,131	15,420	18,680	17,510	
Two years later	8,758	9,769	8,521	9,811	11,462	14,694	17,367	17,628		
Three years later	8,474	7,650	8,270	9,913	12,681	16,416	16,745			
Four years later	6,937	7,364	8,391	11,098	13,891	16,047				
Five years later	6,658	7,462	9,324	12,154	13,661					
Six years later	6,601	8,230	10,285	12,023						
Seven years later	7,198	8,918	10,349							
Eight years later	7,715	8,887								
Nine years later	7,706									
Ten years later										
Run-off result of the loss reserve	**–586**	**1,334**	**1,621**	**2,973**	**–576**	**–1,974**	**–3,375**	**–1,297**	**2,477**	
Of which currency exchange rate differences	**–147**	**–414**	**194**	**–226**	**504**	**814**	**915**	**59**	**–377**	
Run-off result excluding currency exchange rate differences	**–733**	**920**	**1,814**	**2,748**	**–73**	**–1,160**	**–2,461**	**–1,238**	**2,100**	
As percentage of original loss reserve	**–10**	**9**	**15**	**18**	**–1**	**–8**	**–18**	**–8**	**11**	

The gross and net loss reserves (loss and loss adjustment expense reserve) for property/casualty insurance and non-life reinsurance in the years 1998 to 2007 as well as the run-off of the reserves is shown in the above table. The figures for 1997 were drawn up in accordance with German accounting standards. The data from 1998 onwards is based upon United States Generally Accepted Accounting Principles (US GAAP). Even after the adoption of IFRS for the Group accounting instead of US GAAP, the technical items continue to be recognized in conformity with US GAAP pursuant to IFRS 4.

The table shows the changes made over time in the loss reserve established as at each balance sheet date due to payments rendered, supplementary premiums brought to account in years after they were written and revised estimates of outstanding payments. The difference between the original loss reserve and the current reserve is reflected in the net run-off result. This result is significantly influenced by movements in the euro against major foreign currencies.

The table maps the run-off of the gross/net loss reserve established as at each balance sheet date, this reserve comprising the provisions constituted in each case for the current and preceding occurrence years. The run-off of the reserve for individual occurrence years is not shown.

(21) Provision for premium refunds

	2007			2006 [1]		
	Gross	Retro	Net	Gross	Retro	Net
Figures in EUR million						
Balance at 31.12. of the previous year	**1,319**	**2**	**1,317**	**688**	**1**	**687**
Change in the consolidated group	179	—	179	657	1	656
Portfolio entries/withdrawals	–51	—	–51	1	—	1
Allocations	86	—	86	262	1	261
Disposals						
Life insurance policies	207	—	207	274	—	274
Liability/personal accident policies	2	—	1	12	—	12
Other changes	63	—	63	—	—	—
Currency exchange rate differences	1	—	—	–2	—	–2
Balance at 31.12. of the year under review	**1,388**	**2**	**1,386**	**1,319**	**2**	**1,317**

[1] *Adjusted on the basis of IAS 8*

(22) Provision for pensions and other post-employment benefit obligations

The companies belonging to the Talanx Group normally award their employees pension commitments based on defined contribution or defined benefit plans. The type of pension commitment is given in accordance with the relevant pension plan and encompasses retirement, disability, widows' and orphans' benefits. The pension entitlement is dependent on length of service and salary. The vast majority of pension commitments are based on defined benefit pension plans.

Under defined benefit plans the pension beneficiary is promised a specific benefit; in contrast to defined contribution plans, the expenditures to be incurred by the company on the basis of the benefit commitments are not fixed from the outset. The commitments to employees in Germany predominantly comprise commitments funded by the company; no pension funds exist.

In addition, employees have an opportunity to accumulate further old-age provision by way of deferred compensation through membership of HDI-Gerling Pensionskasse AG. The benefits provided by HDI-Gerling Pensionskasse AG are guaranteed for its members and their surviving dependants and comprise traditional pension plans with bonus increases as well as unit-linked hybrid annuities. Employees of the former Gerling Group also have the option of obtaining pension commitments through deferred compensation with Gerling Versorgungskasse VVaG. In this case the employer companies meet the administrative expenses and assume responsibility for ensuring that the life insurance contracts can be fulfilled through their liability to make additional contributions.

Provisions for pensions are established in accordance with IAS 19 "Employee Benefits" using the Projected Unit Credit Method. They are established in accordance with actuarial principles and make allowance for the length of service and estimated rate of compensation increase of pension beneficiaries. The benefit entitlements are discounted using a single Group-wide blended rate of interest.

The major Group companies based the measurement of their pension commitments on the following assumptions:

	2007			2006		
Measurement parameters/assumptions	Germany	USA	Other	Germany	USA	Other
%						
Discount rate	4.95–5.50	6.20	4.70–6.20	4.30–5.10	6.00	4.65–5.20
Rate of compensation increase	3.00	3.50	3.00–5.30	2.50	3.50	2.50
Projected long-term yield on plan assets	4.25	7.50–8.50	5.70–7.50	—	7.50–8.50	4.00
Indexation	1.75	2.00–3.00	2.00–3.50	1.25	3.00	1.25–3.50

The change in the projected benefit obligation of the pension commitments for the various defined benefit plans of the Talanx Group was as follows:

Change in the projected benefit obligation	**2007**	**2006**
Figures in EUR million		
Projected benefit obligation at 01.01. of the year under review	1,353	416
Current service cost	16	17
Interest cost	61	50
Deferred compensation	1	2
Actuarial gain/loss	–5	–22
Currency translation	–4	–1
Benefits paid during the year	–60	–43
Past service cost	—	—
Business combinations, divestitures and other activities	–1	937
Plan curtailments	–2	–3
Projected benefit obligation at 31.12. of the year under review	**1,359**	**1,353**

The funded status of the defined benefit obligation is shown in the following table:

Change in the projected benefit obligation	**2007**	**2006**
Figures in EUR million		
Projected benefit obligation from unfunded plans	1,274	1,302
Projected benefit obligation from wholly or partially funded plans	85	51
Projected benefit obligation at 31.12. of the year under review	**1,359**	**1,353**
Fair value of plan assets	–72	–74
Funded status	**1,287**	**1,279**

The fair value of the plan assets developed as follows:

Change in plan assets	**2007**	**2006**
Figures in EUR million		
Fair value at 01.01. of the year under review	74	31
Expected return on plan assets	4	3
Actuarial gain/loss	–4	–1
Currency translation	–4	–1
Employer contributions	4	11
Benefits paid during the year	–1	–4
Business combinations, divestitures and other activities	–1	35
Fair value at 31.12. of the year under review	**72**	**74**

The structure of the asset portfolio underlying the plan assets was as follows:

Portfolio structure of plan assets	2007	2006
as % of plan assets		
Fixed-income securities	56	62
Equities	22	21
Other	22	17
Total	**100**	**100**

The actual return on the plan assets amounted to EUR 2 (1) million in the year under review.

The following table presents a reconciliation of the defined benefit obligations with the provisions for pensions recognized as at the balance sheet date:

Funded status of the defined benefit obligation	2007	2006
Figures in EUR million		
Defined benefit obligations at 31.12. of the year under review	1,359	1,353
Fair value of plan assets at 31.12. of the year under review	–72	–74
Funded status at 31.12. of the year under review	**1,287**	**1,279**
Unrealized actuarial gain/loss	–36	–26
Unrecognized past service cost	—	–11
Disposal groups pursuant to IFRS 5	—	–1
Net provisions for pensions at 31.12. of the year under review	**1,251**	**1,241**

The recognized provision for pensions developed as follows in the year under review:

Change in the provisions for pensions	2007	2006
Figures in EUR million		
Net provisions for pensions at 01.01. of the year under review	1,241	318
Currency translation	1	—
Change in consolidated group [1)]	–5	901
Net periodic pension cost	70	69
Deferred compensation	1	1
Amounts paid during the year	–13	–7
Benefits paid during the year	–51	–40
Reclassification and other movements	6	—
Disposal groups pursuant to IFRS 5	1	–1
Net provisions for pensions at 31.12. of the year under review	**1,251**	**1,241**

[1)] Regarding the presentation of the sale of partial portfolios recognized as assets and liabilities of a disposal group classified as held for sale as at 31 December of the previous year, please see our remarks in the section entitled "Summary of major accounting policies".

The components of the net periodic pension cost for defined benefit plans recognized in the statement of income of the Talanx Group were as follows:

Net periodic pension cost	2007	2006
Figures in EUR million		
Current service cost for the year under review	16	17
Interest cost	61	49
Expected return on plan assets	4	3
Recognized actuarial gain/loss	1	–7
Effect of plan curtailments or settlements	2	1
Net periodic pension cost for the year under review	**70**	**69**

The net periodic pension cost was recognized in the consolidated statement of income in amounts of EUR 0 (28) million under claims and claims expenses, EUR 14 (15) million under acquisition costs and administrative expenses, EUR 55 (24) million under other expenses and EUR 1 (2) million under other investment expenses.

Defined contribution plans are funded via external pension funds or similar institutions. In this case fixed contributions (e.g. based on the relevant income) are paid to these institutions and the pension beneficiary's claim is against the said institution; in effect, the employer has no further obligation beyond payment of the contributions. The expense recognized for these obligations in the year under review amounted to EUR 4 (4) million.

