Group Annual Report 2009

Prelude to the Future.

talanx.

talanx.

Key figures of the Group segments

Property/Casualty Primary Insurance

- Gross premiums slightly lower than in the previous year, in part due to exchange rate effects
- Still among the market leaders in Germany; industrial insurance shows slight growth in fiercely competitive climate
- Foreign business is growing organically and through acquisitions – entry into the private customer market in Mexico, joint venture in India

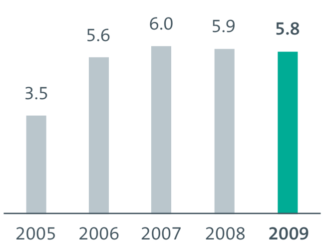
Life Primary Insurance

- Bancassurance Division boosts gross premium through single premiums
- Difficult environment in retirement provision causes new business in the Life Insurance Division to contract
- EBIT increases, with gross premium virtually stable overall

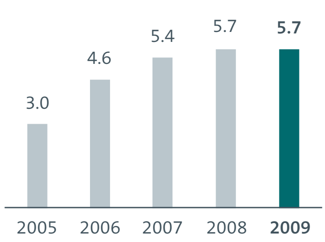
Non-Life Reinsurance

- Good state of the markets makes appreciable growth in gross premium possible for the first time in several years
- Low burden of catastrophe losses and normalized investment income allow EBIT to rise
- Initial project launched in the micro-insurance sector in Pakistan

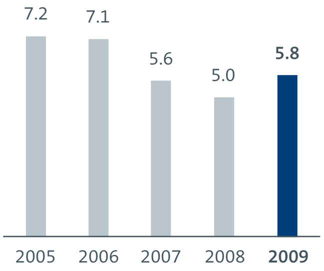
Gross written premium
in EUR billion



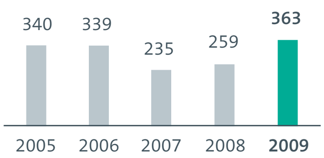
Gross written premium
in EUR billion



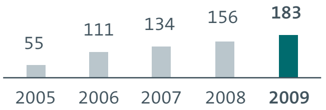
Gross written premium
in EUR billion



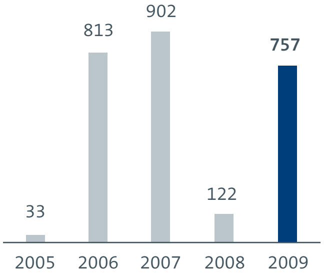
Operating profit (EBIT)
in EUR million



Operating profit (EBIT)
in EUR million



Operating profit (EBIT)
in EUR million



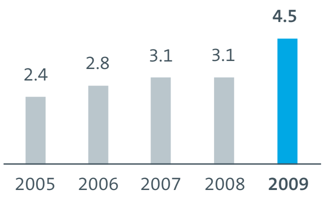
All figures: IFRS

** Years up to and including 2007 are not comparable with 2008/2009 due to modified segment allocation*

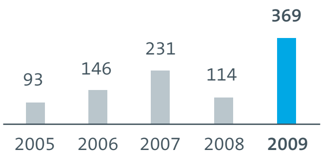
Life/Health Reinsurance

- Acquisition of a large portfolio of life insurance risks pushes gross premium sharply higher and makes the US the largest single market
- New clients acquired in Germany despite difficult situation
- International market position strengthened on major insurance markets

Gross written premium
in EUR billion



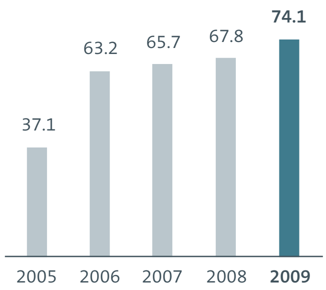
Operating profit (EBIT)
in EUR million



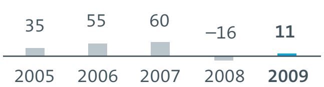
Corporate Operations

- Previous Group segment of Financial Services enlarged to include functional companies
- Growth in assets under management principally due to market effects
- Investment company books cash inflows against the market trend

Assets under management
in EUR billion



Operating profit (EBIT)*
in EUR million



Our brands

HDI-Gerling
The brand combines the Property & Casualty Insurance Group for industrial and retail customers and the Life Group offering products for risk protection, old-age provision and occupational retirement provision.

HDI
A broad range of property/casualty products for retail customers in Germany and – through HDI Direkt – in international markets.

Targo Versicherungen
The fully integrated specialist insurer offering efficient provision and security solutions exclusively for customers of TARGOBANK.

PB Versicherungen
Exclusive insurance partner of Postbank for life and personal accident products that are optimally tailored to the needs of Postbank customers.

Neue Leben
Above-average services and low administrative expenses: the capable provision specialist cooperating with numerous Sparkasse savings institutions and selected insurance brokers.

Posta Biztosító
The high-growth bancassurance cooperation with the Hungarian postal service that concentrates on the life and property/casualty lines.

Hannover Re, E+S Rück
One of the largest reinsurance groups in the world transacting non-life and life/health reinsurance. E+S Rück is the specialist reinsurer serving the German market.

AmpegaGerling
One of the largest bank-independent asset managers in Germany; responsible for financial services within the Group.

Protection Re
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 in insurance and reinsurance business. Its brands include HDI and HDI-Gerling, providing insurance for private, commercial and industrial customers, Hannover Re, one of the industry's leading reinsurers, the bancassurance specialists Targo Versicherungen, PB Versicherungen 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 and Life/Health Reinsurance. The Hannover-based Group is active in 150 countries and is equipped with excellent financial strength.

Group key figures		2009	2008	+/– %
IFRS				
Gross written premium	EUR m	20,923	19,005	+10
Property/Casualty Primary Insurance	%	28	31	–3 points
Life Primary Insurance	%	27	30	–3 points
Non-Life Reinsurance	%	25	24	+1 points
Life/Health Reinsurance	%	20	15	+5 points
Net premium earned	EUR m	17,323	14,915	+16
Net underwriting result	EUR m	–987	–559	–77
Combined ratio (property/casualty insurance and non-life reinsurance)[1)]	%	96.6	95.2	+1.4 points
Net investment income	EUR m	2,866	1,610	+78
Operating profit (EBIT)	EUR m	1,535	612	+151
Net profit (after tax)	EUR m	932	115	+711
Group net income (after minorities)	EUR m	526	183	+187
Policyholders' surplus	EUR m	9,195	7,792	+18
Total shareholders' equity excl. minority interests	EUR m	4,614	3,626	+27
Minority interests	EUR m	2,578	2,092	+23
Hybrid capital	EUR m	2,003	2,074	–3
Return on equity after tax[2)]	%	12.8	5.0	+7.8 points
Investments (excluding funds held by ceding companies)	EUR m	67,036	62,224	+8
Total assets	EUR m	103,004	95,534	+8
Staff (full-time equivalents as at 31.12. of the financial year)		16,921	16,541	+2

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* $\left(\frac{\text{position as at 01.01. + position as at 31.12.}}{2}\right)$

Prelude to success – The Talanx Group is taking the stage with a new line-up. We believe that it will be music to everyone's ears. For this reason we have chosen music as the leitmotif of our Group Annual Report. Rhythm, tempo, swing, harmony – all qualities that we want to offer our investors, customers and staff with our new Group structure. Plus a guarantee that this new Group line-up will be able to make itself heard on a lasting basis amidst the global concert of insurance industry players – with catchy melodies that are simply unforgettable. And should you have any "musical requests" for us, just remember: Tell us what you want to hear, we'll be happy to play it.

Letter from the Chairman of the Board of Management

Ladies and gentlemen,

In 2009 we achieved our goal of playing in the quintet of Europe's five most profitable insurance groups. Not only that, we comfortably surpassed our minimum target of generating a return on equity 750 basis points above the risk-free interest rate.

If we cast a glance at the Talanx Group's net profit for 2009, we can see that these are not the only two pieces of good news to report. All our key figures are thoroughly respectable: we posted gains in gross premium, investment income, EBIT and Group net income.

Yet with the most far-reaching and severe financial crisis behind us, it was only to be expected that profitability would pick up. To this extent, the rates of increase year-on-year are not an especially notable achievement, and comparisons with 2008 are therefore not particularly revealing. The right approach is to compare the 2009 result with the pre-crisis figure. And this is a level that we actually surpassed: Group net income came in higher than in 2007 – and that in itself was a good year. Thus we have the good – and yet at the same time – bad news: the crisis cost our Group a year.

Nevertheless, the fact that Talanx put the crisis behind it so quickly and relatively unscathed should be viewed in an unreservedly positive light. It remains the case that the Talanx Group enjoys very robust financial strength. What are the reasons for this?

We have set the right tone with our risk provision: the Group is built on a solid foundation and is so stable that it can withstand even major tremors undamaged. Although this assertion does not allow us to rest in our efforts to make the Group even more quake-proof, it does fill us with confidence in our ability to tackle and master the tasks that still lie ahead. Financial stability, in other words a company's security, and flexibility, i.e. its capacity to adapt to future requirements, are the crucial pillars in our Group's further successful development.

Along with the "mopping up" that had to be done in the aftermath of the financial crisis, Talanx made progress in 2009 towards attainment of the Group's objectives. As far as the Group's goal of expanding life reinsurance is concerned, Hannover Re recorded the successful acquisition of an individual life reinsurance portfolio at the start of the year. This acquisition marks a major step forward in the further diversification of the worldwide life and health reinsurance portfolio.

We also made good progress with the expansion of foreign business in the primary sector in 2009. Along with organic growth – which in some regions was very appreciable –, we succeeded in entering the Mexican and Indian markets.

Despite these advances and the positive key figures, I would give the 2009 financial year an overall grade of seven out of ten. Unsatisfactory new business and reduced premium income in German private customer business prevent a more favorable assessment.

And it is for these reasons – among others – that Talanx began to fundamentally reshape the Group's structure in the year under review with an eye to being able to respond flexibly to market requirements. After the rapid and successful integration of Gerling, our Group is looking to reorient itself in primary insurance business; the organization is to be geared to customer groups. In this way Talanx is seeking to put in place a platform for both stronger growth and increased efficiency. In the future, the Group intends to operate in primary insurance with three divisions for industrial business, German retail business and foreign retail business. The reinsurance division remains unaffected by this restructuring. Along with this orientation towards customer groups, the second goal is to enhance efficiency within the Group. We shall achieve this in several ways: by streamlining the structure, reducing complexity and concentrating central corporate operations on a more focused basis.

The name assigned internally to this restructuring project is indeed "Fokus" – focus. By taking this step we are concentrating rigorously on our customer groups, the enhancement of efficiency and the reduction of complexity within the Group. We are building on our strengths and working systematically to close gaps in any areas where we have catching up to do. In this way we shall accomplish our strategic objectives more quickly and efficiently.

It is also with an eye to the restructuring challenge that lies ahead of us that we have chosen "music" as the theme of this year's Annual Report. Anyone wishing to succeed in music needs not only a catchy melody – it also has to be played well. The best sound is created when every member of the orchestra masters their instrument and the whole plays in harmony. We are firmly convinced that we satisfy these criteria: we have a command of our instruments and the interplay between them. And in its new configuration the Talanx Group will play with greater rhythm and gusto. We would be delighted if these new tones were to carry you away. With this in mind, we hope that the present Annual Report will provide you with a pleasant and entertaining "feast for the ears".

Yours sincerely,

Herbert K. Haas

The Management Board

Herbert K. Haas   Dr. Immo Querner   Dr. Thomas Noth

Dr. Christian Hinsch Dr. Heinz-Peter Roß Norbert Kox Ulrich Wallin

Supervisory Board

Wolf-Dieter Baumgartl
Chairman
Former Chairman of the Board of Management of Talanx AG,
Berg

Johannes Funck
Deputy Chairman
(until 17.06.2009)
Employee,
HDI Direkt Versicherung AG,
Mühlheim

Ralf Rieger
(from 17.06.2009)
Deputy Chairman
Employee, HDI-Gerling Vertrieb Firmen und Privat AG,
Raesfeld

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

Karsten Faber
(from 17.06.2009)
Managing Director,
Hannover Rückversicherung AG,
E+S Rückversicherung AG,
Hannover

Reinhard Faßhauer
(until 17.06.2009)
Senior executive, HDI-Gerling Sach Serviceholding AG,
Langenhagen

Hans-Ulrich Hanke
Employee, HDI-Gerling Leben Betriebsservice GmbH,
Brühl

Gerald Herrmann
Trade union secretary,
Norderstedt

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

Jutta Mück
(from 17.06.2009)
Employee, HDI-Gerling Industrie Versicherung AG,
Oberhausen

Otto Müller
Employee,
Hannover Rückversicherung AG,
Hannover

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

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

Katja Sachtleben-Reimann
(from 17.06.2009)
Employee, HDI-Gerling Sach Serviceholding AG,
Hannover

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

Barbara Schulze
(until 17.06.2009)
Employee, HDI-Gerling Industrie Versicherung AG,
Bochum

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

Dr. Eggert Voscherau
(until 22.07.2009)
Chairman of the Supervisory Board of BASF SE,
Ludwigshafen

Prof. Dr. Ulrike Wendeling-Schröder
(from 03.02.2009)
Professor at Leibniz University,
Hannover

Werner Wenning
(from 01.10.2009)
Chairman of the Board of Management of Bayer AG,
Leverkusen

Supervisory Board Committees

Composition as at 31.12.2009

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
Dr. Thomas Lindner	Prof. Dr. Eckhard Rohkamm	Ralf Rieger	Dr. Thomas Lindner
Ralf Rieger	Dr. Michael Rogowski	Prof. Dr. Eckhard Rohkamm	Dr. Michael Rogowski
Prof. Dr. Eckhard Rohkamm	Prof. Dr. Ulrike Wendeling-Schröder	Katja Sachtleben-Reimann	
Dr. Erhard Schipporeit			

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 for which the full Supervisory Board is not required to bear sole responsibility

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

		Responsible on the Talanx Board of Management for
Herbert K. Haas *Chairman*	Chairman of the Board of Management HDI Haftpflichtverband der Deutschen Industrie V.a.G., Hannover	■ *Investor Relations* ■ *Public Relations* ■ *Legal Affairs/Executive Staff Functions/Compliance* ■ *Internal Auditing* ■ *Corporate Development*
Dr. Christian Hinsch *from 25.11.2009:* *Deputy Chairman*	Deputy Chairman of the Board of Management HDI Haftpflichtverband der Deutschen Industrie V.a.G. Chairman of the Executive Board HDI-Gerling Sach Serviceholding AG, Hannover	■ *Domestic and Foreign Property/ Casualty Primary Insurance Division* ■ *Human Resources* ■ *Reinsurance Purchasing*
Norbert Kox	Chairman of the Executive Board, Proactiv Holding AG, Hilden	■ *Domestic and Foreign Bancassurance Division*
Dr. Hans Löffler (until 31.7.2009)	Chairman of the Executive Board HDI-Gerling Leben Serviceholding AG, Cologne	■ *Domestic and Foreign Life Insurance Division*
Dr. Thomas Noth	Member of the Executive Board HDI-Gerling Sach Serviceholding AG, Hannover	■ *Information Technology* ■ *Business Organization*
Dr. Immo Querner	Member of the Board of Management HDI Haftpflichtverband der Deutschen Industrie V.a.G., Hannover	■ *Financial Services Division* ■ *Finance/Participating Interests/ Real Estate* ■ *Investments* ■ *Controlling* ■ *Risk Management* ■ *Accounting/Taxes*
Dr. Heinz-Peter Roß (from 1.8.2009)	Member of the Executive Board HDI-Gerling Leben Serviceholding AG, Cologne	■ *Domestic and Foreign Life Insurance Division*
Ulrich Wallin (from 22.1.2009)	Chairman of the Executive Board Hannover Rückversicherung AG, Hannover	■ *Reinsurance Division*
Wilhelm Zeller (until 22.1.2009)	Chairman of the Executive Board Hannover Rückversicherung AG, Hannover	■ *Reinsurance Division*

Report of the Supervisory Board

In the 2009 financial year the Supervisory Board performed its functions and duties at all times in accordance with statutory requirements, the Articles of Association and the Rules of Procedure. We considered at length the economic situation, risk position and strategic development of Talanx AG and its major subsidiaries. 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 four ordinary meetings, one extraordinary meeting and one constitutive meeting 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 Finance and Audit Committee of the Supervisory Board met four times and the Personnel Committee met on six occasions. The Mediation Committee formed in accordance with the requirements of the Co-Determination Act again had no reason to meet in 2009. The full Supervisory Board was briefed on the work of the various 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. At no point in the year under review did we consider it necessary to conduct audit measures pursuant to § 111 Para. 2 Sentence 1 German Stock Corporation Act (AktG). 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 statutory 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 about the business and financial situation – including the risk situation and risk management –, about major capital expenditure projects and fundamental issues of corporate policy as well as about transactions that – while not subject to the approval of the Supervisory Board – nevertheless need to be reported in accordance with the requirements of the Rules of Procedure.