(23) Provisions for taxes

The provisions for taxes can be broken down as follows:

	2007	2006
Figures in EUR million		
Provision for income tax	585	390
Other tax provisions	140	121
Total	**725**	**511**

(24) Sundry provisions

The sundry provisions, which are measured by the likely amounts used, developed as follows:

Figures in EUR million	Restruc-turing/ Integration	Assumption of third-party pension com-mitments in return for payment	Bonuses and incentives	Early retire-ment/partial retirement arrangements	Other personnel expenses	Other	Total
Balance at 01.01.2006	**—**	**—**	**37**	**24**	**16**	**99**	**176**
Change in consolidated group	—	1	8	22	22	98	149
Additions	92	76	51	12	9	95	335
Utilization	—	—	31	5	6	45	87
Release	—	—	3	—	1	9	12
Change in fair value of plan assets	—	—	—	—	—	—	—
Other changes	—	—	—	–3	—	4	1
Currency exchange rate differences	—	—	–1	—	—	–4	–5
Disposal group pursuant to IFRS 5	—	—	–6	–1	—	–5	–11
Balance at 31.12.2006	**92**	**77**	**55**	**49**	**39**	**234**	**546**
Change in consolidated group	—	—	–6	—	—	25	19
Additions	23	—	47	33	28	166	297
Utilization	25	1	36	11	19	65	157
Release	4	—	—	1	3	83	91
Change in fair value of plan assets	—	—	—	–12	—	—	–12
Other changes	—	—	—	—	—	–28	–28
Currency exchange rate differences	—	—	–1	—	—	–2	–3
Disposal group pursuant to IFRS 5	—	—	6	—	—	5	11
Balance at 31.12.2007	**86**	**76**	**65**	**58**	**45**	**252**	**582**

The other sundry provisions include provisions for restructuring/integration expenses of EUR 86 (92) million. This relates primarily to restructuring provisions, employee-related provisions (e.g. relocation, termination payments) and provisions connected with the transfer of locations. An agreement was reached between Group Management and the Group Employee Council regarding implementation of organizational measures connected with the restructuring of the Talanx Group in the context of the integration of the companies belonging to the former Gerling Group.

(25) Notes payable and loans

On 28 September 2007 Talanx AG took out a floating-rate bank liability in an amount of EUR 550 million under a line of credit for EUR 1.5 billion. It was used to finance the purchase price for the interests in BHW Lebensversicherung AG and BHW Pensionskasse AG as well as the remaining 50% stakes in PB Lebensversicherung AG and PB Versicherung AG and all the shares of PB Pensionsfonds AG. The floating rate of the loan tracks the 3-month EURIBOR. The loan is due for redemption on 31 December 2012.

Also on 28 September 2007, Talanx AG took out interest rate swaps to hedge the interest rate risk arising out of the loan. For further information on the interest rate swaps and their treatment in the balance sheet as a cash flow hedge please see the explanations provided in the section entitled "Hedge accounting".

(26) Other liabilities

	31.12.2007	31.12.2006
Figures in EUR million		
Liabilities under direct written insurance business	2,036	2,289
thereof to policyholders	1,643	1,896
thereof to insurance intermediaries	393	393
Reinsurance payable	1,801	1,619
Liabilities due to banks	75	79
Trade accounts payable	13	3
Liabilities relating to investments	120	81
Liabilities under non-group lead business	76	77
Liabilities from derivatives	50	14
Deferred income	22	38
Interest	15	18
Liabilities due to social insurance institutions	11	7
Liabilities to trustees	8	9
Other liabilities	455	353
Total	**4,682**	**4,587**

(27) Deferred taxes

The following table presents a breakdown of the deferred tax assets and liabilities into the balance sheet items from which they are derived.

	31.12.2007	31.12.2006 [1)]
Figures in EUR million		
Deferred tax assets		
Loss and loss adjustment expense reserves	444	806
Technical provisions	281	445
Loss carry-forwards	277	358
Benefit reserves	207	185
Provisions	141	174
Accounts receivable on insurance business	40	85
Investments	64	56
Contract deposits	36	55
Deferred acquisition costs	299	19
Premium refunds	—	8
Other invested assets	9	1
Debt consolidation	—	23
Value adjustment	–271	–155
Other	315	534
Total	**1,842**	**2,594**
Deferred tax liabilities		
Equalization reserve	978	1,470
Deferred acquisition costs	762	681
Contract deposits	18	59
Accounts receivable on insurance business	171	275
Present value of future profits (PVFP)	345	271
Benefit reserves	67	94
Technical provisions	129	202
Investments	111	173
Loss and loss adjustment expense reserves	19	179
Other invested assets	40	56
Debt consolidation	17	—
Premium refund	—	64
Provisions	12	8
Other	91	255
Total	**2,760**	**3,787**
Deferred tax liabilities (net)	**918**	**1,193**

[1)] *Adjusted on the basis of IAS 8*

The deferred tax assets and deferred tax liabilities were recognized as follows:

	31.12.2007	31.12.2006 [1)]
Figures in EUR million		
Deferred tax assets	237	577
Deferred tax liabilities	1,155	1,770
Deferred tax liabilities (net)	**918**	**1,193**

[1)] *Adjusted on the basis of IAS 8*

Notes on the consolidated statement of income

(28) Net premium earned

The gross written premium includes the savings elements of premiums under unit-linked life and annuity policies. These savings elements were eliminated from the net premium earned.

(29) Investment income

2007	Property/ Casualty Primary Insurance	Life Primary Insurance	Non-Life Reinsur-ance	Life/Health Reinsur-ance	Financial Services	Group function[1)]	Total
Figures in EUR million							
Real estate	6	62	2	—	—	—	70
Dividends	21	63	40	—	—	—	124
Ordinary investment income on fixed-income securities	412	1,098	617	137	2	7	2,273
Interest income on funds withheld and contract deposits	3	2	60	186	—	—	251
Other income	65	14	55	1	—	—	135
Ordinary investment income	**507**	**1,239**	**774**	**324**	**2**	**7**	**2,853**
Profit or loss on investments in associated companies	—	—	8	2	—	—	10
Realized gains on investments	57	193	236	9	1	—	496
Unrealized gains	4	12	10	—	—	—	26
Investment income	**568**	**1,444**	**1,028**	**335**	**3**	**7**	**3,385**
Realized losses on investments	32	150	65	6	—	—	253
Unrealized losses on investments	4	56	8	22	—	—	90
Total	**36**	**206**	**73**	**28**	**—**	**—**	**343**
Impairments/depreciation on investment property							
Scheduled	2	17	1	—	—	—	20
Unscheduled	—	—	—	—	—	—	—
Impairments on equity securities	19	84	34	—	—	—	137
Impairments on fixed-income securities	—	19	26	—	—	—	45
Impairments on participating interests	2	4	10	—	—	—	16
Expenses for the administration of investments	12	5	4	—	69	—	90
Other expenses	10	4	16	1	1	—	32
Other investment expenses/impairments	**45**	**133**	**91**	**1**	**70**	**—**	**340**
Investment expenses	**81**	**339**	**164**	**29**	**70**	**—**	**683**
Net investment income	**487**	**1,105**	**864**	**306**	**–67**	**7**	**2,702**

[1)] *Presentation after elimination of intra-Group relations between two segments.*

2006	Property/ Casualty Primary Insurance	Life Primary Insurance	Non-Life Reinsur-ance	Life/Health Reinsur-ance	Financial Services	Group function[1)]	Total
Figures in EUR million							
Real estate	7	87	15	—	—	—	109
Dividends	11	53	40	—	—	6	110
Ordinary investment income on fixed-income securities	323	810	610	116	1	9	1,869
Interest income on funds withheld and contract deposits	1	1	59	222	—	—	283
Other income	64	85	23	1	—	—	173
Ordinary investment income	**406**	**1,036**	**747**	**339**	**1**	**15**	**2,544**
Profit or loss on investments in associated companies	—	—	5	—	—	—	5
Realized gains on investments	31	155	300	7	4	8	505
Unrealized gains on investments	4	15	14	5	—	—	38
Investment income	**441**	**1,206**	**1,066**	**351**	**5**	**23**	**3,092**
Realized losses on investments	29	215	89	3	—	—	336
Unrealized losses on investments	4	48	1	—	—	—	53
Total	**33**	**263**	**90**	**3**	**—**	**—**	**389**
Impairments/depreciation on investment property							
Scheduled	3	13	4	—	—	—	20
Unscheduled	1	4	1	—	2	—	8
Impairments on equity securities	7	5	8	—	—	—	20
Impairments on fixed-income securities	1	2	—	—	—	—	3
Impairments on participating interests	2	6	5	—	—	—	13
Expenses for the administration of investments	5	7	7	1	46	—	66
Other expenses	8	37	12	—	—	—	57
Other investment expenses/impairments	**27**	**74**	**37**	**1**	**48**	**—**	**187**
Investment expenses	**60**	**337**	**127**	**4**	**48**	**—**	**576**
Net investment income	**381**	**869**	**939**	**347**	**–43**	**23**	**2,516**

[1)] *Presentation after elimination of intra-Group relations between two segments.*

The net gains and losses on the disposal of investments can be broken down as follows:

	2007		2006	
	Gains	Losses	Gains	Losses
Figures in EUR million				
Gains/losses on the disposal of				
Loans and receivables	1	36	7	2
Equities				
Available for sale	159	32	140	29
At fair value through profit or loss	2	4	—	—
Fixed-income securities				
Available for sale	30	52	36	62
At fair value through profit or loss	6	1	1	—
Investment fund units	217	63	206	67
Other investments	81	65	115	176
Total	**496**	**253**	**505**	**336**

The unrealized gains and losses on investments can be broken down as follows:

	2007		2006	
	Gains	Losses	Gains	Losses
Figures in EUR million				
Equities				
At fair value through profit or loss	1	3	8	1
Trading	—	1	—	—
Fixed-income securities				
At fair value through profit or loss	6	24	16	23
Other investments	19	62	14	29
Total	**26**	**90**	**38**	**53**

The impairments taken in the year under review related mainly to the portfolio of assets held as available for sale. Impairments on fixed-income securities of EUR 30 (1) million were attributable to structured products connected with the crisis on the US housing market in respect of which we identified a risk of default. The impairments on fixed-income securities were determined on the basis of a case-by-case analysis. In this context consideration was given not only to pure changes in the fair value of the securities, but also to qualitative criteria.

In addition, an impairment loss of EUR 137 (20) million was recognized on equities whose fair value had fallen significantly or for a prolonged period below acquisition cost.

Interest income on investments	**2007**	**2006**
Figures in EUR million		
Loans and receivables	1,089	813
Financial assets – held to maturity	69	75
Financial assets – available for sale	935	852
Financial assets – at fair value through profit or loss	35	26
Other	129	83
Total	**2,257**	**1,849**

The net gains and losses on investments were as follows:

2007	**Ordinary investment income**	**Realized gains and losses**	**Unrealized gains and losses**	**Impairments/ write-ups**	**Net income**
Figures in EUR million					
Measured at cost or amortized cost					
Fixed-income securities and loans	1,312	–35	—	–18	1,259
Other investments	74	3	–3	–8	66
Measured at fair value					
Fixed-income securities and loans	1,025	–67	–34	–28	896
Other investments	199	342	–27	–163	351
Total	**2,610**	**243**	**–64**	**–218**	**2,572**

2006	Ordinary investment income	Realized gains and losses	Unrealized gains and losses	Impairments/ write-ups	Net income
Figures in EUR million					
Measured at cost or amortized cost					
Fixed-income securities and loans	1,016	5	—	–1	1,020
Other investments	109	9	–15	–11	92
Measured at fair value					
Fixed-income securities and loans	910	–51	–6	–2	851
Other investments	230	206	6	–50	392
Total	**2,265**	**169**	**–15**	**–64**	**2,355**

The net gains and losses on investments measured at cost or amortized cost and financial assets measured at fair value through profit or loss are composed of ordinary investment income, realized gains and losses and impairments. In the case of fixed-income securities carried at fair value through profit or loss and those reported in the trading portfolio, changes in unrealized gains and losses are also recognized. Making allowance for the other investment expenses of EUR 120 (121) million, net income from assets under own management of altogether EUR 2,452 (2,234) million was recognized in the reporting period. Income on funds withheld and contract deposits was not included in the calculation.

(30) Claims and claims expenses

2007[1]	Property/ Casualty Primary Insurance	Life Primary Insurance	Non-Life Reinsurance	Life/Health Reinsurance	Total
Figures in EUR million					
Gross					
Claims and claims expenses paid	3,832	2,575	3,849	1,570	11,826
Change in loss and loss adjustment expense reserve	700	54	14	191	959
Change in benefit reserves	130	1,069	—	390	1,589
Expenses for premium refunds	29	452	—	—	481
Total	**4,691**	**4,150**	**3,863**	**2,151**	**14,855**
Reinsurers' share					
Claims and claims expenses paid	1,127	150	1,062	185	2,524
Change in loss and loss adjustment expense reserve	496	4	–295	–8	197
Change in benefit reserves	1	–37	—	39	3
Expenses for premium refunds	1	—	—	—	1
Total	**1,625**	**117**	**767**	**216**	**2,725**
Net					
Claims and claims expenses paid	2,705	2,425	2,787	1,385	9,302
Change in loss and loss adjustment expense reserve	204	50	309	199	762
Change in benefit reserves	129	1,106	—	351	1,586
Expenses for premium refunds	28	452	—	—	480
Total	**3,066**	**4,033**	**3,096**	**1,935**	**12,130**

[1] *Presentation after elimination of intra-Group relations between two segments.*

2006 [1] [2]	Property/ Casualty Primary Insurance	Life Primary Insurance	Non-Life Reinsurance	Life/Health Reinsurance	Total
Figures in EUR million					
Gross					
Claims and claims expenses paid	3,290	2,055	5,228	1,426	11,999
Change in loss and loss adjustment expense reserve	339	21	–1,255	90	–805
Change in benefit reserves	303	1,041	—	279	1,623
Expenses for premium refunds	83	367	—	–3	447
Total	**4,015**	**3,484**	**3,973**	**1,792**	**13,264**
Reinsurers' share					
Claims and claims expenses paid	778	136	1,865	107	2,886
Change in loss and loss adjustment expense reserve	–205	11	–1,433	4	–1,623
Change in benefit reserves	5	–17	—	145	133
Expenses for premium refunds	2	—	—	—	2
Total	**580**	**130**	**432**	**256**	**1,398**
Net					
Claims and claims expenses paid	2,512	1,919	3,363	1,319	9,113
Change in loss and loss adjustment expense reserve	544	10	178	86	818
Change in benefit reserves	298	1,058	—	134	1,490
Expenses for premium refunds	81	367	—	–3	445
Total	**3,435**	**3,354**	**3,541**	**1,536**	**11,866**

[1] *Adjusted on the basis of IAS 8*
[2] *Presentation after elimination of intra-Group relations between two segments.*

(31) Acquisition costs and administrative expenses

	2007	2006 [1]
Figures in EUR million		
Gross		
Acquisition costs		
Payments	3,551	4,066
Change in deferred acquisition costs	–147	–666
Total acquisition costs	**3,404**	**3,400**
Administrative expenses	790	743
Total	**4,194**	**4,143**
Reinsurers' share		
Acquisition costs		
Payments	651	621
Change in deferred acquisition costs	109	–6
Total	**760**	**615**
Net		
Acquisition costs		
Payments	2,900	3,445
Change in deferred acquisition costs	–256	–660
Total acquisition costs	**2,644**	**2,785**
Administrative expenses	790	743
Total	**3,434**	**3,528**

[1] *Adjusted on the basis of IAS 8*

(32) Other income/expenses

	2007	2006 [1)]
Figures in EUR million		
Other income		
Other technical income	23	12
Exchange gains	376	223
Income from the disposal of affiliated companies	179	—
Income from services	133	135
Reversals of impairments on receivables	76	20
Income from contracts recognized in accordance with the deposit accounting method	75	33
Profits from the disposal of own-use real estate	72	5
Income from the release of provisions	57	25
Interest income	47	17
Commission income	37	28
Sales revenues	25	26
Rental income	12	27
Sundry income	92	155
Total	**1,204**	**706**
Other expenses		
Other technical expenses	97	198
Exchange losses	327	215
Other interest expenses	250	237
Depreciation and impairments	246	243
Expenses for the company as a whole	213	200
Expenses for services	130	82
Commission expenses	38	24
Other taxes	34	24
Losses from the disposal of own-use real estate	22	—
Sundry expenses	251	260
Total	**1,608**	**1,483**
Other income/expenses	**–404**	**–777**

[1)] *Adjusted on the basis of IAS 8*

(33) Amortization of insurance-related intangible assets and goodwill impairments

Further information is provided under the items "(1) Goodwill" and "(2) Other intangible assets".

(34) Taxes on income

This item includes domestic income tax as well as comparable taxes on income incurred by foreign subsidiaries. The determination of the income tax includes the calculation of deferred taxes. The principles used to recognize deferred taxes are set out in the section entitled "Summary of major accounting policies".

The actual and deferred taxes on income can be broken down as follows:

Income tax	**2007**	**2006**
Figures in EUR million		
Actual tax for the year under review	613	259
Actual tax for other periods	128	24
Deferred taxes due to temporary differences	–196	41
Deferred taxes from loss carry-forwards	14	70
Change in deferred taxes due to changes in tax rates	–230	44
Recognized tax expenditure	**329**	**438**

Domestic/foreign breakdown of recognized tax expenditure/income	**2007**	**2006**
Figures in EUR million		
Current taxes	743	283
Germany	579	182
Outside Germany	164	101
Deferred taxes	–414	155
Germany	–461	161
Outside Germany	47	–6
Total	**329**	**438**

In accordance with IAS 12.77 the income tax expenditure recognized in the statement of income is composed of the current taxes actually payable and the change in deferred taxes.

Approximately 49% of the current taxes derive from the results of our domestic insurance companies. The deferred tax expenditure arises out of temporary differences between the items in the IFRS balance sheets and the tax balance sheets. Deferred taxes on loss carry-forwards are capitalized insofar as their realization is sufficiently certain.

Contrary to a very clear opinion by specialized attorneys, the revenue authority takes the view that investment income generated by the Ireland-based reinsurance subsidiaries of some Group companies are subject to additional taxation at the parent companies in Germany on the basis of the provisions of the Foreign Transactions Tax Act. Insofar as the relevant assessment notices have already been received, an appeal has been lodged – also with respect to the amounts already recognized as tax expenditure.

In July 2007 the German Federal Council approved the Business Tax Reform Act 2008. Among other things, this will lead to a reduction in tax rates for corporations domiciled in Germany effective 1 January 2008. Deferred taxes relating to domestic Group companies were therefore measured using the correspondingly lower tax rate. Particularly as a consequence of this change in tax rates, non-recurring income of EUR 230 million was recognized; of this amount, EUR 112 million was attributable to minority interests.

The breakdown of the income into the various Group segments was as follows:

	2007
Figures in EUR million	
Primary insurance	49
Property/Casualty	5
Life	44
Reinsurance	187
Non-Life	134
Life/Health	53
Financial Services	1
Consolidation	–7
Total	**230**

The following table presents a reconciliation of the expected expense for income taxes that would be incurred upon application of the German income tax rate to the pre-tax profit with the actual expense for taxes.