Key areas of discussion for the full Supervisory Board

The business development of the company and the individual Group segments, the reorientation of the Group and optimization of its structures as well as the planning for 2010 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 risk management within the Group. We also received an explanation of the basics of value-based management and dealt with a number of acquisition and cooperation projects which the Board of Management submitted to us for consideration and, as appropriate, adoption of a resolution. Specific reference may be made here to the acquisition of the US life reinsurance portfolio of the Dutch financial group ING by Hannover Life Re, the launch of a cooperation with Swiss Life, the purchase of a company in Mexico and the entry into a joint venture in India. In addition, we discussed the strategic orientation of the Talanx Group, its investment strategy and the possible Initial Public Offering.

With an eye to § 87 Para. 1 Stock Corporation Act (AktG) as amended by the Act on the Adequacy of Management Board Remuneration (VorstAG), the full Supervisory Board considered for the first time – using an up-to-date example – the provisions contained in the service contracts of the Board of Management and undertook a review of the fixed emoluments of individual members of the Board of Management; in this context it drew inter alia on horizontal and vertical remuneration aspects and concepts as a means of comparison and orientation.

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.

Work of the Committees

Along with preparations for discussion and adoption of resolutions in the full Supervisory Board, the Finance and Audit Committee of the Supervisory Board considered at length the company's quarterly financial statements compiled on a voluntary basis. Furthermore, the Finance and Audit Committee 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 2008.

Along with preparations for discussion and adoption of resolutions in the full Supervisory Board, the Personnel Committee, which was enlarged to include an additional member in September 2009, took the opportunity at several meetings to examine issues connected with the future structure of the Board of Management and a revised allocation of Board responsibilities; at the recommendation of the Committee the latter was approved by the full Supervisory Board on 25 November 2009. What is more, recommendations were made to the full Supervisory Board in the context of the review of the fixed emoluments of members of the Board of Management.

Corporate Governance

The Supervisory Board again devoted special attention to the issue of Corporate Governance. In accordance with the requirements of the Act on the Modernization of Accounting Law (BilMoG) and the Act on the Adequacy of Management Board Remuneration (VorstAG), the Rules of Procedure for the Supervisory Board were updated.

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 AG, Wirtschaftsprüfungsgesellschaft, Hannover. The General Meeting appointed the auditors; the Finance and Audit Committee awarded the concrete audit mandate. In addition to the usual audit tasks, the audit focused particularly on the examination of the book and fair values of the affiliated companies and participating interests and the deferred taxes in the case of the annual financial statements as well as – in the case of the consolidated financial statements – the examination of the segment reporting pursuant to IFRS 8 and the review of the process of intercompany reconciliation within the scope of consolidation. The auditors also subjected the Internal Control System and the risk reporting to scrutiny as part of their audit procedures.

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 Finance and Audit Committee on 27 May 2010 and at a meeting of the Supervisory Board on 28 May 2010. The auditor took part in the deliberations of the Finance and 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 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 Supervisory Board and Board of Management

The mandates of Ms. Schulze, Mr. Faßhauer and Mr. Funck on the company's Supervisory Board ended with the General Meeting of the company on 17 June 2009. The Supervisory Board expressed its gratitude and recognition for their responsible and valuable contributions. Ms. Jutta Mück and Ms. Katja Sachtleben-Reimann – as employee delegates – and Mr. Karsten Faber – as a representative of the senior executives – were elected as new members of the Supervisory Board. The other existing employee representatives were re-elected to the Supervisory Board.

Dr. Voscherau resigned his seat on the company's Supervisory Board at the close of 22 July 2009. The Supervisory Board expressed its gratitude and recognition for his many years of dedicated service. Mr. Werner Wenning was elected as a new member of the Supervisory Board with effect from 1 October 2009.

As had already been reported in the previous year, the Supervisory Board elected Mr. Wallin on 22 January 2009 with immediate effect as a member of the Executive Board of Talanx AG with responsibility for the Reinsurance Division. Mr. Wallin thus succeeded – as was also the case effective 1 July 2009 at the reinsurance companies Hannover Rückversicherung AG and E+S Rückversicherung AG – Mr. Wilhelm Zeller, who left the Board of Management of Talanx AG on 22 January 2009.

The mandate of Dr. Hans Löffler on the company's Board of Management ended by mutual agreement with effect from 31 December 2009. Dr. Heinz-Peter Roß had already been appointed to the Board of Management as his successor with effect from 1 July 2009; he will assume responsibility for the newly formed division of Retail Germany effective 1 June 2010. The Supervisory Board of Talanx AG expressed its special appreciation to Mr. Zeller and Dr. Löffler for their many years of successful work on the Board of Management of Talanx AG and within the Talanx Group.

With effect from 25 November 2009 the Supervisory Board appointed Dr. Hinsch as the Deputy Chairman of the company's Board of Management; from mid-2010 onwards he will concentrate on the expansion of industrial insurance business worldwide. The Supervisory Board additionally appointed Dr. Hinsch as Labor Director pursuant to § 33 Co-Determination Act (MitbestG) with effect from 1 January 2010. In this regard he succeeds Mr. Haas, who relinquished this function with effect from 31 December 2009.

Word of thanks to the Board of Management and staff

The Supervisory Board thanks the members of the Board of Management and all the staff of the Talanx Group for their considerable personal dedication in the financial year just-ended.

Hannover, 28 May 2010

For the Supervisory Board

Wolf-Dieter Baumgartl
(Chairman)

Every era clamors for its own special music. In their striving to win over the audience with the optimal sound, ensembles reshuffled time and again over the years. New instruments were added, others taken away; the way in which instruments were played and how they were deployed was consistently readjusted to the various musical genres and styles.

Winning over its target groups and setting the right tone with its market presence also motivated the Talanx Group to review its structures. Is the instrumentation still appropriate, are we hitting the right pitch and meeting the expectations of the markets? With our positioning can we still accomplish our Group objectives of boosting growth and enhancing efficiency at home and abroad?

TARGO·VERSICHERUNG

ampegaGerling

The insight delivered by this review came as no surprise, but rather as a confirmation of the management principle long cultivated within the Group: the strategy must follow the market, the organization must follow the strategy. In concrete terms: a new configuration will better advance the Group. An organization aligned according to customer segments combined with increased efficiency, leaner structures and a greater concentration of management functions at the holding company will create a platform from which the Talanx Group can accomplish its goals more quickly.

The core of the new structure consists of the newly configured divisions in primary insurance: one member of the Talanx Board of Management will each assume responsibility for national retail business, international retail business and industrial business worldwide. The reinsurance division will continue in its tried and tested form.

German retail and commercial business will be combined in one division spanning the various lines of insurance. The consistent view of the customer creates a good basis for delivering better service and pulling out all the stops in cross-selling, i.e. the sale of additional products. In this customer segment, above all, consolidation is the precondition for generating cost benefits, enhancing efficiency and hence selectively extending our position in a fiercely cut-throat market.

In previous years **retail business abroad** has already delivered the strongest growth rates. In order to pursue the underlying growth strategy even more systematically and lend it special weight, we are creating a separate division in this area too that encompasses the various lines of business. Its mission: rigorous growth in markets that are rich in opportunities. This means that we must expand our current markets to the best of our ability while at the same time tracking down and opening up promising new markets.

The new **industrial insurance** division also has a growth mandate. Here, we shall refine our core competencies and capitalize on our superb market position in Germany. As a logical but necessary step, we shall close the gap with our leading competitors worldwide and grasp the opportunity to ascend to the status of Global Player.

hannover re

PROTECTION RE

neue leben
Willkommen Zukunft

PB Versicherungen
Partner der Postbank

Posta Biztosító

HDI GERLING

HDI

The first violin in the restructuring is played by the customer. In synchrony with the reorientation, however, the internal interplay within the Group will also undergo a fresh accentuation. Along with the customer segmentation, we are creating a more favorable platform to generate sustainable growth and better position our Group in the competitive arena: concentrated Group management, a streamlined Group and divisional structure aligned with our strategy and increased efficiency.

There is a good deal of potential for organizational optimization in the concerted interaction between holding company and divisions – and indeed between the various divisions. We must make the most of the scope offered by the size of our Group, specifically by generating substantial economies of scale through the bundling of tasks.

The baton remains in the hand of Talanx AG. Its function continues to be the execution of strategic tasks with a bearing on the entire Group – i.e. defining strategy, arriving at portfolio decisions, performing overarching management functions, providing financial resources and leveraging synergies. In this role as conductor Talanx is also able more easily to strike the right note with the capital market and thereby attune the Group even more closely to its requirements.

The hub of the cooperation and at the same time the efficiency center in the Group's German primary insurance business will be a newly formed service company. It will encompass general cross-sectional functions of the primary insurers – such as collections or human resources – which have hitherto been assigned to intermediate holding companies of the divisions. Going forward, then, it will resolve centrally matters that are currently handled by multiple intermediate holding companies acting independently of one another; it will also safeguard a consistent Group presence. It will be charged with standardizing services for Group companies and ensuring that everyone operates on the basis of uniform and consistent figures.

Each division needs certain functions on a local basis. In order to satisfy this requirement, the service company will operate according to a multi-site concept. Its staff will continue to work at the Group's main locations in Hannover, Cologne, Hilden and Hamburg.

The service company is to be flanked by specialist service providers such as AmpegaGerling and Protection Re, which already perform cross-sectional functions.

When it comes to operational business management and strategic market cultivation, the divisions set the tone. Supported by the service company, they enjoy market proximity and are able to respond quickly to changes in the market. The success of the Group is in large measure dependent on their capacity for variation or improvisation. In this respect, the insurers' response to current issues of risk protection and retirement provision is not so far removed from interpretative elements in music. From classical music to jazz, from Johann Sebastian Bach to Coleman Hawkins, musicians have consistently varied themes or improvised over harmonies underlying the theme. This is just what the insurance industry does. Its theme is security. The crucial factors are mastery of the instruments and virtuoso playing. And this is precisely how the Group's operational units will win over their audience.

Concentration of functions and tasks boosts efficiency

– moving in time to market requirements

SERVING CUSTOMERS COMPREHENSIVELY AND SYSTEMATICALLY

IN UNISON WITH THE TARGET GROUPS

People who take out insurance have no desire to study corporate structures beforehand. They do not turn to a line of business, they turn to a company – or more precisely a brand. With its new organization the Talanx Group will transcend the borders traditionally existing between lines, such as those between life and property/casualty insurance. The new divisions will work in unison with their customers.

Comprehensive customer management in the new division of Retail Germany will enable us to persuade satisfied policyholders of the merits of further products from our Group – a substantial business potential in the aggressive German competitive environment. To this end, a domestic customer who has policies with various Group companies across the organization must be perceived as one account. Not only the policyholder profits from targeted and better service, Talanx also benefits from the opportunities that this opens up. After all, a prerequisite for optimal development in the saturated German retail market is extensive familiarity with the customer base and knowledge of what customers want. With this expanded field of vision we shall, in turn, more easily be able to develop solution packages appropriate to specific target groups and thereby enhance our appeal.

Retail Foreign is the counterpoint to the division just discussed. Yet retail insurance in foreign markets is far from a cross-border business. Differences in national laws and national regulatory regimes and indeed cultural differences make it very much a local matter. Nevertheless, it makes sense to combine this business in a single unit; for despite all the disparities, it is possible to carry over experiences, practices and products to other markets. And in this way the division will evolve into a know-how leader, better equipped to be a player in lucrative new markets. This is especially true of regions with a similar culture, such as Latin America or Central and Eastern Europe, which Talanx has defined as strategic growth markets. Building on local management, each involvement, each experience with distribution channels and customers, will enrich the division's activities across borders. Orchestrated in this way, the apparent dissonance between different markets becomes a harmonious tonal picture, the apparent disadvantage associated with differing systems is turned to our advantage.

The industrial insurer HDI-Gerling has long played on the international stage: represented in 29 locations around the world by its own subsidiaries and branches, it supports its clients as they move towards globalization. HDI-Gerling Industrie has the capability to provide service in 130 countries. Reconfigured as the worldwide Industrial division, the long-standing insurer has a clear growth mandate. The prospects are good. The financial crisis has shaken up the worldwide industrial insurance market. In this context our market position is to our advantage: we are one of the leading German industrial insurers, and we are a prominent voice in the chorus of European market players.

Building on strengths, closing gaps

The Talanx Group strikes the right tone

Louis Armstrong is supposed to have said: “There ain’t but two kinds of music: good and bad. It’s not about what you play, it’s how you play.” The idea of how to play – in other words, how to cultivate the market – served as a coordinate for mapping out the Group’s restructuring: and in this respect Talanx concentrates on strengths and opportunities. With our new structure we are putting in place the platform to grow over the medium to long term – more substantially and more rapidly than the market.

The restructuring has two melodic main themes: building on strengths, closing gaps. Growth in areas where we still see significant potential and are too weakly positioned. Enhanced efficiency in areas where we can gain market edges through a reduction of complexity and concentration of central functions.

Turning first to our strengths: many of our companies are superbly positioned. Our reinsurance business is in excellent shape: both strategically and operationally, Hannover Re is well on course. This division will therefore continue its operations unchanged. As to our second major strength, industrial insurance, it is similarly true that we rank among the companies that set the tempo. One hundred years of experience twice over in industrial insurance is music to the ears of our clients. Equipped with this expertise of HDI-Gerling, we have an outstanding platform for developing into one of the leading global industrial insurers.

With our new formation we shall close the gap in German retail business. By bringing together all German retail business in a single division, we gain cost benefits, are able to operate more efficiently and can reclaim lost market shares. This new orchestration will better enable us to make ourselves heard in this difficult market. In foreign retail business, too, we want to play forte – especially in emerging markets, where growth opportunities are disproportionately large. Here, too, we are recognizing the importance of this area with a separate division.

The new structure will enhance efficiency within the Talanx Group: processes that previously played out multiple times at several intermediate holding companies will be handled more quickly in the new structure. The same or similar tasks performed in different places are to be centralized, thereby reducing the effort expended on coordination. The same is true of the Group management function. Yet properly functioning management is an essential prerequisite for successful growth, and hence the circle is closed.

In summary: the new structure must be considered in its entirety. The orchestra is more than the sum of its individual instruments. The art of striking the right tone consists of playing fortissimo in the right places, adagio at the right moment, spotlighting the soloists at an appropriate opportunity – and all the while playing in time. This combination leads to better interplay within the Group, a more harmonious tonal picture. And with our new structure we are playing in the right rhythm. We are becoming more nimble and more efficient, and we are better able to cope with the challenges posed by the markets. This will safeguard the position of the Talanx Group in the future competitive arena and enhance its appeal to retail and industrial clients at home and abroad.

TALANX ON TOUR 2009

01/2009

Hannover Re places life reinsurance business

Hannover Re placed a portfolio of life reinsurance on the international capital market. The transaction encompasses a financing volume of EUR 100 million in unit-linked life and annuity business. This transfer enables the company to monetize future earnings, gives it greater financial flexibility with an eye to the further expansion of its life and health portfolio and further improves its risk diversification.

Entry into the Mexican retail market

As part of its growth strategy in the Latin American insurance market HDI-Gerling International entered the Mexican retail market with its purchase of Genworth Seguros México, S.A. de C.V. from Genworth Financial. The acquisition extends to the lines of motor, property, casualty as well as life and personal accident insurance.

02/2009

Hannover Re acquires reinsurance portfolio

Under a reinsurance transaction Hannover Re acquired from Scottish Re Group Limited the ING individual life portfolio as well as significant parts of the infrastructure for the life reinsurance business in North America. This transaction moved Hannover Re up to fifth in the US individual life reinsurance market and also improved the diversification of its revenue streams.

03/2009

impulse and HDI-Gerling highlight solution for occupational retirement provision

HDI-Gerling Leben and impulse – a magazine aimed at entrepreneurs – launched the initiative "Occupational Retirement Provision Entrepreneur of the Year" in their search to find model concepts for occupational retirement provision among German small and medium-sized enterprises. In this way they are seeking to promote dialog between science, providers and practitioners on occupational provision concepts.

PB Versicherungen set up Sales Academy

In the context of personnel training and development activities across sales channels, the establishment of the PBV Academy created a talent factory for up-and-coming sales staff and an opportunity to foster seasoned consultants. PB Versicherungen thereby also responded to the increasingly exacting demands placed by the market on consulting expertise in sales.

04/2009

HDI-Gerling receives top marks in disability insurance

The analysts Morgen & Morgen confirmed the top 5-star rating for all disability products offered by HDI-Gerling. The criteria considered were experience, portfolio, claims settlement and application assessment as well as processes. The analysts Franke & Bornberg had already awarded HDI-Gerling's disability products the top mark of FFFplus.

05/2009

Neue Leben honored by Assekurata and Focus-Money

Neue Leben was singled out by the magazine Focus-Money in a comparative survey of the financial strength of German life insurers: it was awarded the highest mark of "very good" (1.0) as one of the financially strongest life insurers. The evaluation was based on the Assekurata "A++/Excellent" rating from January. With this top rating Assekurata honored the continuity of Neue Leben in matters of performance and customer orientation.

PB Versicherungen enter new business sectors

PB Versicherungen have now additionally taken on the home savings risk and credit life business of Postbank Finanzberatung AG. They are extending this business to Postbank's mobile sales channel with around 4,000 financial advisors.

Neue Leben renews Sparkasse agreements

The Neue Leben insurers have renewed early the agreements with four of their shareholding Sparkasse savings institutions regarding exclusive or semi-exclusive cooperation. The agreements will run for another 15 years.

06/2009

Ground broken for Riethorst 19

In the presence of prominent political figures ground was broken for the new HDI-Gerling premises in Hannover. Construction of the six-storey building, which the company is scheduled to move into during the summer of 2011, thus officially got underway.

07/2009

New variants of TwoTrust

For customers who value the highest possible guaranteed benefit, HDI-Gerling Leben offers a new life and annuity product named "TwoTrust Klassik". TwoTrust Klassik is available with regular and single-premium payments and for all levels of provision. In addition to the purely individual policy, there is a tax-assisted basic pension as well as several variants in occupational retirement provision.

HDI-Gerling embarks on joint venture in India

HDI-Gerling International Holding AG and the Indian financial services company Magma Fincorp Limited signed an agreement on the setting up of a joint venture. The purpose of this joint undertaking – named Magma HDI General Insurance Co. with a planned head office in Kolkata – is to pool the strengths of the two companies in order to offer customers in India tailored insurance products.

PB Versicherungen awarded very good rating
The PBV and PB life insurers received their first ratings from Standard & Poor's. The financial stability of the two "A"-rated companies is very good; the outlook for both is "stable". Following top marks in the customer-oriented rating procedure used by Assekurata ("A+ (Very good)") and a 4-star rating from the independent analysts Morgen & Morgen, this is the third very good distinction for PB Versicherungen in the past 12 months.

08/2009

HDI-Gerling given good marks for its service to commercial clients
"Four crowns" and a "Very good" – this is how ServiceRating GmbH evaluated the service quality of "Compact" insurance from HDI-Gerling Firmen und Privat. 92 percent of customers expressed their satisfaction with the quality of advice in the independently conducted rating procedure; the organizational processes of claims settlement and contract processing were rated "excellent".

09/2009

Life Group relocates
The HDI-Gerling Life Group moved with over 2,000 workplaces into its new headquarters, the Rheinpark-Metropole in Cologne-Deutz. Two weeks later it was followed by AmpegaGerling and the Cologne branch of the Property/Casualty Insurance Group. The rented space in the new office complex covers some 68,000 square meters; the lease is for 20 years.

Innovative risk portfolio transfer
For the first time Hannover Re transferred a portfolio of facultative reinsurance risks to the capital market. It was comprised of individual risks worldwide, which the company packaged and placed on the capital market. At stake here is not the protection of the company's own business, bur rather the direct transfer of its clients' business. In this way cedants can also gain access to the capital market for business that would otherwise not be suitable on a stand-alone basis.

HDI Austria honored with AssCompact Award
In Vienna HDI was honored with the "AssCompact Award" in motor business. HDI-Gerling and HDI ranked among the top ten in the life and homeowners'/householders' lines. Around 1,400 brokers and insurance customers evaluated the insurance companies, giving precise reasons for their opinions.

Reactions Global Awards for Hannover Re
The highly respected international trade magazine "Reactions" crowned Hannover Re "Best Global Reinsurance Company" in New York. It was also singled out as the best reinsurer worldwide for specialty lines – these include inter alia the segments of aviation and marine reinsurance. Awards were handed out on the basis of votes cast by the readership of "Reactions".

Talanx Group announces reorganization
The Talanx Group intends to overhaul its organizational configuration, which is to be geared systematically to the needs of customers. Other key points are a lean structure as well as holistic market cultivation and enhanced efficiency. The goal of the new structure is to put the Group on a competitive footing for the future, safeguard the attainment of growth and profitability targets and thereby create secure jobs for the long term.

10/2009

Hannover Re strengthens its presence in China
Hannover Re received approval from the China Insurance Regulatory Commission to open a non-life branch in Shanghai. Since May 2008 the company has had a branch in the country transacting Chinese life and health reinsurance. Going forward, both business groups will be written directly from Shanghai.

First rating for HDI Austria
Based on its status as a strategically significant company within the Talanx Primary Group, the Austrian company HDI Versicherung AG received both a financial strength rating and an issuer credit rating of "A" with a stable outlook in the context of its first rating from S&P.

Life insurers pass stress test with flying colors
The analysts Morgen & Morgen performed a stress test on German life insurers exclusively for Capital magazine. The financial strength of CiV (now Targo) Lebensversicherung AG, Neue Leben Lebensversicherung AG and PBV Lebensversicherung AG was certified with the top mark of "outstanding" in the "M&M Stress Test Capital Market Risks".

11/2009

HDI Seguros Brazil insures one million vehicles
The Brazilian company belonging to the HDI-Gerling Property/Casualty Group reached the one million vehicle mark. The company, which employs around 1,000 staff, is on an expansionary growth path and plans to open further branches in various parts of the country.

BaFin interim audit successfully negotiated
AmpegaGerling successfully completed the first audit block of the Federal Financial Supervisory Authority (BaFin) for approval of the Solvency II guidelines for insurance companies within the Talanx Group. The audit activities encompassed principally the risk management of the undertaking and the investments.

12/2009

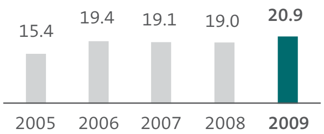
Hannover Life Re accredited in the United States
Hannover Life Reassurance Company of America was admitted as an accredited reinsurer in New York. This accreditation enables Hannover Life Re to conduct its business in all 50 US states and Puerto Rico.

HDI Direkt "Best Motor Insurer"
Exclusively for Focus-Money, management consultants NAFI working in cooperation with Cologne Re identified the most favorable tariffs for various types of insurance and customer profiles. HDI emerged in great shape: Focus-Money awarded HDI Direkt the title of "Best Motor Insurer".

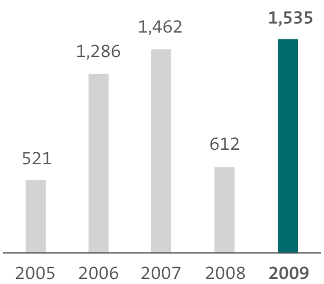
For the Talanx Group, the final chord of the financial crisis sounded as 2009 drew to a close. Challenging market conditions did nothing to prevent Germany's third-largest insurance group ending the year on a successful note. The Group achieved good results in terms of premium growth, investment income, operating profit (EBIT) and net income. Talanx was thus able to build on the profitability that it had enjoyed prior to the financial crisis. The involuntary "stress test" imposed by the financial meltdown made one thing clear under real conditions: even a financial disaster scenario could not shake Talanx's stable constitution and rock solid capital strength.

The sharp rise in gross premium income derived in particular from a successful life reinsurance transaction in North America: through its acquisition of a sizeable life reinsurance portfolio Hannover Re was able to considerably strengthen its position in the United States. Along with sometimes very appreciable organic growth in international primary insurance, the Group can report further advances with its entry into the Mexican and Indian markets in 2009.

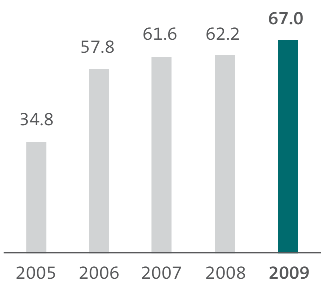
Gross written premium
in EUR billion



Operating profit (EBIT)
in EUR million



Investments (excluding funds held by ceding companies)
in EUR billion



Group management report. Contents

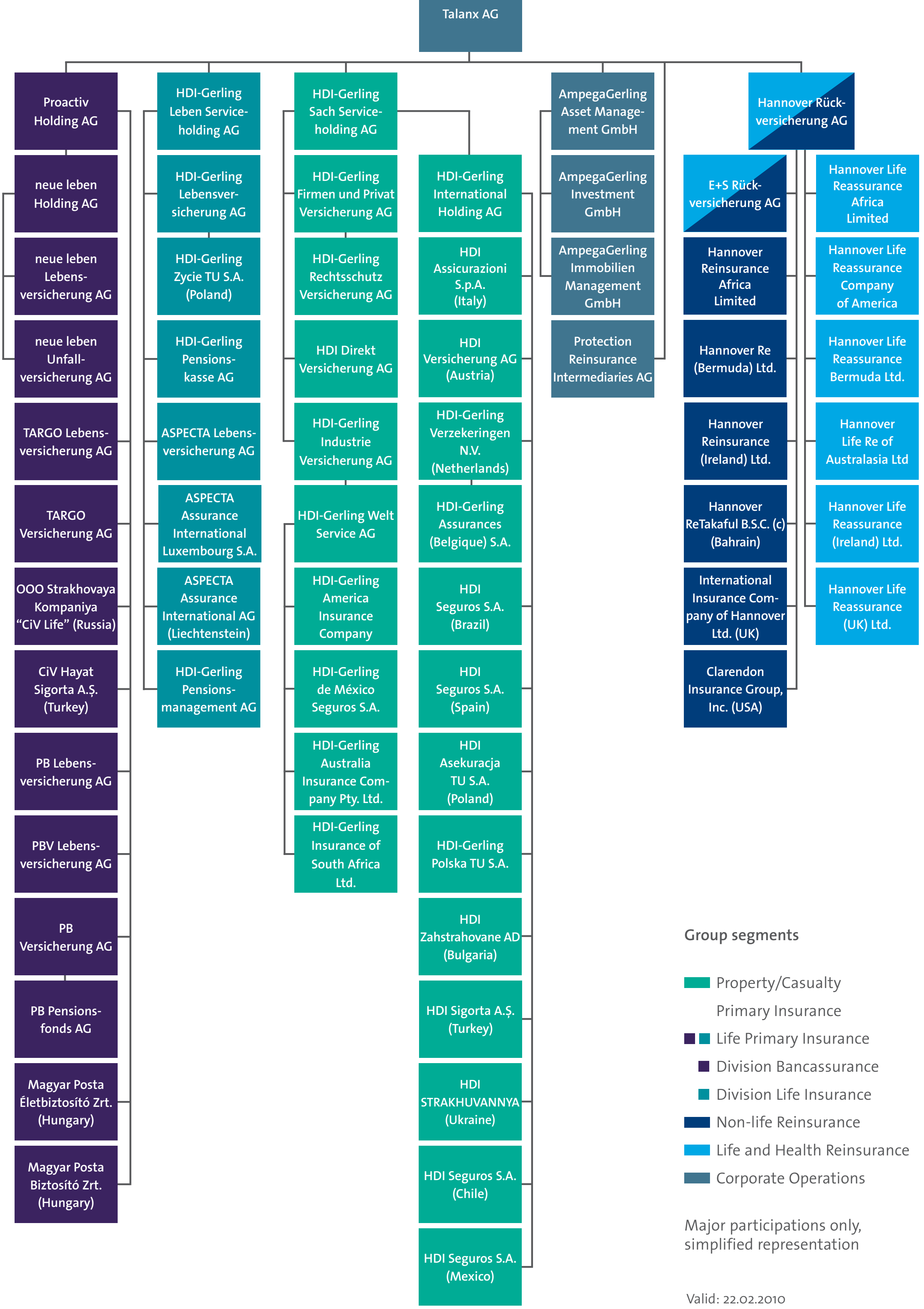
Business operations, organization and structure

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 2009 we employed around 18,000 staff worldwide. Since the end of the year under review we have been working to reconfigure the Group structure; as at the balance sheet date the Group's activities were still split into the following five Group segments: Property/Casualty Primary Insurance, Life Primary Insurance, Non-Life Reinsurance, Life/Health Reinsurance and Corporate Operations. The latter segment also includes Financial Services. The Group is headed 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 that can look back on more than a hundred years of history.

Talanx is represented by its own companies or branches in 40 countries worldwide. We are active in altogether 150 countries through cooperation arrangements. Primary insurance activities in personal lines are concentrated on Europe, while in property/casualty business the focus is principally on growing markets of Central and Eastern Europe as well as Latin America. In the primary sector we have acquired companies in high-growth markets over the past few years, including in Brazil, Chile, Poland, Ukraine, Turkey and most recently Mexico and India. In each of these markets the goal is to rank among the country's ten largest insurers over the medium term. Industrial insurance and, above all, reinsurance are also transacted on other continents, e.g. in North America, South Africa, Australia and some Asian countries.

Group companies transact the insurance lines and classes specified in the Ordinance Concerning the Reporting by Insurance Undertakings to the Federal Insurance Supervisory Office (BerVersV), in some cases in direct written insurance business and in some cases in reinsurance business, with various areas of concentration: life insurance, accident insurance, liability insurance, motor insurance, aviation insurance (including space insurance), legal protection insurance, fire insurance, burglary insurance, water damage insurance, plate glass insurance, windstorm insurance, comprehensive householders insurance, comprehensive homeowners insurance, hail insurance, livestock insurance, engineering insurance, omnium insurance, marine insurance, credit and surety business (reinsurance only), extended coverage for fire and fire loss of profits insurance, business interruption insurance, travel assistance insurance, aviation and space liability insurance, other property insurance, other indemnity insurance.