Reconciliation of the expected expense for income taxes with the recognized tax expenditure	2007	2006
Figures in EUR million		
Profit before income taxes	1,328	1,165
Expected tax rate	40%	40%
Expected expense for income taxes	531	466
Change in deferred rates of taxation	–230	44
Taxation differences affecting foreign subsidiaries	–122	–135
Non-deductible expenses	86	89
Tax-exempt income	–160	–181
Value adjustment	73	123
Tax expense not attributable to the reporting period	128	24
Other	23	8
Recognized expense for income taxes	**329**	**438**

The calculation of the expected expense for income taxes is based on the German income tax rate. This is made up of the corporate income tax rate of 25%, the German reunification charge of 5.5% and the average trade earnings tax rate of 18.5%.

The tax ratio stood at 24.8%. Excluding the non-recurring income from the change in tax rates, the tax ratio amounted to 42.1%. The tax rate corresponds to the average income tax load borne by all Group companies.

Given the expected domestic tax rate, the expense for income taxes would amount to EUR 531 million – a figure EUR 202 million higher than the actual expense for income taxes. The divergences arose principally as a consequence of the change in deferred tax rates, tax reduction due to tax-exempt income (e.g. profits from the sale of interests in joint-stock corporations and dividend income) and lower foreign tax rates. As an opposite effect, tax expenses allocable to earlier periods were recognized and additional taxes were incurred due to non-deductible operating expenses.

Availability of capitalized loss carry-forwards

No deferred taxes were established on loss carry-forwards of EUR 680 million because their realization is not sufficiently certain. In addition, tax credits of EUR 17 million that had not been capitalized were available.

Availability of loss carry-forwards and tax credits that have not been capitalized:

Figures in EUR million	1–5 years	> 10 years	Unlimited	Total
Loss carry-forwards	16	111	553	680
Tax credits	—	—	17	17
Total	**16**	**111**	**570**	**697**

Other information

Staff

The average number of staff employed throughout the year can be broken down as follows:

	2007	2006
Primary insurance companies	14,902	13,377
Reinsurance companies	1,922	1,988
Financial services companies	245	307
Other	109	138
Total	**17,178**	**15,810**

In the disclosure for the previous year the employees of the Gerling companies were included for the period from 1 April to 31 December. If allowance is made for the Gerling companies for the full 2006 financial year, the average number of staff throughout the year was 17,549.

Expenditures on personnel	2007	2006
Figures in EUR thousand		
Wages and salaries		
Expenditures on insurance business	800	730
Expenditures on the administration of investments	36	39
	836	769
Social security contributions and expenditure on provisions and assistance		
Social security contributions	129	135
Expenditures for pension provision	41	55
Expenditures for assistance	8	9
	178	199
Total	**1,014**	**968**

Transactions with related parties

IAS 24 "Related Party Disclosures" defines related parties inter alia as parent companies and subsidiaries, subsidiaries of a common parent company, associated companies, legal entities under the influence of management and the management of the company itself.

The related entities within the Talanx Group are comprised of HDI Haftpflichtverband der Deutschen Industrie V.a.G. (HDI V.a.G.), which directly holds all shares of Talanx, as well as all unconsolidated subsidiaries – which essentially encompasses the subsidiaries not included in the consolidated financial statement due their insignificant status – and the associated companies recognized at equity. In addition, there are the provident funds that pay benefits in favor of employees of Talanx or one of its related parties after termination of the employment relationship.

The related persons are the members of the Boards of Management and Supervisory Boards of Talanx AG and HDI V.a.G.

Transactions between Talanx and its subsidiaries or between subsidiaries of Talanx AG are eliminated through consolidation and hence not discussed in the Notes. Business relations existing with unconsolidated companies or with associated companies are of minor importance overall.

Within the scope of their operating activities a contractual relationship exists between Group companies and DFA Capital Management regarding the purchase and implementation/modification of a software solution for dynamic financial management. This gave rise to capitalizations in past financial years and will result in further capitalizations in future financial years. The contractual payment arrangements provide for the considerations to be rendered on a largely synchronized and equivalent basis.

For details of the remuneration received by the members of the Board of Management and Supervisory Board of Talanx AG please see the remarks on the compensation of the management boards of the parent company.

Share-based payment

With effect from 1 January 2000 the Executive Board of Hannover Re, with the consent of the Supervisory Board, introduced a virtual stock option plan that provides for the granting of stock appreciation rights to certain managerial staff. The content of the stock option plan is based solely on the Conditions for the Granting of Stock Appreciation Rights. All the members of the Hannover Re Group's senior management are eligible for the award of stock appreciation rights. Exercise of the stock appreciation rights does not give rise to any entitlement to the delivery of Hannover Re stock, but merely to payment of a cash amount linked to the performance of the Hannover Re share. Recognition of transactions involving stock appreciation rights with cash settlement is governed by the requirements of IFRS 2 "Share-based Payment".

Stock appreciation rights were first granted for the 2000 financial year and are awarded separately for each subsequent financial year (allocation year), provided the performance criteria defined in the Conditions for the Granting of Stock Appreciation Rights are satisfied.

The internal performance criterion is satisfied upon achievement of the target performance defined by the Supervisory Board, which is expressed in terms of the diluted earnings per share (EPS) calculated in accordance with IAS 33 "Earnings Per Share". If the target EPS is surpassed or undershot, the provisional basic number of stock appreciation rights initially granted is increased or reduced accordingly to produce the EPS basic number. The external performance criterion is the development of the share price in the allocation year. The benchmark used in this regard is the weighted ABN Amro Rothschild Global Reinsurance Index. This index encompasses the performance of listed reinsurers worldwide. Depending upon the outperformance or underperformance of this index, the EPS basic number is increased – albeit by at most 400% of the EPS basic number – or reduced – although by no more than 50% of the EPS basic number.

The maximum period of the stock appreciation rights is ten years, commencing at the end of the year in which they are awarded. Stock appreciation rights which are not exercised by the end of the 10-year period lapse. Stock appreciation rights may only be exercised after a waiting period and then only within four exercise periods each year. For 40% of the stock appreciation rights (first tranche of each allocation year) the waiting period is two years, for each additional 20% (tranches two to four of each allocation year) of the stock appreciation rights the waiting period is extended by one year. Each exercise period lasts for ten trading days, in each case commencing on the sixth trading day after the date of publication of the quarterly report of Hannover Rückversicherung AG.

Upon exercise of a stock appreciation right the amount paid out to the entitled party is the difference between the basic price and the current market price of the Hannover Re share at the time of exercise. In this context, the basic price corresponds to the arithmetical mean of the closing prices of the Hannover Re share on all trading days of the first full calendar month of the allocation year in question. The current market price of the Hannover Re share at the time when stock appreciation rights are exercised is determined by the arithmetical mean of the closing prices of the Hannover Re share on the last twenty trading days prior to the first day of the relevant exercise period.

The amount paid out is limited to a maximum calculated as a quotient of the total volume of compensation to be granted in the allocation year and the total number of stock appreciation rights awarded in the year in question.

In the event of cancellation of the employment relationship or termination of the employment relationship as a consequence of a termination agreement or a set time limit, a holder of stock appreciation rights is entitled to exercise all such rights in the first exercise period thereafter. Stock appreciation rights not exercised in this period and those in respect of which the waiting period has not yet expired shall lapse. Retirement, disability or death of the member of management shall not be deemed to be termination of the employment relationship for the purpose of exercising stock appreciation rights.

The allocations for the years 2000, 2002 to 2004 and 2006 gave rise to the following commitments in the year under review. No allocations were made for 2001 or 2005.

	Allocation year				
Stock appreciation rights of Hannover Re	**2006**	**2004**	**2003**	**2002**	**2000**
Award date	13.03.2007	24.03.2005	25.03.2004	11.04.2003	21.06.2001
Period	10 years	10 years	10 years	10 years	10 years
Waiting period	2 years	2 years	2 years	2 years	2 years
Basic price (in EUR)	30.89	27.49	24.00	23.74	25.50
Participants in year of issue	106	109	110	113	95
Number of rights granted	817,788	211,171	904,234	710,429	1,138,005
Fair value at 31.12.2007 (in EUR)	6.00	10.49	7.44	7.81	5.49
Maximum value (in EUR)	10.32	24.62	8.99	8.79	5.49
Number of rights existing at 31.12.2007	809,034	164,288	258,438	105,298	8,028
Provisions at 31.12.2007 (in EUR million)	1.7	1.5	1.7	0.9	—
Amounts paid out in the 2007 financial year (in EUR million)	—	0.7	1.3	1.0	—
Expense in the 2007 financial year (in EUR million)	1.7	–0.1	0.3	0.1	< 0.1 [1)]

[1)] *Although the maximum amount was reached some participants did not exercise all stock appreciation rights*

In the year under review the waiting period expired for 100% of the stock appreciation rights awarded in 2000, 80% of those awarded in 2002, 60% of those awarded in 2003 and 40% of those awarded for 2004. 3,753 stock appreciation rights from the 2000 allocation year, 110,426 stock appreciation rights from the 2002 allocation year, 155,840 stock appreciation rights from the 2003 allocation year and 12,596 stock appreciation rights from the 2004 allocation year were exercised. The total amount paid out stood at EUR 2.4 million.

The stock appreciation rights of Hannover Re have developed as follows since 2001:

	Allocation year				
Development of the stock appreciation rights of Hannover Re	**2006**	**2004**	**2003**	**2002**	**2000**
Granted in 2001	—	—	—	—	1,138,005
Exercised in 2001	—	—	—	—	—
Lapsed in 2001	—	—	—	—	—
Number of options at 31.12.2001	**—**	**—**	**—**	**—**	**1,138,005**
Granted in 2002	—	—	—	—	—
Exercised in 2002	—	—	—	—	—
Lapsed in 2002	—	—	—	—	40,770
Number of options at 31.12.2002	**—**	**—**	**—**	**—**	**1,097,235**
Granted in 2003	—	—	—	710,429	—
Exercised in 2003	—	—	—	—	—
Lapsed in 2003	—	—	—	23,765	110,400
Number of options at 31.12.2003	**—**	**—**	**—**	**686,664**	**986,835**
Granted in 2004	—	—	904,234	—	—
Exercised in 2004	—	—	—	—	80,137
Lapsed in 2004	—	—	59,961	59,836	57,516
Number of options at 31.12.2004	**—**	**—**	**844,273**	**626,828**	**849,182**
Granted in 2005	—	211,171	—	—	—
Exercised in 2005	—	—	—	193,572	647,081
Lapsed in 2005	—	6,397	59,834	23,421	25,974
Number of options at 31.12.2005	**—**	**204,774**	**784,439**	**409,835**	**176,127**
Granted in 2006	—	—	—	—	—
Exercised in 2006	—	—	278,257	160,824	153,879
Lapsed in 2006	—	14,511	53,578	22,896	10,467
Number of options at 31.12.2006	**—**	**190,263**	**452,604**	**226,115**	**11,781**
Granted in 2007	817,788	—	—	—	—
Exercised in 2007	—	12,956	155,840	110,426	3,753
Lapsed in 2007	8,754	13,019	38,326	10,391	–
Number of options at 31.12.2007	**809,034**	**164,288**	**258,438**	**105,298**	**8,028**
Exercisable at 31.12.2007	—	62,775	8,636	6,515	8,028

The existing stock appreciation rights are valued on the basis of the Black/Scholes option pricing model.

The calculations were based on the year-end closing price of the Hannover Re share of EUR 31.55 as at 28 December 2007, expected volatility of 26.30% (historical volatility on a five-year basis), an expected dividend yield of 8.08% and risk-free interest rates of 4.11% for the 2000 allocation year, 4.20% for the 2002 allocation year, 4.25% for the 2003 allocation year, 4.30% for the 2004 allocation year and 4.41% for the 2006 allocation year.

The average fair value of each stock appreciation right was EUR 5.49 for the 2000 allocation year, EUR 7.81 for the 2002 allocation year, EUR 7.44 for the 2003 allocation year, EUR 10.49 for the 2004 allocation year and EUR 6.00 for the 2006 allocation year.

On this basis the aggregate provisions for the year under review amounted to EUR 6 million. The expense totaled EUR 2 million.

Mortgages and loans

Employees who are not members of the Board of Management or Supervisory Board were granted mortgages and mortgage loans to finance residential property. These loans are all secured by a first charge on property. Bad debt losses did not exist and are not anticipated.

Contingent liabilities and other financial commitments

Hannover Re has secured by subordinated guarantee a subordinated debt in the amount of USD 400 million issued in the 1999 financial year by Hannover Finance, Inc., Wilmington (USA). In February 2004 and May 2005 Hannover Re bought back portions of the subordinated debt in an amount of altogether USD 380 million, leaving USD 20 million still secured by the guarantee. Effective 4 June 2007, the date of payment, the issuer repurchased the debt in an amount of USD 380 million from Hannover Re for the purpose of cancellation. This portion of the debt was cancelled as at 17 July 2007 and has not been traded on the capital market since that date. The remaining portions of the debt totaling USD 20 million are held by investors outside the Group.

Hannover Re has placed three subordinated debts on the European capital markets through its subsidiary Hannover Finance (Luxembourg) S.A. Hannover Re has secured by subordinated guarantee both the debt issued in 2001, the volume of which now stands at EUR 138 million, and the debts from financial years 2004 and 2005 in amounts of EUR 750 million and EUR 500 million respectively.

The guarantees given by Hannover Re for the subordinated debts attach if the issuer in question fails to render payments due under the bonds. The guarantees cover the relevant bond volumes as well as interest due until the repayment dates. Given the fact that interest on the bonds is partly dependent on the capital market rates applicable at the interest payment dates (floating rates), the maximum undiscounted amounts that can be called cannot be estimated with sufficient accuracy. Hannover Re does not have any rights of recourse outside the Group with respect to the guarantee payments.

As security for technical liabilities to US clients, Hannover Re has established a master trust in the United States. As at the balance sheet date this master trust amounted to EUR 2,088 (2,239) million. The securities held in the master trust are shown as available-for-sale investments. The substantial decline was largely attributable to movements in exchange rates. HDI-Gerling Industrie Versicherung AG has blocked holdings of EUR 72 (76) million. The securities held in the master trust are shown as available-for-sale investments.

Outstanding capital commitments with respect to certain special investments exist in the amount of EUR 270 (295) million. The commitments exist at various Group companies. They primarily involve private equity funds and venture capital firms in the form of private limited companies.

Within the scope of a novation agreement regarding a life insurance contract Hannover Re assumed contingent reinsurance commitments with respect to due date and amount. The financing phase was terminated effective 31 December 2004 as per the agreement. The level of Hannover Re's liability as at the date of novation (31 December 2011) in relation to future balance sheet dates may change due to fluctuations in the EURIBOR and discrepancies between the actual settlements and the projections. The estimated amount of the reinsurance commitments as at the balance sheet date was EUR 10 (33) million. The decrease of EUR 23 million in the reinsurance commitment compared to the previous year resulted from the considerably more favorable run-off of the business than anticipated.

At some Group companies potential financial obligations relating to investments existed at the end of the financial year in the amount of altogether EUR 909 million in connection with structured securities through issuers' rights to take delivery. The potential amounts that could be drawn upon totaled EUR 139 million for 2008, EUR 227 million for 2009, EUR 316 million for 2010, EUR 216 million for 2011 and EUR 11 million for 2012.

In addition, other financial commitments existed as at 31 December 2007 for investment volumes taken up but not yet paid out in an amount of EUR 256 million. Building loans to policyholders that had been awarded but not yet disbursed totaled EUR 81 million.

Commitments for contractually agreed future services in connection with an IT outsourcing contract amounted to altogether EUR 234 million as at 31 December 2007.

As guarantor institutions for Gerling Versorgungskasse VVaG, various Group companies are liable pro rata for any deficits that may be incurred by Gerling Versorgungskasse.

Assets of Group companies totaling EUR 73 million have been assigned as security or encumbered with charges over property.

The Group's life insurance companies are members of the Security Fund for Life Insurers pursuant to §§ 124 ff. Insurance Supervision Act (VAG). On the basis of the Security Fund Financing Ordinance (Life), the Security Fund collects annual contributions of at most 0.2 per mille of the total net technical provisions until security funds of 1 per mille of the total net technical provisions have been accumulated. In addition, the Security Fund may collect special contributions in an amount of a further 1 per mille of the total net technical provisions. Furthermore, the companies have undertaken to make financial resources available to the Security Fund or alternatively to Protektor Lebensversicherungs-AG, Berlin, insofar as the resources of the Security Fund are not sufficient if a company has to be rehabilitated. The commitment amounts to 1% of the total net technical provisions (German Commercial Code) after allowance for the contributions already made to the Security Fund at this point in time. When the aforementioned payment commitments from the contributions payable to the Security Fund are taken into account, the total commitment of the companies stands at EUR 322 million.

Several Group companies are members of the association for the reinsurance of pharmaceutical risks, the association for the insurance of German nuclear reactors and the traffic accident pool Verkehrsopferhilfe e.V. In the event of one of the other pool members failing to meets its liabilities, an obligation exists to take over such other member's share within the framework of the quota participation.

Rents and leasing

Summary of rental and leasing commitments in future years

	2008	2009	2010	2011	2012	Subsequent years
Figures in EUR million						
	42	25	14	11	9	11

Rental and leasing contracts produced expenditures of EUR 63 million in the 2007 financial year. Subsidiaries of Hannover Re in Africa have concluded multi-year lease contracts. Further commitments refer to lease contracts entered into by primary insurance companies in Germany. The increased expenditure relative to the previous year derived principally from the sale of real estate owned by the former Gerling Group, hence causing a rise in rental payments to third parties outside the Group.

Remuneration of the management boards of the parent company

Total remuneration of EUR 5,507 thousand was paid to the Board of Management, including an amount of EUR 77 thousand relating to the previous year.

The total remuneration paid to the Supervisory Board amounted to EUR 890 thousand.

Former members of the Board of Management and their surviving dependants received total remuneration of EUR 39 thousand. An amount of EUR 566 thousand was set aside to cover projected benefit obligations due to former members of the Board of Management and their surviving dependants.

IAS 24 provides for detailed presentation of the remuneration components received by members of Management in key positions. Specifically, this group of persons encompasses the members of the Board of Management and Supervisory Board of Talanx AG. The aforementioned group of persons received the following remuneration components:

	2007
Figures in EUR million	
Salaries and other remuneration due in the short term	6,397
Expenses for retirement provision	285
Granting of equities and other equity-based remuneration	116
Total	**6,798**

Fee paid to the auditor

In the 2007 financial year fees of EUR 8.9 (6.9) million were paid to the appointed auditor of the consolidated financial statement as defined by § 318 German Commercial Code (HGB). The amount includes a fee of EUR 6.3 (5.4) million for the auditing of the financial statement, EUR 0.1 (0.4) million for other appraisals and valuations, EUR 0.2 (0.4) million for tax consultancy services and EUR 2.3 (0.7) million for consultancy and other services performed for the parent or subsidiary companies.

Declaration of conformity pursuant to § 161 German Stock Corporation Act (AktG)

On 6 November 2007 the Executive Board and Supervisory Board of our listed subsidiary Hannover Rückversicherung AG (Hannover Re) submitted the declaration of conformity regarding the recommendations made by the Government Commission on the German Corporate Governance Code that is required pursuant to § 161 German Stock Corporation Act (AktG) and made this declaration available to the shareholders by publishing it in its annual report.