Group Structure



Strategy

The Talanx Group is internationally active in insurance – with the exception of the health and credit lines – and reinsurance business. In its domestic market our Group is a major player in shaping the insurance industry. Measured by gross premium income, Talanx has grown faster than any of the other major European insurance groups in recent years. At Talanx, we optimize the interplay of insurance and reinsurance as an integral component of our business model with the aim of consistently enhancing the opportunity/risk profile, increasing capital efficiency and leveraging growth and profit 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 risk capacity to support its clients reliably and over the long term, tap into interesting markets and thereby safeguard and increase the independence and underlying value of the Group on a lasting basis.

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 – and in compliance with Corporate Governance guidelines. The success enjoyed by the Talanx Group is attributable in special measure to this organizational structure, which accords the individual business units a very high level of entrepreneurial freedom and profit responsibility. In this way the various units are best able to act on their growth and profit opportunities – always with an eye to lucrative expansion.

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 distribution resources 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, it promotes the efficient integration of new companies and/or business sectors 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.

Strategic objectives

The paramount strategic objectives of the Talanx Group are safeguarding a lasting majority interest of HDI V.a.G. and focusing on a stakeholder value orientation. This is driven by the firm conviction that only on this basis can the Group's 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 – so to speak as a prerequisite – customers 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 risk protection by consistently consolidating and optimizing its equity base and capital allocation. As a binding guiding principle, these strategic objectives form the basis from which all other Group goals are derived.

Profit target

The Talanx Group strives for continual, above-average value enhancement of the invested capital in keeping with the risk exposure. We seek to rank among the five most profitable of Europe's 20 largest insurance groups – measured by our return on equity under IFRS. Our Group's minimum target in relation to the Group net profit after tax and before minorities is an IFRS return on equity 750 basis points in excess of the average risk-free interest rate. This is defined as the average market rate over the past five years for 10-year German government bonds.

The utilization of the Group net profit is geared to the necessary strengthening of the Group's capital base. Reinforcement of our capital base makes us less dependent upon movements on primary and reinsurance markets and enables us to generate a sustainable attractive return commensurate with market standards. The distribution policy of the Group companies is centrally managed by Talanx AG in compliance with the pertinent legal framework conditions, always guided by the twin goals of optimizing capital efficiency at the Group companies and satisfying the Group's liquidity and capital requirements.

Capital management

The capital management of the Talanx Group is geared to an optimized risk-adequate capital structure in order to reinforce the Group's financial strength.

This is achieved in two ways: firstly, we optimize 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 Standard & Poor's capital model for an "AA" rating. Equity resources in excess of this requirement are established to boost our earnings potential above and beyond the return on reinvested funds, e.g. through improved provision of risk capacity and protection or through greater independence from reinsurance and retrocession markets.

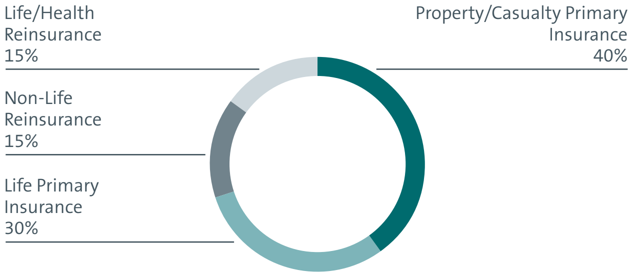
Capital resources are, as a general principle, allocated to those areas that promise the highest risk-adjusted post-tax profit over the medium term. In this context we make allowance for the desired portfolio diversification and the required risk capital as well as the general regulatory framework. Allocation is based on the expected intrinsic value creation (IVC), arrived at from the coordinated business plans.

In recent years Talanx AG has opened up to the capital market in order to be able to boost its financial strength even before an Initial Public Offering. The next logical step as part of this progressive capital market orientation is a going public: over the long term it is envisaged that a maximum 49.9% of the voting equity of Talanx AG is to be placed on the stock market. This stock market flotation will be implemented by way of a capital increase in order to maximize the strengthening of our asset base and the resulting strategic options.

Growth target

In order to preserve and further improve our competitiveness, we strive for profit-oriented growth within the Talanx Group while preserving the optimal segmental and regional diversification of the portfolio and keeping a close eye on the risk-adjusted return. 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 target structure for our total portfolio, measured by the value-added contributed by the individual segments, is as follows:



In the medium term it is envisaged that the proportion of gross premium from primary insurance generated outside Germany should amount to half the total gross premium volume in primary insurance.

In view of the varying risk profiles of our divisions we set ourselves exclusively profit targets in volatile segments. In less risk-exposed segments we define both profit and volume targets.

More extensive elaboration of this strategic framework – in terms of products, customer groups, sales channels and countries – is provided by our individual divisions.

Markets, business climate and legal environment

Overall economic development

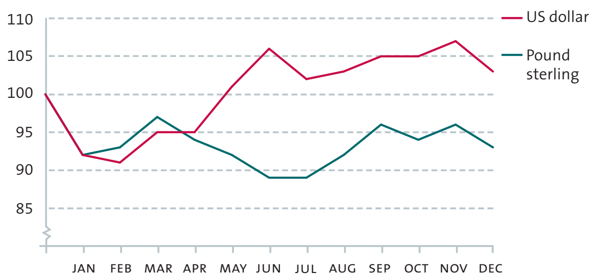
The 2009 financial year can be split into two phases: in the first half-year the adverse repercussions of the financial crisis were also manifested with the utmost severity in the so-called real economy. The slump in the real economy that could already be observed in 2008 was sustained at an enormous pace and resulted in the sharpest downturn since the Second World War. Industrial output in the developed countries collapsed on a hitherto unprecedented scale; consumer and sentiment indices repeatedly plumbed new all-time depths. In Germany alone ten years' growth in industrial output was destroyed. The effects of the concerted rescue and support measures for the financial sector undertaken by governments and central banks around the globe served to curb the systemic risks and hence heralded a trend reversal and the onset of the second phase. The global downturn was stemmed by the combination of large-scale economic stimulus programs and the extremely expansive monetary policy pursued by central banks. The sentiment and leading indicators first began to turn around in the middle of the year and hinted at stabilization in the economy. Over the final months of the year they were increasingly reinforced by "hard" data from the real economy. A revival in foreign trade went hand in hand with rising industrial output in Germany and the United States. Towards the end of the year there were growing signs that the labor market – at least in the US – was close to bottoming out.

Officially, the economy in the United States was in recession from the final quarter of 2007 onwards. The first positive quarterly growth rate – with an annualized figure of 2.2% – was reported for the third quarter of 2009. Compared to the previous year the economy contracted by a further 2.6%. Consumer prices in the United States displayed a falling tendency from the outset of the year, prompting temporary concerns about deflation. This trend was, however, a consequence of the sharp rise in commodity prices in the previous year, as evidenced by stable positive core inflation. Towards the end of the year inflation rates moved back into positive territory year-on-year, closing at +1.8%. Unemployment in the US climbed to its highest level since the 1980s, standing at 10% at year-end.

The Eurozone similarly surged back into positive growth figures in the third quarter, after Germany had already surprised market watchers with modest growth in the second quarter. In Europe, as in the US, unemployment soared into the double digits at 10%. Although Germany was a positive exception at 8.1%, allowance must be made for distortions associated with short-time working. Inflation rates in Europe similarly slipped initially into negative territory in 2009, although by year-end here, too, stabilization and a return to positive rates of change had set in.

Movements in the exchange rate between the euro and the US dollar can also be split in two: at the beginning of the year the dollar initially appreciated to EUR 1.25, but this trend then turned around in March 2009. Against a backdrop of increased willingness to take risks, the euro rose steadily against the US dollar and recorded a new record high of USD 1.51 in December. Similarly, the pound sterling also rose against the euro early in the year, only to fall back from 0.98 to 0.84 in June 2009. Towards year-end the exchange rate was moving sideways, closing at 0.89.

Movement of the euro relative to other currencies in 2009
31.12.2008 = 100

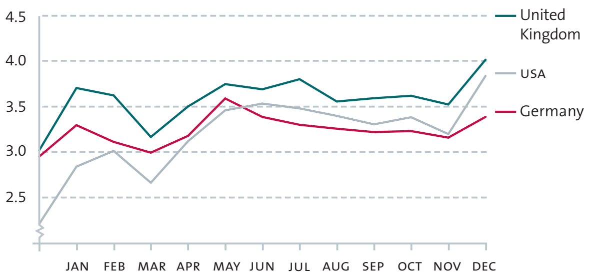


Capital markets

Central banks pursued a policy of virtually zero interest rates: the US Federal Reserve slashed key interest rates to a range of 0% to 0.25% for fear of a second Great Depression, while the ECB too cut prime rates to 1.00% – the lowest level in its history. In some cases discussions even turned to a possible need for negative interest rates. Government rescue programs brought significantly greater availability of government bonds, which for the most part were bought up by central banks – hence leading to a significant expansion of central bank balance sheets. The unconventional steps taken by central banks bore fruit – money markets and capital markets eased as the year progressed.

The financial market crisis initiated a flight to low-risk investments among market players, a move from which government bonds benefited. The risk aversion prevailing among market participants caused yields on 10-year US treasuries and Eurozone government bonds to drop several times to levels of around 2.0% and 2.8% respectively in the period between January and March 2009. In a parallel development, risk and illiquidity premiums for financial bonds increased considerably in the period until mid-March – especially for subordinated capital but also for senior and covered bonds. The support given to the markets by governments and central banks partially offset the increased risk aversion, ultimately causing yields to pick up again slightly.

Yields on 10-year government bonds in 2009
in %

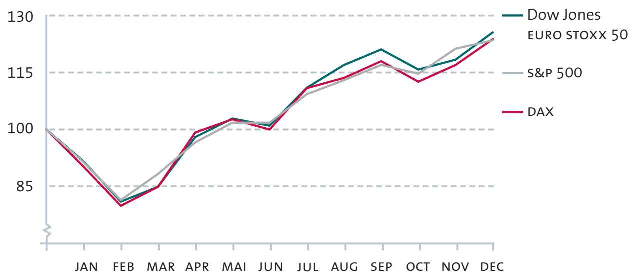


On the back of this stabilization, a price rally of unprecedented intensity set in from mid-March onwards across all risk-exposed asset classes. By year-end investment-grade fixed-income securities had seen unusual price increases sometimes in excess of 20%.

The second half of the year saw 10-year yields caught in a volatile sideways movement between 3.0% and 3.5%. The low level of money market rates and slight increase in yields led to an exceptionally steep yield curve. This steepness will not, however, be sustained. Towards the end of the year the turmoil in Dubai and the downgrade of Greece's credit rating prompted another temporary flight to government bonds and hence a decline in 10-year yields. They did not, however, break through the lower threshold of 3.0% that had become established towards year-end. This suggests that the occasional piece of bad news merely prompts short-term price swings rather than a complete turnaround on markets.

The 2009 stock market year was also initially dominated by the financial crisis and global recession. In March 2009, when the lowest point was reached, the leading indices had shed an average 30% of their value relative to the highs going into the year. In the second quarter equity markets were able to halt the downward slide and set in motion a vigorous contrary trend. In April alone markets put on double-digit gains and generated one of their best monthly performances in years. The second and third quarters each saw further double-digit growth rates, and in the fourth quarter too trading closed with a plus on all major indices after a brief period of consolidation. By year-end the DAX had put on more than 65% relative to its lowest point, and at times it surpassed the psychologically important 6,000 mark. The broad-ranging US S&P 500 index gained as much as 67%, an extraordinarily strong upward movement even by historical standards. Looked at over the year, the DAX and S&P 500 thus both delivered performances of 23%, while the EURO STOXX 50 closed 21% higher than its level at the beginning of the year.

Movements on equity markets in 2009
31.12.2008 = 100



International insurance markets

In the course of 2009 the international insurance industry gradually recovered from the most severe of the shock waves emanating from the worldwide financial and economic crisis and was able to draw again on its own strengths. Although the economic climate was for the most part challenging, many insurers and insurance groups were able to significantly regenerate their equity resources as capital markets improved. Even at the height of the crisis insurers and reinsurers alike – with just a few exceptions – were able to meet their obligations without reservation. Of the total government support measures devoted to the financial sector, only an extremely small portion was allocated to the insurance industry in Europe.

Despite a growing need overall for individual retirement provision, new business figures on life insurance markets were generally lower. The new business growth recorded in certain countries, such as Italy, tended to be the exception. Impacted by the financial crisis, demand shifted away from unit-linked products back towards traditional and risk-oriented offerings. What is more, the climate of economic uncertainty significantly reduced the willingness to enter into long-term contracts. The rather sluggish new business in the year under review contrasted with a growing number of expiring insurance policies from years in which new business had been more abundant.

Non-life insurance and reinsurance markets were generally satisfactory, despite the repercussions of the global economic stagnation. From the reinsurers' standpoint, 2009 can even be assessed favorably, since the renewals at the start of the year had in some cases brought substantial rate increases. Even before the financial crisis the emerging markets – especially the so-called BRIC countries – had been attractive to insurers and reinsurers on account of their dynamically growing economic strength, and – with the exception of Eastern Europe – this was merely reinforced in 2009. Attempts to push through price increases in inadequately rated business segments were frustrated by the tense economic situation on the demand side, and as investment income picked up they were largely put on hold.

Despite a higher-than-average number of natural hazards claims, the aggregate losses caused worldwide by natural disasters were appreciably lower in 2009 than in the year before. The total economic cost is put at around USD 50 million. The insurance industry shouldered USD 22 billion – i.e. more than 40% – of the total loss. Of this amount, roughly USD 20 billion was apportionable to the American continent and Europe. Along with various other factors, the unusually low loss experience can be attributed to the relatively untroubled hurricane season in the North Atlantic. The largest single loss was winter storm “Klaus”, which left a trail of destruction across Northern Spain and Southwest France at the start of the year. Irrespective of the natural disasters recorded in 2009, the trend towards weather-related catastrophic events continues to rise.

German insurance industry

Development of premium income in the individual insurance lines in Germany

in % compared to previous year	2009 [1)]	2008
Property/casualty insurance	±0.0	+0.2
Life insurance/occupational retirement provision	+7.1	+0.8
Private health insurance	+3.8	+2.9
Total	**+4.1**	**+1.0**

[1)] *Provisional figures*

The German insurance industry boosted its premium income by more than 4% in 2009 and thereby slightly accelerated its growth year-on-year. It was thus able to successfully divorce itself from the recessionary macroeconomic trend in Germany. Compared to the sometimes abrupt slumps seen in other business sectors, demand for insurance protection held broadly stable. While the insurance industry was not spared the repercussions of the global financial and economic crisis, it nevertheless impressively underscored its position as a professional institution for the reliable assumption of risk and as a safe harbor for the assets of customers and investors alike – even against the backdrop of difficult framework conditions.

The environment for German property/casualty insurance tended to become even bleaker in 2009, as a consequence of which stagnation or at best only minimal premium growth can be anticipated. While demand in retail business largely held up on account of the relatively stable economic state of private households, a tendency towards further cost savings was observed in the industrial and commercial segment. Further pressure on the premium trend, however, derived from the fact that pricing is generally based on turnover – as reflected in lower premiums on the back of diminishing sales.

What is more, motor insurance has been suffering under particularly fierce price competition – exacerbated by moderate claims experiences – for several years now; in 2009 this was reflected in further premium erosion in what is the largest single line of business. Another reason for the relatively slight scope available for growth is the high degree of market penetration, which limits growth in the quantity structure.

The challenging economic climate led to a sharply higher burden of losses in some losses, most notably credit, marine and legal protection insurance; this can be attributed in part to the sharp rise in the risk of insolvency and the number of legal protection claims. The combined ratio in total property/casualty insurance must therefore be expected to increase.

The prevailing trends on the German life insurance market remained very largely intact in 2009. They include, in the first place, the growing significance of annuity insurance relative to endowment insurance, which was the main product in past years. In this case, product design and the development of the market are evidently following the demographic trend, which is characterized by – among other effects – increasing life expectancy and the associated need for provision. Secondly, 2009 was notable for a very steep rise in new contracts with a single premium, while new business in terms of policy numbers and regular premiums contracted year-on-year. The trend towards unit-linked life insurance which had been evident prior to the financial crisis was, however, abruptly curtailed by the greater unwillingness of customers to take risks.