Events after the balance sheet date

In January 2008 the Russian insurance regulator awarded the Talanx subsidiary CiV Life Russia a full license to sell life and personal accident insurance backdated to 29 December 2007. Also in January, the Talanx subsidiary CiV Hayat Sigorta received a full license as a life and personal accident insurer from Turkish insurance regulators. Talanx thus enjoys two further international bancassurance cooperations with Citibank. The Moscow-based life insurer CiV Life develops products exclusively for Citibank and sells them through the latter's distribution channels; sales activities commenced at the beginning of March 2008. The Istanbul-based CiV Hayat Sigorta tailors insurance products exclusively for Citibank, which are then marketed through the partner bank's distribution channels in Turkey.

On 7 February 2008 HDI-Gerling International Holding AG purchased a 94% stake in the Ukrainian non-life insurer Alcona. The company, which has been in existence since 1992 and concentrates primarily on motor products and personal accident insurance, ranks twelfth in the Ukrainian market. The acquisition of Alcona, which is still subject to approval from the competent authorities, is in line with the foreign strategy of investing in growth markets of Southern, Central and Eastern Europe as well as Latin America and establishing a position as one of the leading non-life insurers in these markets.

Effective 3 March 2008 Hannover Rück Beteiligung Verwaltungs-GmbH, which is wholly owned by Hannover Re, reached agreement with a third party outside the Group on the sale of a 1% stake in E+S Rückversicherung AG – without a change of control status – in order to intensify the business relations.

Effective 1 April 2008 a shelf service company, in future to be named Hannover Re Escritório de Representação no Brasil Limitada, was acquired for the purpose of opening a representative office in Rio de Janeiro, Brazil. The object of the company shall consist solely of representing Hannover Re in Brazil – with no local underwriting of insurance risks.

In April 2008 Hannover Re received a license from the China Insurance Regulatory Commission (CIRC) which puts it on an equal footing with Chinese providers. This will enable the company to transact life and health reinsurance through a Shanghai branch earlier than anticipated – from the second half of May onwards.

Under an agreement dated 29 May 2008 HDI-Gerling International Holding AG acquired more than 99% of the shares in the Chilean insurance company ISE Sociedad de Seguros Generales S.A., Santiago (Chile). The agreement is expected to be closed at the beginning of July this year following expiry of the period available to local regulators for any objections that they may wish to raise. The company concentrates on private and routine business in property/casualty insurance.

Hannover Life Re intends to establish a branch office for life and health reinsurance in Seoul (South Korea) in June 2008. The Korean insurance regulator has already issued a provisional license, and work on setting up the branch can therefore move forward.

Hannover, 3 June 2008

Board of Management

Haas	Dr. Hinsch	Kox	Dr. Löffler
Dr. Noth	Dr. Querner	Zeller	

Auditors' report

To Talanx Aktiengesellschaft

We have audited the consolidated financial statements prepared by Talanx Aktiengesellschaft, Hannover, comprising the balance sheet, income statement, statement of changes in equity, cash flow statement and notes to the consolidated financial statements, together with the group management report for the business year from 1 January to 31 December 2007. The preparation of the consolidated financial statements and the group management report in accordance with IFRS, as adopted by the EU, and the additional requirements of German commercial law pursuant to § 315a Para 1 HGB and supplementary provisions of the Articles of Incorporation are the responsibility of the parent company's management. Our responsibility is to express an opinion on the consolidated financial statements and on the group management report based on our audit.

We conducted our audit of the consolidated financial statements in accordance with § 317 HGB and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the consolidated financial statements in accordance with the applicable financial reporting framework and in the group management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the consolidated financial statements and the group management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of those entities included in consolidation, the determination of entities to be included in consolidation, the accounting and consolidation principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements and group management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the consolidated financial statements comply with IFRS, as adopted by the EU, the additional requirements of German commercial law pursuant to § 315a Para. 1 HGB and the supplementary provisions of the Articles of Incorporation and give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with these requirements. The group management report is consistent with the consolidated financial statements and as a whole provides a suitable view of the Group's position and appropriately presents the opportunities and risks of future development.

Hannover, 9 June 2008

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Wirtschaftsprüfungsgesellschaft

Prof. Dr. Geib	Dr. Dahl
(German Public Auditor)	(German Public Auditor)

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Glossary. A–C

Accumulation risk
Underwriting risk that a single trigger event (e.g. an earthquake or hurricane) can lead to an accumulation of claims within a portfolio.

Acquisition costs
Costs incurred by an insurance company when insurance policies are taken out or renewed (e.g. new business commission, costs of proposal assessment or underwriting).

Administrative expenses
Costs of current administration connected with the production of insurance coverage.

Affiliated companies
Parent or subsidiary companies which are to be included in the consolidated financial statement of a parent company (as defined by the German Commercial Code, HGB).

Amortization
Process in which the initial expenditures for an object are covered through the resulting earnings.

Asset management
Profit-oriented and ongoing supervision and management of investments according to risk and return considerations.

Bancassurance
Partnership between a bank/postal service partner and an insurance company for the purpose of selling insurance products through the banking/postal service partner's branches.

Benefit reserve
Value arrived at using mathematical methods for future liabilities (present value of future liabilities minus present value of future incoming premiums), especially in life and health insurance.

Black/Scholes option pricing model
Analytical model used to calculate theoretical option prices. It makes allowance for the current price of the underlying stock, the risk-free interest rate, the remaining time until option expiration, the > volatility and possible dividend payments within the remaining period.

Block assumption transaction
Proportional reinsurance treaty on the life or health insurance portfolio of a > cedant.

Book-yield note
Hedge instrument securitized in a security. It is used to hedge the reinvestment interest rate if the 5-year mean of the market rate reaches a previously defined level, and approximates the real income of the portfolio.

Capital asset pricing model (CAPM)
Model used to measure securities in relation to risk/return considerations and determine the cost of capital, making allowance for the fact that an equity investment entails an additional risk in comparison with a risk-free investment and requires an additional return (risk premium).

Capital, reserves and underwriting provisions
An insurer's shareholders' equity plus the provisions committed to underwriting business and the (claims) equalization reserve. Total maximum funds available to offset liabilities.

Cash flow statement
Statement on the origin and utilization of cash and cash equivalents during the accounting period. It shows the changes in liquid funds separated into cash flows from operating, investing and financing activities.

Cedant (also: ceding company)
Primary insurer or reinsurer that passes on shares of its insured risks to a reinsurer in exchange for a premium.

Combined ratio
Sum total of > loss ratio and > expense ratio; ratio of net technical expenses including other technical income/expenses (net) and amortization of the shareholders' PVFP, but excluding any consolidation differences, to net premium earned. When calculating the adjusted combined ratio, the claims and claims expenses in the non-life reinsurance segment are adjusted so as to eliminate the effect of interest income on funds withheld and contract deposits.

Commission
Remuneration paid by a primary insurer to agents, brokers and other professional intermediaries.

Consolidation
In the context of a consolidated financial statement: combining of the individual financial statements of several companies belonging to one group into a consolidated financial statement.

Corporate Governance
System that serves to ensure responsible management and supervision of enterprises and is intended to foster the trust of investors, clients, employees and the general public in companies.

Credit status
Also creditworthiness. Ability of a debtor to meet its payment commitments.

Critical illness coverages
Personal riders on the basis of which parts of the sum insured which would otherwise only become payable on occurrence of death are paid out in the event of previously defined severe illnesses.

D – L

Deferred taxes
Term denoting the difference between the taxes calculated on the profit reported in the commercial balance sheet and those carried in the tax balance sheet, which then evens out in subsequent months. Deferred taxes are recognized in order to offset this difference in those cases where it is evident that it will be eliminated over time.

Deposit accounting
An accounting method originating in US accounting principles for the recognition of short-term and multi-year insurance and reinsurance contracts with no significant underwriting risk transfer.

Derivative, derivative financial instrument
Financial products derived from underlying primary instruments such as equities, fixed-income securities and foreign exchange instruments, the fair value of which is determined inter alia on the basis of the underlying security or other reference asset. Derivatives include swaps, options and futures.

Diversification
Orientation of business policy towards various lines of products and services in order to minimize the effects of economic fluctuations and stabilize the result.

Due diligence audit
Auditing of a participating interest in the run-up to acquisition or merger. It encompasses, in particular, a systematic analysis of the strengths and weaknesses of the proposition, analysis of the risks associated with the acquisition and a well-founded valuation of the item in question.

Duration
Ratio in investment mathematics that represents the average commitment period of the cash value of a financial instrument. The duration can thus also be considered a measure of the interest rate risk associated with a financial instrument.

Earnings retention
Non-distribution of a company's profits, leading to a different tax treatment than that applied to distributed profits.

Embedded value
Benchmark used to measure the performance of life insurance enterprises. It is composed of the sum total of free assets (net asset value) plus the present value of the projected stream of future after-tax profits on the in-force insurance portfolio.

Equalization reserve (also: claims equalization reserve)
Provision constituted to offset significant fluctuations in the loss experience of individual lines over a number of years.

Expense ratio
Administrative expenses for the insurance business in relation to the (gross or net) premiums earned.

Exposure
Level of danger inherent in a risk or portfolio of risks.

Facultative reinsurance
Participation on the part of the reinsurer in a particular individual risk assumed by the primary insurer.

Fair value
Price at which a financial instrument would be freely traded between two parties.

Funds held by ceding companies/ funds held under reinsurance treaties
Collateral provided to cover insurance liabilities which an insurer retains from the liquid funds which it is to pay to a reinsurer under a reinsurance treaty. In this case, the insurer shows funds held under a reinsurance treaty, while the reinsurer shows funds held by a ceding company.