The gross premium written by German life insurers (excluding providers of occupational retirement provision in the form of Pensionskassen and Pensionsfonds) grew by altogether 7% in 2009 to EUR 81.4 billion. The protracted low level of interest rates made new investment and reinvestment at adequate returns on capital markets difficult, putting rising pressure on reserves and the surplus distribution paid to policyholders.

Legal and regulatory environment

In the year under review the Group was again confronted with numerous new or modified legal requirements. Most notably, regulatory requirements were tightened up extensively all around the world.

In January 2009 the Federal Financial Supervisory Authority (BaFin) published a Circular on Minimum Requirements for Risk Management in Insurance Undertakings (MaRisk VA). This interprets the requirements placed by §64a Insurance Supervision Act (VAG) on the organization of insurance undertakings from a regulatory standpoint and preempts many of the provisions of the Solvency II Directive, which was adopted by the Council of the European Union in November 2009. Solvency II is intended to bring about a risk-based solvency system in Europe. The directive, which is to be implemented in national law by no later than the end of October 2012, contains requirements inter alia with respect to risk-appropriate equity resources and adequate risk management. The details in this regard are currently under discussion by various bodies in consultation with the insurance industry.

In July 2009 the Act for the Strengthening of the Supervision of Financial Markets and Insurance was passed; it further extends the powers of the Federal Financial Supervisory Authority (BaFin). The regulator may, for example, under certain circumstances prohibit or limit payments by insurance undertakings to affiliated companies. The law also places requirements, inter alia, on the expertise and reliability of supervisory board members at insurance undertakings and obliges holding companies of insurance undertakings to report to the BaFin quarterly on risk concentrations at the group level.

With the publication of its Circular on Requirements for Remuneration Systems in the Insurance Industry on 21 December 2009, the BaFin applied the Standards for Sound Compensation Practices issued by the Financial Stability Board and approved by the G-20 countries to the insurance sector with the aim of avoiding negative incentives through the use of inappropriate variable remuneration portions. The draft legislation presented by the federal government in February 2010 regarding the supervisory requirements for remuneration systems at institutions and insurance undertakings is intended to put the standards on a legal footing.

Corporate Governance

Talanx AG takes good Corporate Governance to mean responsible enterprise management and supervision geared to sustainable value creation. In particular, we strive to further foster the trust placed in us by customers, employees and investors as well as the public at large. We also attach considerable importance to the efficient conduct of their work by the Board of Management and Supervisory Board, good cooperation between these bodies and with the company's staff as well as open and transparent corporate communications.

Talanx AG is a joint-stock company under German stock corporation law. It has three executive bodies: the Board of Management, Supervisory Board and General Meeting. The tasks and powers of these bodies are defined by law, the company's Articles of Association and the Rules of Procedure for the Board of Management and Supervisory Board.

Board of Management

The Board of Management leads the company at its own responsibility and defines goals as well as strategy. In accordance with § 7 Paragraph 1 of the Articles of Association, the Board of Management is comprised of at least two persons. Beyond that, the Supervisory Board determines the number of members. The current composition of the Board of Management is set out on page 8 of the Annual Report.

The working practice of the Board of Management is governed by Rules of Procedure adopted by the Supervisory Board. These define the areas of responsibility of the individual members of the Board of Management. Each member of the Board of Management leads the areas(s) assigned to them at their own responsibility within the scope of the resolutions of the full Board of Management. In addition, the Rules of Procedure set out the matters reserved for the full Board of Management as well as the required voting majorities. The full Board of Management decides in all cases where adoption of a resolution by the full Board of Management is stipulated by law, the Articles of Association or the Rules of Procedure.

The Board of Management meets at least once a month. It reports regularly and comprehensively to the Supervisory Board on the strategic orientation, the development of business, the financial position and results of operations, the planning and goal accomplishment as well as the existing opportunities and risks.

Certain decisions of the Board of Management that are of special importance require the approval of the Supervisory Board. Some of these reservations of approval are prescribed by law, others are governed by the Rules of Procedure of the Board of Management. The following measures and transactions, among others, require the prior approval of the Supervisory Board:

- the approval of strategic principles and objectives for the company and the Group
- the approval of the annual planning for the company and the Group
- the approval of the medium- and long-term planning for the company and the Group
- the closing, modification and termination of company agreements
- the acquisition and disposal of parts of undertakings in excess of a certain size

Supervisory Board

The Supervisory Board advises and monitors the management of the company. It is also responsible, in particular, for the appointment and employment contracts of members of the Board of Management and for the examination of the annual financial statements.

The Supervisory Board consists of 16 members. Half of them are chosen by the shareholders and the other half are elected by the employees.

In order to ensure that the Supervisory Board performs its tasks effectively, the Supervisory Board has formed the following committees:

- Personnel Committee
- Finance and Audit Committee
- Nomination Committee
- Standing Committee

The Board of Management informs the Supervisory Board in a regular and timely manner of the development of business, the implementation of strategic decisions, material opportunities and risks as well as the company's planning. The Chairman of the Supervisory Board is in constant contact with the Chairman of the Board of Management in order to discuss with him the company's strategy, business development and risk management.

The composition of the Supervisory Board and its committees is set out on pages 6–7.

General Meeting

Shareholders exercise their rights at the General Meeting. The sole shareholder of Talanx AG is HDI Haftpflichtverband der Deutschen Industrie V.a.G.

Compliance

For the Talanx Group, compliance with applicable laws as a fundamental prerequisite for lasting successful business operations is a matter of course. Employees are supported in this respect by the compliance officers of Talanx and its various divisions.

Our commercial success is determined not only by the quality of our products and services, but also by the legally correct and responsible conduct of our employees towards each other, our business partners and the public at large. Only in this way can we create trust, an especially decisive competitive factor in our industry.

The Code of Conduct for our staff has defined standards for responsible and ethical behavior on all levels of the Group. It is incumbent upon every employee within the Group to ensure that their actions are in compliance with this code and the laws governing their area of work.

A whistleblower system gives staff the opportunity to provide tips on certain serious breaches of the law – anonymously, if they so desire. This enables compliance officers to take action, contain the damage and avoid further losses.

Business development

Despite difficult market conditions the Talanx Group closed the 2009 financial year on a successful note. Posting good figures for premium growth, investment income, the operating profit (EBIT) and net income, Talanx was able to build on its healthy profitability prior to the financial crisis. While the dissonance on capital markets caused by the crisis had prompted results to decline in the previous year, this involuntary stress test nevertheless showed that the Group has a stable constitution which enables it to comfortably withstand even severe disruptions: Talanx continues to enjoy robust financial strength.

Foreign business remains on expansionary course

In 2009 the Talanx Group was again able to make advances in its foreign business. At the beginning of the year under review the HDI-Gerling Property & Casualty Group acquired a company in Mexico, which since 1 October 2009 has belonged to the Group under the name HDI Seguros (Mexico). The company is active primarily in motor insurance and generates annual premium income of roughly EUR 50 million. In India the HDI-Gerling Property & Casualty Group signed a joint venture agreement with the financial services company Magma Fincorp Limited regarding the sale of insurance products for the Indian market. In terms of organic growth, too, the Group made considerable gains in foreign business – for example in Brazil. The local company in the latter market, HDI Seguros, now ranks as the country's fifth-largest motor insurer measured by unit volume; the number of insured vehicles in the company's portfolio recently surpassed one million.

Cooperation with Swiss Life making progress

Following the agreement of a strategic partnership with Swiss Life in March 2009, joint working groups began to explore potential areas of cooperation in late summer. Work here is progressing to the satisfaction of both partners.

The first concrete outcome is a significant expansion of cooperation in subsegments of life reinsurance that was decided upon in the current year. Work is also ongoing to explore how further joint activities might look, for example in the fields of pension management and credit life insurance. The sales and distribution performance through the AWD Group is also developing satisfactorily. In addition, initial successes have been recorded with the reciprocal sale of public funds.

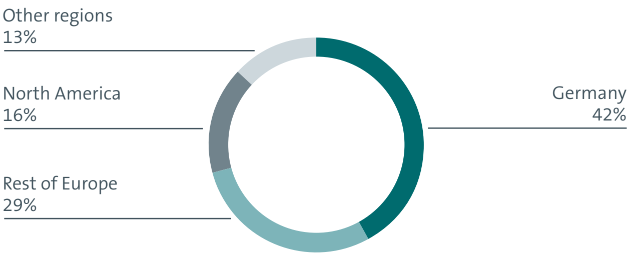
New structure designed to build on strengths and close strategic gaps

Towards the end of the third quarter Talanx signaled the prelude to a far-reaching organizational realignment. The end goal is a structure geared to customer groups that enables the Group to flexibly strengthen its competitive position and respond more quickly to changes in the market. Primary insurance will henceforth be divided into three divisions: industrial business, German retail business and foreign retail business. There will be no changes to the Reinsurance Division. This structure will be implemented in the course of 2010 with corresponding implications for future segment reporting. For more detailed remarks please see pages 12 to 19.

Business experience of the Group

The Group's gross written premium (including savings elements of premium under unit-linked life and annuity policies) grew by 10% to EUR 20.9 (previous year: 19.0) billion. The increase derived from reinsurance business, particularly the acquisition of a significant life insurance portfolio. The number of policies climbed by 2.3% to EUR 22.4 (21.9) million. The increase in the number of policies was attributable principally to the companies abroad.

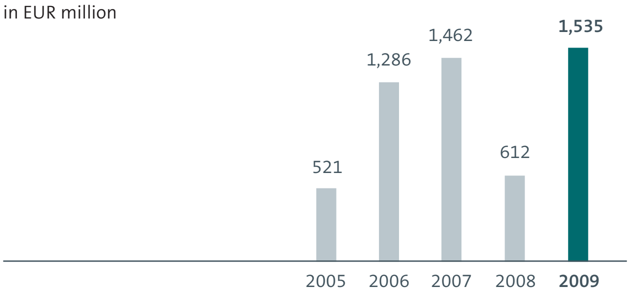
Geographical split of gross premium



Based on higher levels of retained premium in the reinsurance segments, net premium earned rose by 16% to EUR 17.3 (14.9) billion. Higher combined ratios in property/casualty insurance and non-life reinsurance pushed the overall combined ratio up by 1.4 percentage points to 96.6 (95.2)%.

Investment income surged by an appreciable 78% to EUR 2.9 (1.6) billion. After the heavy write-downs and disposal losses taken in the previous year as a consequence of the financial crisis, value adjustments in 2009 were considerably lower – and in some cases write-ups were made.

Operating profit (EBIT)
in EUR million

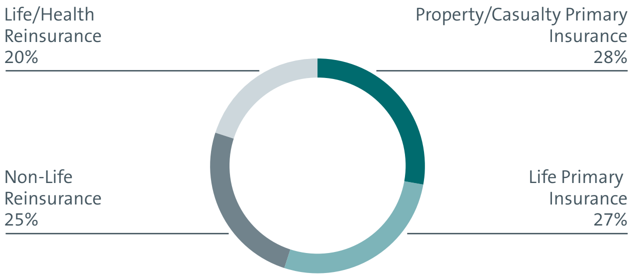


The operating profit (EBIT) climbed to EUR 1.5 (0.6) billion; this corresponds to an increase of 151% relative to the previous year's result, which was, however, adversely impacted by the financial crisis. EBIT improved substantially in all Group segments, and again especially strongly in reinsurance. The profit before tax amounted to EUR 932 million. Group net income after tax and minorities reached EUR 526 (183) million.

Development of the Group segments

In comparison with the previous year, there were no fundamental changes in the business activities of the Group's operational segments. In other words, in 2009 they again encompassed the four Group segments of Property/Casualty Primary Insurance, Life Primary Insurance (with the Bancassurance and Life Divisions), Non-Life Reinsurance and Life/Health Reinsurance. The new segment of Corporate Operations – previously Financial Services – was created. This can be attributed to the ongoing alignment of the Group according to the management approach required by IFRS. Several companies were therefore reallocated to the new segment of Corporate Operations in order to concentrate here all internal Group services spanning the various segments. The Corporate Operations segment encompasses the AmpegaGerling companies and Protection Reinsurance Intermediaries from the former Financial Services segment as well as Talanx AG and specific companies with Group functions that are not allocated to any of the other segments and were previously recognized within the scope of consolidation.

Segmental breakdown of gross premium



The significant addition to the Group in 2009 was the Mexican property/casualty insurer HDI Seguros.

Far-reaching resegmentation is on the agenda for the current 2010 financial year, but this is not reflected in the present management report.

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]

	2009	2008	2007 [2]	2006	2005
Figures in EUR million					
Gross written premium	5,847	5,896	5,984	5,632	3,507
Net premium earned	3,826	3,864	3,683	3,783	2,116
Underwriting result	80	135	–39	207	184
Net investment income	454	342	481	389	225
Operating result (EBIT)	363	259	235	339	340
Combined ratio (net) in %	96.5 [4]	95.3 [3]	100.1	92.7 [3]	91.3

[1] *The years prior to 2007 are of only limited comparability due to changes in segment allocation. Since 2005 the primary insurers belonging to the Hannover Re Group have been allocated to the Non-Life Reinsurance segment.*

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

[3] *Excluding life insurance business of the Italian subsidiary*

[4] *Excluding life insurance business of the Italian and Mexican subsidiaries*

The most traditional area of business of the Talanx Group is transacted in the Group segment of Property/Casualty Primary Insurance, with gross written premium in excess of EUR 5.8 billion. The product range extends from property and casualty insurance for private customers to worldwide professional industrial insurance: nearly 14 million customers trust in the services and the over 100 years of experience of our property/casualty group. HDI-Gerling Sach Serviceholding AG sets the tone in the segment. Its subsidiaries HDI-Gerling Industrieversicherung AG, HDI-Gerling Firmen und Privat Versicherung AG, HDI Direkt Versicherung AG and HDI-Gerling International Holding AG each operate, for their part, with subsidiaries and branches at home and abroad in the market segments of commercial/private customer business and industrial insurance.

Promising market positions

The Talanx Group's property/casualty group is very well positioned in its various submarkets: in industrial insurance HDI-Gerling ranks among the European leaders. In its market activities HDI-Gerling Industrie AG strictly adheres to its maxim of "stable earnings before premium growth": in hard market phases 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 was observed in the business written in the year under review.

An indispensable hallmark of a professional industrial insurer is its capacity to act worldwide in harmony with its clients. In over 130 countries around the globe HDI-Gerling Industrie is able to provide lasting support for its industrial clients. With a foreign network comprised of 26 units HDI-Gerling is able to cover more than 80% of its service requirements abroad through its own organization. In other markets the industrial insurer offers its clients professional care under a cooperation agreement with the UK-based RSA group.

In German business with private and commercial customers HDI-Gerling and HDI market their products through a broad range of distribution channels – a clear competitive advantage in the fiercely competitive domestic market in this segment. The Group's sales channels cover the entire market spectrum – a diversity that is scarcely available to any other insurance group.

Through HDI-Gerling Firmen und Privat we provide targeted protection for the material assets and everyday risks of small and mid-sized enterprises, freelance professionals and private individuals. In the growing market of direct insurance HDI Direkt provides service and insurance coverage both by phone and in writing through almost 100 sales outlets and customer service points. The name HDI Direkt has a positive ring about it in the market: customers enjoy good value for money thanks to a highly standardized product range. In domestic affinity business, i.e. business conducted with company employees, HDI Direkt has assumed the mantle of market leader. Customers can also access us online under the HDI24 brand.

Business experience in 2009

The gross written premium in the Property/Casualty Primary Insurance segment contracted by 0.8% to EUR 5.8 (5.9) billion. The decline derived in part from premium lost in domestic retail and commercial business, and partly from movements in exchange rates as well as the sale of an insurance portfolio in Spain.

Gross written premium in foreign business, which accounted for 44% of the total volume, climbed by 3% to EUR 2.7 (2.6) billion*. If pure property business is considered in isolation – the companies in Italy and Mexico also include life insurance policies in their portfolios –, the foreign share of total premium income stood at 41%. Altogether, net premiums earned in the segment decreased by 1% to EUR 3.8 (3.9) billion. The level of retained premium fell slightly to 65.1 (66.7)%.

Investment income increased by 33% to EUR 454 (342) million. Whereas the banking crisis had produced losses in the previous year, it was possible to benefit from upward trends on the stock market in the year under review. The combined ratio climbed to 96.5 (95.3)%. The operating profit (EBIT) improved to EUR 363 (259) million.

German market continues to set the tone in the segment

The focus of the segment remains on Germany, with 56% of the premium volume. The Property/Casualty Primary Insurance segment generated gross premium* of EUR 3.3 (3.4) billion in the domestic market. The property/casualty group is thus the second-largest German non-life insurer. In both industrial insurance and retail business the Talanx companies rank overall among the market leaders. Industrial insurance was shaped in 2009 by the economic repercussions of the financial and economic crisis as well as undiminished fierce competition, especially in motor insurance. In the subsegment comprised of medium-sized customers, not only new foreign entrants to the German market but also domestic mid-sized players increasingly stepped up their fight for market shares. Despite these difficult market conditions, the business development of HDI-Gerling Industrie Versicherung AG was very good overall: the reported premium volume was boosted by 1.5%.

In common with HDI Direkt Versicherung AG, HDI-Gerling Firmen und Privat Versicherung AG was again exposed to fierce cutthroat competition in 2009 – which especially in motor insurance continues to dominate the market. Against a backdrop of varying developments in the individual lines, the premium income booked across the two companies declined by 4.5% as the general tariff level in the motor insurance market continued to fall and the companies were unable to divorce themselves from this trend. The positive development in policy numbers was attributable in considerable measure to online sales with the HDI24 brand. All in all, the business experience of both companies was satisfactory.

The sweet sound of success in foreign markets

The Group's strategic objective in international business is value-based and profit-oriented growth. The focus here is on clearly defined regions: Talanx has defined Southern, Central and Eastern Europe as well as Latin America as target markets. Selected markets in the Asia-Pacific region are also of interest.

The Talanx Group can point to fresh successes in accomplishing its targets in foreign business. At the beginning of the year the HDI-Gerling Property & Casualty Group acquired a company in Mexico, which since 1 October 2009 has belonged to the Group under the name HDI Seguros (Mexico). In India the HDI-Gerling Property & Casualty Group signed a joint venture agreement with the financial services company Magma Fincorp Limited regarding the sale of insurance products in the Indian market.

Along with promising acquisitions abroad, the Group is also able to build on the successes of past years when it comes to organic growth in international business. The gross premium volume booked by HDI-Gerling International Holding climbed by 2% (unadjusted for exchange rate effects) to EUR 2.1 (2.1) billion. Having broken through the 2 billion threshold for the first time in the previous year, the premium level was thus maintained despite the sale of the retail insurance portfolio in Spain. The repercussions of the banking crisis could nevertheless be clearly felt in virtually all the Group's markets in 2009. This was evident in the turnover-based lines of industrial business and, most strikingly, in the muted demand among customers.

** before intra-segment consolidation*

Major international regions in the Group segment

Western, Central and Eastern Europe

Along with the domestic German market, the following countries and regions are significant in Europe:

Benelux

Our Dutch subsidiary HDI-Gerling Netherlands ranks among the three largest insurers in the local industrial insurance market. It also serves the Belgian industrial market through a local subsidiary. The company similarly ranks third in this market. Sustained soft conditions combined with intense price competition set the tone on the Dutch market. HDI-Gerling Netherlands, which is standing by its profit-oriented and hence selective underwriting policy, nevertheless maintained its premium volume unchanged at altogether EUR 243 (243) million. The operating profit (EBIT) fell to EUR 16 (23) million on account of increased technical and other expenses. The gross written premium in Belgium came in at EUR 104 (99) million, while EBIT stood at EUR 6 (7) million. The decline can be attributed inter alia to higher expenses as well as the development and expansion of business with small and mid-sized enterprises.

Poland

In spite of fierce competition on the Polish market HDI Asekuracja TU S.A. held its ground among the five largest non-life insurers. However, appreciable exchange rate effects and the intense price competition led to lower premium income of EUR 194 (242) million. The company, which is active solely in the property/casualty segment, enjoys the second-largest distribution network in Poland with eight regional offices, 52 branches and 231 sales outlets. It now manages a portfolio of some 3.5 (3.0) million policies. The operating profit (EBIT) amounted to EUR 6 (14) million.

Bulgaria

Continuous growth is the hallmark of the Bulgarian insurance market. Renamed in December 2009 from HDI ZAD to HDI Zahstrahovane AD, our company has its own nationwide sales infrastructure encompassing 30 branches, eleven offices and 563 agencies. The company, which concentrates on private customer business – especially motor insurance –, was again able to modestly increase its gross premium volume year-on-year to EUR 10 (10) million. Net income came in at EUR 115 (98) thousand, an improvement of 17%.

Austria, Hungary, Czech Republic and Slovakia

The Austrian company HDI Versicherung AG, with a workforce of more than 240 and a portfolio of altogether 404 (399) thousand policies, has been particularly successful in recent years – both in terms of growth and profitability. In 2009 the company was crowned as the country's best motor insurer for the fifth time in succession. In the course of the year under review the Slovakian company Poistovna HDI-Gerling Slovensko A.S. was transformed from a joint-stock company into a branch of HDI Austria and its portfolio was transferred to the branch. This means that the Austrian company is now operating with branches in the Czech Republic, Hungary and Slovakia. The difficult market climate, still scarred by the economic crisis, led to modest premium erosion in the year under review in the motor and industrial sectors. Both the gross written premium and the operating profit (EBIT) fell slightly short of the previous year's level at EUR 193 (196) million and EUR 16 (19) million respectively.

Southern Europe and Turkey

Italy

Our Italian company HDI Assicurazioni S.p.A transacts both life and property/casualty business. In 2009, as in the previous year, it was engaged in a difficult struggle in the face of the international financial crisis. Gross premium volume was nevertheless boosted to EUR 602 (564) million, of which EUR 358 (318) million derived from life business. Government tax incentives have made life insurance policies an attractive investment option, triggering strong growth in this area. The company plans to further enlarge its non-life portfolio in order to safeguard its long-term competitiveness in the largely saturated Italian insurance market. The distribution network now consists of 210 general agencies and 168 representative offices as well as 16 other sales channels.

Spain

Following the sale of the retail portfolio to the insurance company Universal Asistencia de Seguros y Reaseguros S.A. owned by the Spanish automobile club RACC, the Madrid-based HDI HANNOVER International (España) Cía. de Seguros y Reaseguros S.A. will henceforth write purely industrial business. Gross premium declined to EUR 157 (177) million owing to the sale of the personal lines. In the industrial lines, on the other hand, the company was able to slightly increase its gross premium volume despite the fiercely competitive environment and the continuing repercussions of the banking crisis. The latter also left its mark on the operating profit (EBIT), which slipped to EUR 4 (15) million.

Turkey

The Turkish market, too, has been hard hit by the banking crisis. Consumers held back from spending, prompting a drop in the number of new vehicle registrations and intense price competition in motor insurance. HDI Sigorta A.Ş. boosted its premium volume in the original currency by 16%. On account of shifts in currency parities, however, this success was only reflected in a gross premium volume of EUR 81 (80) million. The growth can be attributed to a well developed distribution network consisting of more than 600 sales outlets: HDI Sigorta is now represented by nine branches in all key regions. The focus is on retail and standard business. The distribution partnerships agreed in 2007 with the Turkish post and telecommunications company PTT and Tekfen Bank were successfully continued and further expansion is planned. The operating result (EBIT) came in at –EUR 10 (–9) million.

Latin America

Mexico

With the acquisition of HDI Seguros S.A. (formerly Genworth Seguros México, S.A. de C.V.), the Talanx Group has gained entry into the highly promising Mexican retail market. With a workforce of more than 400 and in excess of 1,800 independent insurance agents in 25 cities, the company – which is active primarily in motor insurance – is already adequately represented across the entire country. It ranks as number 27 on the Mexican insurance market, and it is fourteenth in the motor sector. Since its affiliation with the Group in the last quarter of 2009 the company has generated gross premium of EUR 16 million and an operating profit (EBIT) of EUR 0.8 million.

Brazil

The Group regards Latin America as one of its most vital strategic growth markets in retail business, with key importance attached to Brazil. The consequences of the financial crisis, which could still be clearly felt in 2009, affected the Brazilian economy less severely than other Latin American countries. In view of the country's enormous growth potential, our company HDI Seguros S.A. has developed very well in recent years: it now has 55 branch offices and is also represented by 30 express claims service centers. In 2009 the company further enlarged its network and extended its presence in the São Paulo region – a commuter belt with massive potential for growth.

In the market as a whole HDI Seguros currently ranks eleventh by premium income, and it is the number 7 in motor business. Supported by the long-term marketing agreement with HSBC Bank, whose roughly 900 branches and sales outlets we use to sell our insurance products, HDI Seguros generated further strong growth in 2009, especially in the motor line: despite its profit-oriented underwriting policy, the company again enlarged its premium volume to EUR 461 (407) million. The operating profit (EBIT) fell to EUR 18 (20) million, principally as a consequence of increased claims expenditure.

Chile

Although it is one of the Group's newest companies, the Santiago-based HDI Seguros S.A. has long been active in the Chilean insurance market. It concentrates on routine business and retail lines. The company is very well positioned with altogether 154 employees and seven branches in large cities across all main regions of the country. It has a network of 800 insurance brokers and agents. At the end of 2009 the company administered an in-force portfolio of some 475,000 policies. Despite the difficult state of the Chilean market, our company is currently the number 12 player – and in the niche segments of container and fidelity it ranks as high as first and second respectively. Although it had to struggle against the effects of the global financial market crisis, the company generated gross premium income of EUR 24 (14) million in 2009. The operating profit (EBIT) sank to 1 (2) million.

Asia

India

The Group's entry into India opened up access to another highly promising market. The joint venture with the Indian financial services company Magma Fincorp Limited is aimed at selling insurance products to the Indian market. Magma is a financial services provider that finances capital and consumer goods for commercial and private customers. Its primary emphasis is on the financing of vehicles and agricultural equipment as well as on lending to small and mid-sized enterprises. The joint venture – registered under the name Magma HDI General Insurance Company Limited – is currently still in the process of obtaining a license. The company's head office will be in Kolkata. With over 150 Magma offices in rural districts and in medium-sized cities, the joint venture is equipped with a powerful distribution and sales network for the Indian market, which has hitherto been inadequately served with insurance offerings.

Life Primary Insurance

Key figures: Life Primary Insurance[1)]

Figures in EUR million	2009	2008	2007	2006	2005
Gross written premium	5,653	5,691	5,354	4,603	2,964
Net premium earned	4,139	3,978	3,803	3,228	2,085
Net investment income	1,157	985	1,098	861	450
Operating result (EBIT)	183	156	134	111	55

1) The years prior to 2007 are of only limited comparability due to changes in segment allocation and adjustments to the recognition of various items.

The life insurance activities in the Talanx Group were concentrated within the Group segment of Life Primary Insurance in 2009. The two divisions of Life Insurance and Bancassurance play together here as a duo.

The **Life Insurance Division** operates with the HDI-Gerling and Aspecta brands. Under the umbrella of HDI-Gerling Leben Serviceholding, the companies HDI-Gerling Lebensversicherung AG, HDI-Gerling Pensionsfonds AG, HDI-Gerling Pensionskasse AG, HDI-Gerling Pensionsmanagement AG and Aspecta Lebensversicherung AG – among others – are active in the German market. In the international arena the Group has operations in Poland, Liechtenstein and Switzerland, Luxembourg, Austria, Italy and Spain. In Germany and international target markets the segment offers the complete product range of risk protection and old-age provision, both as individual and occupational retirement provision. The Aspecta brand is a specialist for innovative and performance-oriented insurance solutions, most notably in the product segment of unit-linked provision.

The division has at its disposal a diversity of distribution channels, the breadth of which few competitors can equal: they range from tied agents to brokers and multiple agents as well as direct sales. Aspecta concentrates on independent distribution partners, although HDI-Gerling Leben and HDI-Gerling Pensionskasse also cooperate with independent intermediaries in the areas of individual and occupational retirement provision.

When it comes to the sale of insurance policies over the counter at banks, the Talanx **Bancassurance Division** is a leading player in the German market. In this division the Group operates very successfully in concert with its cooperation partners – in Germany with TARGOBANK (until February 2010 Citibank), Postbank and a number of leading Sparkasse savings institutions across the country as well as internationally with the Hungarian postal service. In the domestic market the cooperative ventures are realized by the insurers Targo Versicherungen (until February 2010 CiV Versicherungen), PB Versicherungen, PBV Leben, PB Pensionskasse and Neue Leben. In foreign markets the division is represented by the companies Magyar Posta, CiV Life and CiV Hayat Sigorta. The cooperation agreement between Talanx and TARGOBANK runs until 2025. In Russia and Turkey Talanx cooperates with the US Citigroup through its subsidiaries CiV Life in Moscow and CiV Hayat Sigorta in Istanbul. A cooperation arrangement between PB Versicherungen and Postbank is in place until 2022.

Over the years the bancassurance mode of product distribution has evolved into a very successful business model for the Talanx Group. Crucial to the success of these cooperations is the ability to play exactly in time with one's partner. This includes complete integration into the corporate culture and brand architecture of the respective bank or postal service partner, complemented by exclusive, specially tailored products and a high degree of compatibility with the partner's IT infrastructure.

Business experience in the Group segment

In the aftermath of the financial crisis the German retirement provision market was in muted mood and faced with another difficult year. Having lost their confidence in the banks, consumers carried over the blame to insurers, too, and held back from purchasing traditional life insurance with regular premiums. New business with insurance solutions of this type decreased year-on-year both in terms of policy numbers and premium volume.

On the product side, the trend towards stronger demand for annuity insurance rather than endowment policies, which had been preferred in the past, was sustained in 2009. This is evidently a consequence of the demographic trend, which is apparently pushing customers to prioritize provision solutions with continuous payments against the backdrop of rising life expectancy.

The development of new business on the market was especially notable in 2009 for a very sharp rise in single-premium contracts with the features of savings products. While the Talanx Group offers single-premium products, its range does not include any such bank-like products. On the other hand, customers displayed a marked aversion to unit-linked life insurance – which had enjoyed brisk demand prior to the financial crisis – owing to its affinity with the stock market. There was, however, a sharply rising trend in demand for guarantee products.

These factors directly impacted the growth of new business in the Group's Life Primary Insurance segment: the Annual Premium Equivalent (APE = sum of regular premiums plus 10% of single premiums) contracted by 21% to EUR 566 (713) million. The reduction in new business with a regular premium payment was not offset by the rise in single premiums. The development of new business with regular premiums should be viewed against the backdrop of the special effect in 2008 associated with implementation of the final Riester step increase. Excluding this effect, the APE would have declined by a considerably less marked 11%.

The total gross written premiums in this segment – including savings elements of premiums from unit-linked life insurance – contracted by a modest 0.7% to EUR 5.65 (5.69) billion owing to the fall in new business and an increased lapse in in-force business in the Life Insurance Division.

In terms of gross sum insured (not including riders), the in-force portfolio contracted by 3% in the year under review to EUR 172.9 (178.6) billion, primarily as a consequence of the reduced in-force business in the Life Insurance Division. The number of in-force policies (excluding riders) in the Life Primary Insurance segment was roughly on a par with the previous year at 8.3 (8.4) million. The number of policies in domestic business decreased by 3% to 7.4 (7.6) million, as against significant growth of 23% in foreign markets – where the portfolio grew to 951 (772) thousand policies.