Goodwill
The amount that a purchaser is prepared to pay – in light of future profit expectations – above and beyond the value of all tangible and intangible assets after deduction of liabilities.

Gross
In insurance: before deduction of reinsurance.

Hard market
Market phase during which premium levels are typically high. Opposite: > soft market.

Hedge funds
Funds that are subject to virtually no investment restrictions and are free to pursue a highly diverse range of investment strategies.

Hybrid capital
Capital in the form of subordinated debt and surplus debenture that exhibits a hybrid character of equity and debt.

IFRS
International Financial Reporting Standards; used by Talanx since 2004.

Investment grade
Rating of BBB or better awarded to an enterprise on account of its low risk profile.

Issuer
Public entity or private enterprise that issues securities, e.g. the federal government in the case of German Treasury Bonds or a joint-stock corporation in the case of shares.

Label fund
Fund created by an outside company. It is marketed through a subsidiary or third company, but remains the responsibility of the original company.

Leader
If several (re)insurers participate in a contract, one company assumes the role of leader and normally carries a higher percentage of the risk for own account. The policyholder deals exclusively with this lead company.

Life/health insurance (also: personal lines)
Lines of business concerned with the insurance of persons, i.e. life, annuity, health and personal accident.

L–R

Life insurance
Collective term covering those types of insurance which are concerned in a broader sense with risks associated with the uncertainties of life expectancy and life planning. These include death and disability, retirement provision as well as marriage and education.

Loss ratio
Percentage ratio of claims expenditure to earned premiums, calculated gross or net.

Major claim (also: major loss)
Claim that reaches an exceptional amount compared to the average claim for the risk group in question and exceeds a defined claims amount.

Matching currency cover
Coverage of technical liabilities in foreign currencies by means of corresponding investments in the same currency in order to avoid exchange-rate risks.

Morbidity
Measure of the occurrence probability of an illness in relation to a specific population group.

Mortality
Rate of death in the population as a whole or in specific age groups.

Net
In insurance: used primarily to mean after deduction of reinsurance.

Operating expenses
Item in the statement of income; sum total of personnel expenditures, commissions, material costs, distribution costs and regular administrative expenses.

Operating profit (EBIT)
Sum of the result of non-underwriting business and the underwriting result before the change (allocation or withdrawal) in the (claims) equalization reserve.

Policyholders' surplus
Total amount of shareholders' equity excluding minority interests, which is comprised of the common shares, additional paid-in capital, retained earnings and cumulative other comprehensive income, as well as the minority interests in shareholders' equity and so-called hybrid capital, as equity-replacing debt capital that encompasses the subordinated liabilities.

Portfolio
The risks assumed by a primary insurer or reinsurer as a totality or in a defined segment. Also: group of investments categorized according to specific criteria.

Premiums
Agreed compensation for the risks accepted by the insurer.

Present value of future profits (PVFP)
Intangible asset primarily arising from the purchase of life and health insurance companies or individual portfolios. The present value of expected future profits from the portfolio assumed is capitalized and amortized according to schedule.

Primary (also: direct) insurer
Company which accepts risks in exchange for an insurance premium and which has a direct contractual relationship with the policyholder (private individual, company, organization).

Private equity
Investment capital raised by private investors in contrast to public equity, i.e. capital raised on the stock exchange.

Projected benefit obligation
The present value of the earned portion of commitments from a defined benefit obligation.

Property/casualty insurance
All insurance lines with the exception of life insurance and health insurance.

Provision
Liability item as at the balance sheet date to discharge obligations which exist but whose extent and/or due date is/are not known. Technical provisions, for example, are for claims which have already occurred but which have not yet been settled, or have only been partially settled (= provision for outstanding claims, abbreviated to: loss reserve)

Purchase cost, amortized
Cost of acquiring an asset item including all ancillary and incidental purchasing costs; in the case of wasting assets less scheduled and/or special amortization.

Rating
Systematic evaluation of companies by a rating agency or bank with respect to their > credit status.

Reinsurer
Company that accepts risks or portfolio segments from a > primary insurer or another reinsurer in exchange for an agreed premium.

Renewal
Contractual relationships between insurers and reinsurers are maintained over long periods of time. The treaty terms and conditions are normally modified annually in so-called renewal negotiations, and the treaties are renewed accordingly.

Retail business
Business involving investment funds that are designed for private, non-institutional investors, although such funds are also open for investments of group companies.

Retention
The part of the accepted risks which an insurer/reinsurer does not reinsure, i.e. shows as > net. The larger the insured portfolio, the higher the retention can be.

Retrocession
Ceding by a reinsurer of its risks or shares in its risks to other reinsurers.

R – Z

Risk management system
The complete set of rules and measures used to monitor and protect against risks.

Run-off
Fulfillment of liabilities for which reserves have been constituted.

Segment reporting
Presentation of asset and income data broken down into business segments and regions.

Shareholders' equity
Funds provided by the owners of an enterprise for its financing or left within the company as earned profit. The capital providers are entitled to a share of the profit, e.g. in the form of a dividend, in return for making the shareholders' equity available.

Soft capital
Capital components that are economically available but not yet recognized in the balance sheet: the loss reserve discount and the present value of future profits in life business that has not been capitalized, and on the company level the excess loss reserves.

Soft market
Market phase with oversupply of insurance, resulting in premiums that are not commensurate with the risk; this is in contrast to > hard market.

Solvency
Level of available unencumbered capital and reserves required to ensure that contracts can be fulfilled at all times.

Specialty insurance
Specialty insurance refers to niche business such as special automobile covers, fine arts insurance etc.

Squeeze-out
Exclusion of minority shareholders by the majority shareholder of a joint-stock corporation.

Swaption
Option contract which enables the buyer to enter into an interest rate swap on or until a specific point in time in return for payment of a once-only premium. It facilitates hedging against rising interest rates without forfeiting the opportunity to obtain funding more reasonably if interest rates fall.

Technical result
Balance of income and expenditure allocated to the insurance business and recognized in the technical statement of income.

Underlying
Underlying instrument of a forward transaction, futures contract or option contract that serves as the basis for settlement and measurement of the contract.

Underwriting
Process of examining and assessing (re)insurance risks in order to determine a commensurate premium for the risk in question. The purpose of underwriting is to diversify the underwriting risk in such a way that it is fair and equitable for the (re)insured and at the same time profitable for the (re)insurer.

Unearned premium reserve
Premiums written in a financial year which are to be allocated to the following period on an accrual basis.

Unit-linked life insurance
Life insurance under which the level of benefits depends on the performance of an investment fund allocated to the policy in question.

US GAAP
United States Generally Accepted Accounting Principles. Internationally recognized US accounting principles used at Talanx until 2003.

Volatility
With respect to assets: degree of fluctuation in equity prices, exchange rates and interest rates. In the insurance industry, volatile business analogously refers to insurance lines that can have a highly fluctuating claims experience.