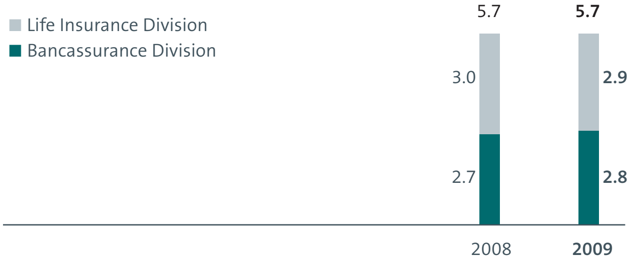
The level of retained premium was slightly higher than in the previous year at 88.4 (87.9)%. Net premium earned climbed by 4% to EUR 4.1 (4.0) billion. This resulted principally from significantly lower expenses for the increase in net unearned premiums in the Life Insurance Division; these are deferred on the basis of regularly updated future profit experiences.

Net investment income improved on the previous year by 17% to reach EUR 1,157 (985) million. Given that write-downs taken in the year under review were significantly lower than in the previous year, it was possible to more than make up for the diminished gains on disposals and lower current income. Particularly thanks to the higher net premiums and improved investment income, the operating profit (EBIT) in the Group segment of Life Primary Insurance comfortably surpassed the corresponding figure for the previous year at EUR 183 (156) million.

Life Insurance Division

Including savings elements of premium from unit-linked life insurance, the gross written premium booked by the companies belonging to the HDI-Gerling Life Group fell by 4% year-on-year to EUR 2.9 (3.0) billion as a consequence of lower new business premiums and increased portfolio erosion due to cancellations.

Gross written premium
Figures in EUR billion



Discordant elements also made themselves heard with respect to the APE, which fell 18% short of the previous year at EUR 226 (277) million – a decline which affected all the companies in the division. Aspecta Lebensversicherung AG and the Aspecta companies in Luxembourg and Liechtenstein were especially hard hit owing to their specialization in investment-oriented solutions, since customer restraint was unusually marked when it came to these products. In the case of HDI-Gerling Lebensversicherung AG, on the other hand, the decline in new business with regular premiums can be attributed largely to the influence of the Riester effect in the previous year: once this special factor is eliminated from the comparable figure for the previous year, the drop in the APE is reduced from 12% to 1.5%. The decrease across the entire division was 12% without the Riester effect. Since the middle of the current year this adverse trend has been successfully countered with a new guarantee product.

Bancassurance Division

Gross written premium including savings elements of premium from unit-linked life insurance rose by 4% in the Bancassurance Division from EUR 2.7 billion to EUR 2.8 billion. PBV Lebensversicherung AG and Neue Leben Lebensversicherung AG, which boosted their gross written premium by 9% and 6% respectively relative to the previous year, enjoyed particular success. This can be attributed to the appreciable surge in new single premium business. The premium income booked by the German property/casualty insurers included in this division – most notably Targo Versicherung AG – trended higher overall in comparison with the 2008 financial year.

The new business generated by the division – measured by the APE – was 22% lower than in the previous year at EUR 340 (435) million. If the Riester step increase of 2008 is eliminated, the fall in the APE is reduced to 10%. Targo Lebensversicherung AG (–25%) and Targo Versicherung AG (–44%) were particularly hard hit. These dissonant notes can similarly be attributed to consumer caution prompted by the financial market crisis, although the roll-out of a new IT system at the bank partner was another adverse factor.

Major regions in the Group segment

Not only in Germany is the need for retirement provision products growing; in foreign markets, too, we are active with our life insurance companies and branches. Our business activities in the life sector extend to Poland, Liechtenstein and Switzerland, Luxembourg, Austria, Italy and Spain as well as Hungary, Russia and Turkey.

Germany

The most important market for the Life Primary Insurance segment, the Talanx Group's life insurers generate by far the bulk of their premium volume in Germany. Although the protracted financial crisis continues to curb demand for insurance products, retirement provision continues to be a "hot topic" for consumers. Equipped with a broad range of customer-oriented products – that have been awarded top marks by rating agencies – and well positioned in the market, the Talanx life insurers continue to see considerable opportunities here. The gross premium income booked by the segment in Germany came in almost on a par with the previous year at EUR 5.1 (5.2) billion.

Central and Eastern Europe

Despite the repercussions of the financial crisis, we remain convinced that the markets of Central and Eastern Europe offer considerable promise for our segment over the long term. There is substantial growth potential inherent in the national economies, and this also has positive implications for business catering to retirement provision.

In Poland the premium volume contracted by 7% to EUR 41 (43) million. Group business, in particular, was impacted here by cost-cutting measures and staff cutbacks at numerous Polish companies. The development of new business in Austria was hampered not only by the effects of the financial crisis but also by the financial market regulator's prohibition of foreign currency loans. The gross premium income booked by the branches operating there consequently decreased by 10% to EUR 96 (108) million.

The gross written premium generated by the companies operating in Hungary climbed by 4% to EUR 119 (114) million. The companies under development in Russia and Turkey were similarly able to further enlarge their gross written premium. Gross premium income of EUR 23 (12) million and EUR 6 (3) million was booked in Russia and Turkey respectively. Despite restrictive lending by Citibank Russia, it was possible to more than make up the new business through credit life products from CiV Life. Both the Hungarian life insurer and the Turkish and Russian companies were able to generate increased new business through individual life products with a single premium payment.

Western and Southern Europe

Business in this region, too, was heavily overshadowed by the effects of the financial crisis and the resulting caution among policyholders towards unit-linked products. Although sales began to pick up in the second half of the year as financial markets stabilized, the premium volume in 2009 declined. The business written by Aspecta Assurance International Luxembourg S.A., which is geared to the sale of single-premium products, was particularly heavily impacted by this development; its premium income contracted by 32% to EUR 64 (94) million. Despite the very challenging market climate, the company's branch in Italy – with a volume of EUR 76 (79) million – was able to limit its premium erosion to 3%. Premiums at the Spanish branch were boosted to EUR 14 (13) million thanks to the cooperation with a new distribution partner. Against the backdrop of a market environment shaken by slumping prices, gross premiums in Switzerland fell by 2% to EUR 65 (66) million.

Non-Life Reinsurance

Key figures: Non-Life Reinsurance [1]

Figures in EUR million	2009	2008	2007 [2]	2006	2005
Gross written premium	5,753	4,997	5,611	7,143	7,243
Net premium earned	5,237	4,287	4,631	5,638	5,481
Underwriting result	136	200	16	79	–694
Net investment income	620	47	863	925	872
Operating result (EBIT)	757	122	902	813	33
Combined ratio (net) [3] in %	96.7	95.0	98.8	98.2	109.4

[1] *The years prior to 2007 are of only limited comparability due to changes in segment allocation: from 2005 onwards the primary insurers belonging to the Hannover Re Group have been allocated to the Non-Life Reinsurance segment*

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

[3] *Including deposit interest*

Non-life reinsurance is transacted within the Talanx Group very largely by the Hannover Re Group, one of the world's leading reinsurance groups, which maintains business relations with more than 5,000 insurance companies in about 150 countries. Its global network consists of more than 100 subsidiaries, affiliates, branches and representative offices in around 20 countries.

Cycle management in the interest of profitability

In non-life reinsurance we do not pursue any growth targets, but instead keep a close eye on rate movements: we expand our business if the rate situation is favorable and scale back our portfolio if prices are inadequate. This active cycle management continues to be a cornerstone of our underwriting together with a profit-oriented underwriting policy, according to which we concentrate on those segments that promise the greatest profitability. In view of the very positive state of the market we extended our involvement in the year under review, especially in attractive segments. Significant rate increases were seen above all in catastrophe business, which had suffered losses in 2008, as well as in worldwide credit and surety reinsurance.

New tones – innovative activities

Since the financial year just-ended we have also participated in the area of micro-insurance. In Pakistan an initial project has been launched in cooperation with a locally based insurer: low-income individuals are now able to obtain insurance protection. Hannover Re is active in this sector as a reinsurance partner and also provides support, especially with its know-how. It is our expectation that micro-insurance products will continue to grow in importance going forward, and hence further cooperative ventures will follow.

Within the scope of our extended activities in the field of Insurance-Linked Securities we transferred for the first time in the year under review a portfolio of facultative reinsurance risks – i.e. individual risks worldwide – to the capital market. What is at stake here is not the protection of our own portfolio, but rather the direct transfer of our clients' business. At the same time investors are able to access risks that would otherwise be out of their reach. The amount of capital made available totaled altogether USD 60 million, of which we took on a share of around USD 5 million.

Business experience in 2009

The figures for the Talanx segment of Non-Life Reinsurance differ from those for the Hannover Re business group that bears the same name in part because of reinsurance activities conducted by the Talanx Group outside the Hannover Re Group; discrepancies also derive from the fact that certain circumstances are treated differently within the two groups for reasons relating to consolidation.

The capital squeeze in the global insurance industry triggered by the financial market crisis stimulated demand for reinsurance. The mid-year treaty renewals also passed off well for us overall and prices were broadly commensurate with the risks. Gross written premium consequently grew by 15% in the year under review to EUR 5.8 (5.0) billion after years of declining premium income. The level of retained premium increased owing to lower retrocessions from 89.0% to 94.1%. Net premium earned climbed by 22% to EUR 5.2 (4.3) billion.

The burden of catastrophe losses remained below average in the year under review, in part thanks to a rather unremarkable hurricane season. The repercussions of natural disasters on the reinsurance industry were mostly slight. Total net expenditure on catastrophe losses and major claims in the year under review therefore amounted to EUR 240 (458) million, a figure less than the expected level. The fact that the combined ratio of 96.7% was still slightly higher than in the previous year (95.0%) is a reflection of our prudent reserving policy.

The underwriting result slipped to EUR 136 (200) million. Net investment income improved markedly to EUR 620 (47) million, having been impacted by the need to take heavy write-downs on equities in 2008. The operating profit (EBIT) had been similarly impacted in the previous year and consequently surged exceptionally strongly in 2009 to EUR 757 (122) million.

Hannover Re has restructured its non-life reinsurance business group. The following remarks reflect this split into three subsegments, each of which accounts for a roughly equal share of the total gross premium: Target Markets, Specialty Lines and Global Reinsurance.

Target Markets

Germany and North America are designated as target markets for our non-life reinsurance. The development of business here was satisfactory: the premium volume grew to EUR 1.7 (1.6) billion, roughly half of which derived from each of the two regions. The combined ratio stood at 104.7 (99.0)% in the year under review and the operating result (EBIT) reached EUR 119 (–90) million.

Germany

The German market is served by our subsidiary E+S Rück. The company has for decades been a sought-after partner thanks to its good rating, highly developed customer orientation and the continuity of its business relationships, and it continues to rank as one of the leading providers in Germany. Against the backdrop of a difficult general economic environment, reinsurers in Germany enjoyed a more favorable market climate than the primary sector, i.e. rates and conditions were largely adequate. The combined ratio amounted to 103.1%.

North America

The North American (re)insurance market is the world's largest single market. Based on its long-standing business relationships, its expertise and especially its excellent financial standing, Hannover Re is a valued partner. We continue to form part of the small group of reinsurers that are preferentially approached for placement and pricing. We deliberately did not seek to extend our market share in 2009, since we still do not consider business to be sufficiently attractive in certain segments. The combined ratio stood at 106.4%.

Specialty Lines

Specialty Lines include marine and aviation business, credit/surety, structured products, ILS (Insurance-Linked Securities), the London Market and direct business. The premium volume climbed from EUR 1.9 billion to EUR 2.2 billion. The combined ratio stood at 96.5%, compared to 97.2% in the previous year. The specialty lines delivered an operating profit (EBIT) of EUR 256 (3) million.

Marine

Hannover Re ranks among the market leaders in international marine reinsurance business. Demand held stable despite the recession: thanks to adequate conditions the market was in a good state, and we were able to obtain higher prices. Our efforts to enlarge the portfolio outside the United States and Western Europe were successful. As far as major claims were concerned, 2009 was a relatively untroubled year worldwide; we achieved a combined ratio of 78.1%.

Aviation

In international aviation reinsurance we similarly rank among the market leaders. We stepped up our involvement in non-proportional reinsurance on the back of firming rates and further improved the diversification of our portfolio through new acceptances in general aviation reinsurance. Our premium income climbed, while the exposure was reduced owing to lower passenger numbers. The year under review suffered under higher-than-average loss expenditure. The combined ratio stood at 86.3%.

Credit and surety

Hannover Re is one of the market leaders in worldwide credit and surety reinsurance. The situation in these lines was difficult owing to the recession. All in all, we wrote our business even more restrictively than before and improved the diversification of our portfolio – both by products and regions. We made the most of the appreciable price increases that could be obtained in the year under review and enlarged our portfolio highly selectively, thereby substantially boosting the gross premium. Even though the result only broke even on account of higher default rates and our prudent reserving policy, we expect to move back into the black in 2010. The combined ratio stood at 104.2% in the year under review, reflecting the high claims frequency in trade credit insurance.

Structured products

Implementation of the insurance supervision act regulating structured reinsurance products in Germany as well as an ordinance issued by the Federal Ministry of Finance brought about greater legal certainty regarding the handling of financial reinsurance contracts and hence generated new business potential. The surge in demand was also driven by capital depletion at primary insurers.

We are one of the two largest providers of structured covers in the world and were again able to boost our premium volume. In keeping with our strategy of regional diversification, we further enlarged our portfolio in Europe, although new business was also written in Asia and Australia. In the year under review we further intensified the cooperation with our regional departments writing traditional reinsurance, thereby enabling us to offer our clients the full spectrum of our company's products and a comprehensive range of services.

Insurance-Linked Securities

In view of the repercussions of the financial market crisis, catastrophe bonds and similar securitization instruments played a lesser role in the year under review. It was therefore all the more gratifying that we were able to renew our "Eurus" catastrophe bond – first issued in 2006 – in the year under review. Instead of the originally planned EUR 75 million, we were able to place double the volume.

In addition, as described at the beginning of this section, we also transferred a portfolio of facultative risks to the capital market. Further such transactions are in the planning stage.

United Kingdom and the London Market

The financial market crisis left its mark on the United Kingdom and Ireland. In the UK the adverse effects primarily impacted the banks. Prices for professional indemnity insurance consequently rose sharply, particularly for financial institutions. In the casualty sector Hannover Re again profited from its very good rating. Our premium volume was slightly enlarged in the year under review and we were broadly satisfied with the development of our business.

Direct business

Hannover Re writes direct business that complements its principal activities as a reinsurer through two subsidiaries in the United Kingdom and South Africa. This involves, inter alia, acceptances concentrated on tightly defined portfolios of niche or other non-standard business.

The strategic focus of our business relationships in the United Kingdom is on smaller and mid-sized enterprises. A new addition to our portfolio in the UK is legal protection insurance, a line which we expect will bring attractive business opportunities. We considerably enlarged the overall premium volume in the year under review.

Our second operation for specialty business is one of the leading companies in this segment in South Africa. The reinsurance of this business is in large measure assumed by Hannover Re Africa. In the year under review we successfully converted the South African MUA Insurance Company Ltd., which was acquired in the previous year, to an underwriting agency.

Global Reinsurance

We combine all markets worldwide under global reinsurance, with the exception of our target markets of Germany and North America and the specialty lines. This segment also encompasses a number of other specialized areas such as worldwide catastrophe business, facultative reinsurance, agricultural risks and Sharia-compliant retakaful business.

The development of our markets within the global reinsurance segment gave grounds for satisfaction. The premium volume here was boosted by 18% to EUR 1.8 billion. The combined ratio improved to 87.9%, after 88.5% in the previous year; the operating profit (EBIT) climbed by 296% to EUR 356 (90) million.