Index of key terms

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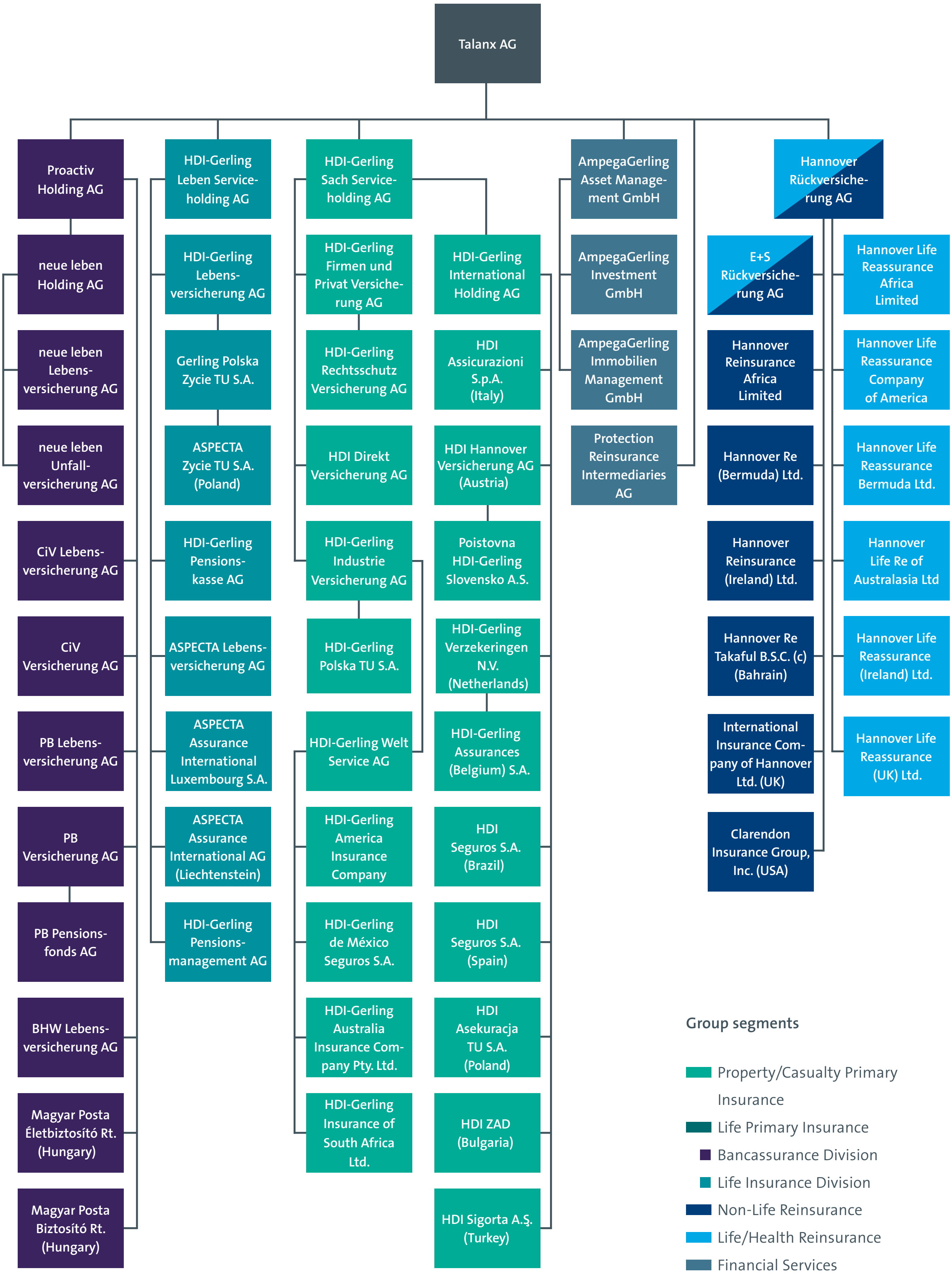
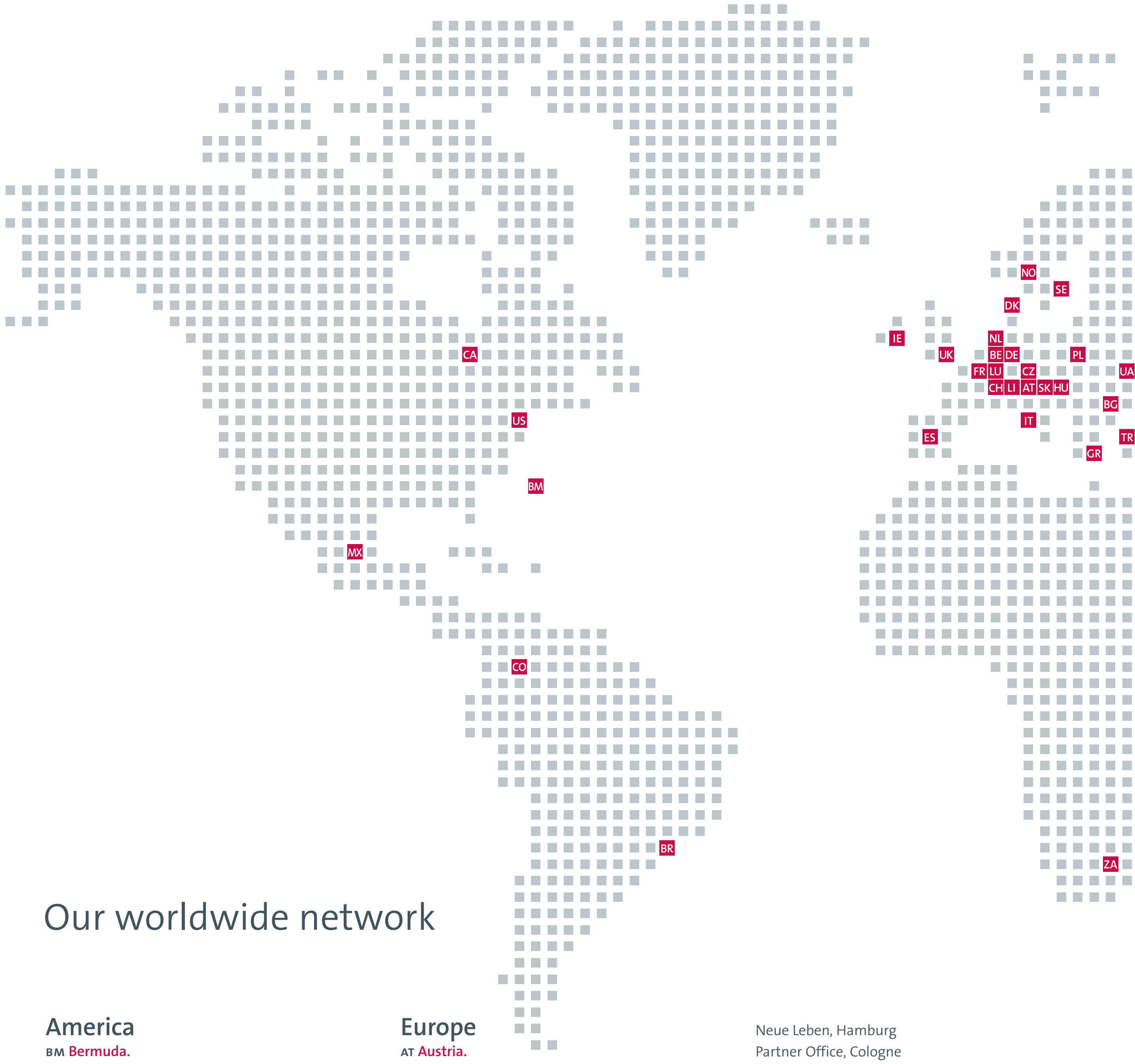
Group structure



Major participations only, simplified representation

Valid: May 2008



Our worldwide network

America

BM Bermuda.
Hannover Life Re (Bermuda), St. David's
Hannover Re (Bermuda), Hamilton

BR Brazil.
Hannover Re, Rio de Janeiro Representative Office
HDI Seguros, São Paulo

CA Canada.
Hannover Re, Canadian Branch, Toronto

CO Columbia.
Hannover Re, Bogotá Representative Office

MX Mexico.
Hannover Services (México), Mexico City
HDI-Gerling de México Seguros, Mexico City

US USA.
Clarendon Insurance Group, New York
Hannover Life Re America, Orlando
Hannover Re Services USA, Itasca/Chicago
HDI-Gerling America Insurance Company, Chicago

Europe

AT Austria.
Aspecta Lebensversicherung, Vienna
HDI Hannover Versicherung, Vienna
HDI-Gerling Austria, Vienna

BE Belgium.
HDI-Gerling Assurances/Verzekeringen, Brussels

BG Bulgaria.
HDI ZAD, Sophia

CZ Czech Republic.
HDI-Gerling, Czech Branch, Prague

DK Denmark.
HDI-Gerling, Denmark Branch, Copenhagen

FR France.
Hannover Re, Succursale Française, Paris
HDI-Gerling, Direction pour la France, Paris

DE Germany.
AmpegaGerling, Cologne
Aspecta, Cologne
CiV insurers, Hilden
E+S Re, Hannover
Hannover Re, Hannover
HDI Direkt, Hannover
HDI-Gerling life group, Cologne
HDI-Gerling non-life group, Hannover
Neue Leben, Hamburg
Partner Office, Cologne
PB insurers, Hilden
Proactiv, Hilden
Protection Reinsurance Intermediaries, Hannover
Talanx, Hannover

UK Great Britain.
Hannover Life Re (UK), Virginia Water
Hannover Services (UK), Virginia Water
HDI-Gerling, UK Branch, London
International Insurance Company of Hannover, Bracknell/London

GR Greece.
HDI-Gerling, Hellas Branch, Athens

HU Hungary.
HDI-Gerling, Hungary Branch, Budapest
Magyar Posta Biztosító, Budapest
Magyar Posta Életbiztosító, Budapest

IE Ireland.
Hannover Life Re (Ireland), Dublin
Hannover Re (Ireland), Dublin

IT Italy.
Aspecta Assurance International, Milan
Hannover Re Services Italy, Milan
HDI Assicurazioni, Rome
HDI-Gerling, Rappresentanza Generale, Milan

16,000
staff

5
continents

11
brands

LI Liechtenstein.
Aspecta Assurance International, Vaduz

LU Luxembourg.
Aspecta Assurance International Luxembourg
Euro International Reinsurance, Luxembourg
Talanx Finanz, Luxembourg

NL Netherlands.
HDI-Gerling Verzekeringen, Rotterdam

NO Norway.
HDI-Gerling, Norwegian Branch, Oslo

PL Poland.
Aspecta Życie, Warsaw
HDI Asekuracja, Warsaw
HDI-Gerling Polska, Warsaw

SK Slovakia.
Poistovna HDI-Gerling Slovensko, Bratislava

ES Spain.
Aspecta Assurance International, Madrid
HDI Seguros, Madrid/Barcelona
HR Hannover Re, Madrid

SE Sweden.
Hannover Re, Tyskland filial, Stockholm
International Insurance Company of Hannover, Stockholm

CH Switzerland.
HDI-Gerling, Switzerland Branch, Zurich

TR Turkey.
CiV Hayat Sigorta, Istanbul
HDI Sigorta, Istanbul

UA Ukraine.
Alcona, Kiev*

Africa

ZA South Africa.
Compass Insurance Company, Johannesburg
Hannover Life Re Africa, Johannesburg
Hannover Re Africa, Johannesburg
HDI-Gerling Insurance of South Africa, Johannesburg

Asia/Pacific

AU Australia.
Hannover Life Re Australasia, Sydney
Hannover Re, Australian Branch, Sydney
HDI-Gerling Australia Insurance Company, Sydney

BH Bahrain.
Hannover ReTakaful, Manama
Hannover Re, Bahrain Branch, Manama

CN China.
Hannover Re, Shanghai Branch
Hannover Re, Shanghai Representative Office
Hannover Re, Hong Kong Branch
HDI-Gerling Hong Kong Branch

JP Japan.
Hannover Re Services Japan, Tokyo
HDI-Gerling Japan Branch, Tokyo

KR Korea.
Hannover Re, Korea Branch, Seoul

MY Malaysia.
Hannover Re, Malaysian Branch, Kuala Lumpur

RU Russia.
CiV Life Russia, Moscow

TW Taiwan.
Hannover Re, Taipei Representative Office

*Subject to regulatory approval

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