Europe

Our most important European markets are

- Italy, where we rank among the leading reinsurers,
- France, where we enlarged our premium volume,
- the Netherlands, where our premium income remained virtually stable,
- the markets of Northern Europe, where we continue to aspire to a leading position, and
- the markets of Central and Eastern Europe, which we have defined as growth markets and where we already rank among the top 3 in the reinsurance industry.

Latin America

Along with the writing of agricultural risks, catastrophe covers are especially interesting for us in the Latin American markets. In Brazil we have maintained a representative office and operated as an "admitted reinsurer" since 2008, hence enabling us to gain additional market shares in the year under review. We boosted our premium volume from the Latin American markets in 2009. No major losses were incurred. All in all, we are thoroughly satisfied with the development of our business.

Japan, China, Southeast Asia

Japan is far and away our largest Asian market. Our service company in Tokyo affords us good insights into the Japanese market. Thanks to our very good rating we were again a particularly highly sought-after partner in the year under review. We reduced our peak exposures as part of our risk management activities. For this reason, and also as a consequence of the rise of the Japanese yen, our premium volume contracted. The loss experience in the year under review was moderate. Overall, we are very satisfied with the results of our Japanese business.

China continues to rank as the most prominent growth market in Asia. We were, however, able to expand our treaty portfolio in the year under review thanks to good conditions and considerably boosted our overall premium volume. The license to transact life/health reinsurance in China was extended in 2009 to include non-life reinsurance. From now on, both business groups will be written directly from Shanghai. This increased presence enables our clients to access all our services from a single source. At the same time, it gives us the optimal point of departure for further enlarging our position in China.

Hannover Re's main markets in Southeast Asia are Malaysia, India, the Philippines and Indonesia. We were able to further diversify our portfolio; the area of micro-insurance products in hitherto relatively undeveloped markets is attracting increasing interest. In Pakistan we launched an initial project in cooperation with a locally based insurer. Both the Philippines and Indonesia were impacted by natural disasters, although the effects on our underwriting result were only minimal.

Australia

Hannover Re still ranks third in the Australian non-life reinsurance market. For almost 25 years we have been represented by a branch office in Sydney. Our clients value us as an attractive and reliable partner on account of this local presence as well as our very good rating. We were able to grow selectively and strengthen our market position, without neglecting our high profitability standards. Our premium volume grew somewhat more strongly than anticipated in the year under review, although the claims situation was very strained.

Global catastrophe business

The bulk of Hannover Re's catastrophe business is written out of Bermuda, which is considered the centre of competence for this line worldwide. Along with the expertise of our local team, our financial strength and excellent rating have made us a particularly highly sought-after partner for ceding companies and brokers for a number of years. The strategy guiding our global catastrophe business in the year under review was to reduce peak risks and assume exposures in smaller markets as well as in regions where the risks are not as great. Price increases were obtained in many markets. Overall, we slightly reduced our premium volume from global catastrophe business. The catastrophe loss situation was moderate in the year under review.

Agricultural risks

Agricultural risks have taken on greater importance in our portfolio in recent years. We launched new products and cemented our shares in traditional markets, while also gaining shares in developing markets. In addition, we considerably boosted our premium volume.

Retakaful business

We write retakaful business – that is to say, insurance business transacted in accordance with Islamic law – in both Southeast Asia and on the Arabian Peninsula. In our assessment, this business continues to offer considerable potential. With the Bahrain-based Hannover ReTakaful we maintain a subsidiary that bears exclusive responsibility for transacting this line of business. The year under review was notable for growing competition; we were nevertheless able to increase our premium income in 2009. The country with the largest volume was Saudi Arabia.

Facultative reinsurance

In facultative (re)insurance, too, we noted stronger demand in some areas as a consequence of the financial market crisis. Competition in virtually all segments remained fierce; rates and conditions generally held stable. In the year under review we profited from the capacity shortages affecting a number of reinsurers and enlarged our premium volume. In recent years we have consistently expanded our market position and see substantial potential for further profitable growth in facultative reinsurance. We were satisfied with the development of our business in the year under review; the combined ratio amounted to 94.9%.

Life/Health Reinsurance

Key figures: Life/Health Reinsurance

	2009	2008 [1]	2007	2006	2005
Figures in EUR million					
Gross written premium	4,529	3,135	3,083	2,794	2,425
Net premium earned	4,079	2,785	2,795	2,374	2,258
Net investment income	694	371	313	345	281
Operating result (EBIT)	369	114	231	146	93

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

The Group segment of Life/Health Reinsurance combines our reinsurance activities in the life, annuity and health insurance lines under the worldwide Hannover Life Re brand. Personal accident insurance is also reinsured in this business group, insofar as it is transacted by life insurers.

Hannover Life Re ranks among the four most important life/health reinsurers in the world. Its name has a positive ring to it thanks to an excellent rating. The operating units are active at more than twenty locations on all five continents in order to offer clients optimal local service. We rely on the interplay between subsidiaries, branches and service offices in a decentralized network. This organization safeguards the rapid and efficient transfer of knowledge in the interests of our clients at all times and all around the world.

As in the past, we continue to place great emphasis on the cultivation of long-term relationships with our major cedants. Systematic Customer Relationship Management plays a central role in this context, reinforced by the regular sharing of experiences among our managers with regional sales responsibility.

On course for the top 3

Internationally, we strengthened our market position – in some cases significantly – in our focus markets of the United States, United Kingdom, Germany, Australia and France; yet we also made appreciable progress in the key emerging markets of China and India. We now rank among the leading providers in numerous major insurance markets, and are on the brink of attaining our goal of claiming the number 3 spot in the global market.

Our strategic orientation in the US market reached a milestone with the assumption of a large portfolio of US life insurance risks by way of a specially tailored reinsurance transaction at the beginning of 2009. It contains more than four million reinsured policies and generates annual premium income in excess of USD 1 billion. In conjunction with the portfolio we also took over a number of underwriting and administration systems together with the relevant databases and offered a new working home to a group of 130 expert reinsurance professionals. With this additional portfolio we are in a position to immediately realize appreciable economies of scale for the future run-off.

The life branches established in Asia in 2008 in the cities of Shanghai and Seoul have successfully executed their strategies for market entry and are now well recognized providers in the local life markets – in China, for example, we have now built up more than 40 customer relationships. In India, too, our cooperation with the market's leading reinsurer GIC Re is living up to expectations, and we have already been able to acquire the first sizeable treaties. In Brazil, with the backing of our representative office in Rio de Janeiro, we are systematically pursuing the cooperation with Malucelli Re and were able to acquire the first four cedants.

In the area of Sharia-compliant products, which are marketed through a subsidiary in Bahrain, we are similarly making good advances. In this context we provide reinsurance in the countries of the Gulf region, mostly on a group basis, for products designed to satisfy various family protection needs, including for example ensuring that education expenses for children can be paid.

Business model proves its worth

Our acquisition and underwriting policy continues to be based on the "Five Pillar" business model under which five distinct customer-oriented product and service offerings are brought together under a single strategic umbrella. Each pillar features a specific marketing approach, which is supported by the worldwide network of Hannover Life Re. In the past, the conventional reinsurance business of mortality and morbidity risks has traditionally accounted for the lion's share (almost 40%) of the total premium volume. The US acquisition boosted this share to more than 44%, i.e. an amount of around EUR 2 billion, in 2009. The four specialty segments of financial solutions, partnerships with multinational clients, new markets and bancassurance also continued to grow in absolute terms.

Within the four specialty segments we observed particularly dynamic growth in the European bancassurance sector in the area of new markets – and in the latter case especially with respect to UK enhanced annuities. We are also thoroughly satisfied with the financial solutions segment, in which we were able to close several small and mid-sized transactions at attractive conditions in the United States, United Kingdom, Germany, South Africa and Hong Kong. Reinsurance solutions of this type enjoyed a resonance in the year under review that had not been seen in the past 20 years. In the traditional business segment Asian markets – and above all Greater China – as well as South Africa showed vigorous growth.

Business experience in 2009

The Group segment of Life/Health Reinsurance is transacted by Hannover Re and its subsidiaries; here, too, the key figures may diverge from those of the business group of the same name within the Hannover Re Group.

The effects of the international financial market crisis, which first made themselves felt in 2008, significantly shaped the results of our operational business in the year under review: on the market side we noted stronger demand for reinsurance protection, because the financial market crisis had weakened the capital and solvency position of many life insurers.

The gross written premium from life and health reinsurance grew by a sizeable 44% in the year under review to EUR 4.5 (3.1) billion. While the assumption of the US life reinsurance portfolio accounted for a volume of EUR 0.8 billion, organic growth was also on a pleasing double-digit percentage level. At constant exchange rates the gross premium would have grown by as much as 46%. Net premium earned climbed to EUR 4.1 (2.8) billion.

Developments on international financial markets had a significant bearing on our profitability in the year under review, especially in the form of fair value adjustments on our fixed-income securities deposits furnished to cedants in the United States and United Kingdom. Unlike in the previous year, however, the effects on the income statement were very positive this time. All in all, net investment income came in at EUR 694 (371) million; this was equivalent to an increase of 87%.

We traditionally devote particular attention to lean processes, an efficient personnel structure and short lines of decision-making. Hannover Life Re's administrative expense ratio was thus again significantly lower than that of its major competitors.

The operating profit (EBIT) climbed to a new record high of EUR 369 million, more than three times the previous year's figure of EUR 114 million. If we factor out the non-recurring special effects associated inter alia with assumption of the ING life reinsurance portfolio as well as with the fair value adjustments taken on reinsurance deposits furnished to cedants in the United States and United Kingdom, the ordinary operating profit stands at EUR 230 million. Consolidated net income after tax in life and health reinsurance rose sharply to EUR 146 (32) million.

Major regions in the Group segment

The United States took over as the most important single market for the first time thanks to the aforementioned acquisition: it accounted for 37% of total premium income in the year under review. The United Kingdom, by far the largest European life reinsurance market, now ranks second with 24%, while the German market occupies the number three slot with 10%.

Further key markets for Hannover Life Re are Australia, France, South Africa, Italy and Luxembourg, while the Asian markets and those of Latin America are of less importance in terms of their absolute volume.

Germany

Our life reinsurance activities in the German market are led by E+S Rück, which generated premium income of some EUR 390 million. The slight rise in premium volume year-on-year despite the prevailing difficult market climate was attributable to the acquisition of two new clients, thereby boosting the total number of German clients to 41.

In the German market, too, we noted stronger demand for reinsurance solutions geared towards the capital market. Another noteworthy development was the sharply growing interest shown by insurers in reshaping their application processes; in this respect E+S Rück is optimally placed thanks to its long-standing experience in the area of system-supported application processes. Based on this positioning it was possible to write several reinsurance treaties in the year under review with new and existing clients. With net premium of EUR 345 million and given the favorable experience of the biometric risks, another gratifying operating result (EBIT) was generated overall.

United Kingdom

In the UK life and annuity insurance market, Europe's largest reinsurance market, we continue to operate through our subsidiary HLR United Kingdom as a full-service provider in the conventional market segment, with a focus on risk-oriented covers (protection business).

For a number of years now the UK life market has been characterized by exceptionally fierce cutthroat competition, which has carried over into the reinsurance market. Against this backdrop HLR UK pursues a conservative underwriting policy which concentrates on maintaining existing customer relationships and promotes innovative types of coverage – such as the new generation of critical illness policies. We also stepped up our activities in the area of individual disability covers and intensified our marketing efforts in Ireland in the year under review.

When considering the financial data, it is important to bear in mind the abrupt fall of the pound sterling, which from a 12-month perspective lost 12.3% of its value against our balance sheet currency (euro). In light of this devaluation, the gross premium income booked by HLR UK of EUR 183 (186) million and the company's operating profit of EUR 20 (23) million are highly satisfactory.

The specialized sectors of enhanced annuities with a reduced payment period and – to an increasing extent – the reinsurance of the longevity risk associated with acceptances of existing pension funds both enjoyed vigorous growth in the year under review, in part due to new customer relationships and partly through the expansion of existing accounts. Our premium income consequently rose by 78% to EUR 657 million.

Hannover Life Re continues to be the market leader for the reinsurance of UK enhanced annuities with a reduced payment period. Their profitability in the year under review was hampered by a widening of interest rate spreads on investments furnished to one of our cedants in connection with securities deposits. It is our expectation that these losses will be largely made good by the middle of 2010. From a holistic perspective that also takes account of the UK business placed with HLR Ireland and HLR Bermuda, our reinsurance business from the United Kingdom generated a premium of EUR 1.1 billion; of this amount, 60% was attributable to business written by Hannover Re, 20% to HLR Ireland, 17% to HLR UK and 3% to HLR Bermuda.

Ireland

Established ten years ago in Dublin, our subsidiary HLR Ireland writes worldwide business ceded by highly respected primary insurers – principally from the US, UK and Continental Europe – under specially tailored reinsurance solutions. The central position of HLR Ireland within the worldwide HLR network was reinforced in February 2009 through the extensive assumption of mortality risks under our acquisition in the United States. The premium volume was double that of the previous year, surpassing the one billion euro mark for the first time to reach EUR 1.2 billion.

The operating profit (EBIT) amounted to EUR 189 (0.8) million, while net income after tax came in at EUR 177 million. This can be attributed to a satisfactory risk experience and – influenced not least by the aforementioned non-recurring effects – an excellent investment result.

North America incl. Bermuda

Responsibility for the US life market is borne by Hannover Life Re America. Its activities in the year under review were concentrated on financially oriented covers for US clients and on those areas of health insurance for seniors handled by the private sector.

The aforementioned assumption of a significant portfolio in the United States marks a turning-point for our positioning in the traditional US mortality market. The assumed portfolio of cedant relationships was a complementary benefit: previously, HLR America had itself only been able to establish relationships with five of the forty most prominent cedants included in the acquired portfolio. Going forward, this will offer outstanding opportunities to enlarge new business in the conventional US mortality market.

The premium income booked by HLR America totaled EUR 1.0 billion (614 million) in the year under review, while net premium earned increased by 9% to EUR 263 million. The development of the mortality risk – also with respect to the portfolio assumed effective 1 January 2009 – was satisfactory, and profitability in the area of financially oriented covers was excellent once the US capital market had largely normalized. What is more, here, too, the aforementioned non-recurring effects were a positive factor. The operating profit (EBIT) consequently improved substantially to EUR 41 million, following a loss of EUR 18 million in the previous year.

Hannover Life Re Bermuda can report a highly gratifying business experience. It offers reinsurance solutions in every key on a worldwide basis, maximizing Bermuda's edge as a favorable insurance business environment to the benefit of our ceding companies. A special focus is on bancassurance business from North America and Japan. In its second full financial year the company wrote six new reinsurance treaties. The gross premium of HLR Bermuda totaled EUR 113 million. The operating profit (EBIT) grew to EUR 16 (9) million, and the pre-tax result is identical to the net income after tax.

Corporate Operations

Key figures: Corporate Operations [1]

Figures in EUR million	2009	2008 [2]	2007	2006	2005
Net investment income	–22	–96	–67	–49	–28
Other income	191	202	144	121	73
Other expenses	154	122	17	17	10
Operating result (EBIT)	11	–16	60	55	35

[1] The years prior to 2008 are of only limited comparability owing to modified segmentation
[2] Adjusted due to initial application of IFRS 8

The Corporate Operations segment brings together cross-segment services. It was reconfigured in the 2009 financial year: several companies were newly allocated to the segment. The segment now encompasses the AmpegaGerling companies and Protection Reinsurance Intermediaries from the previous Financial Services segment, the Group holding company Talanx AG – which does not itself conduct any operational business – and individual companies with Group functions that are not allocated to any of the other segments and were previously recognized within the scope of consolidation. The previous year's figures have been adjusted accordingly and cannot therefore be compared with the figures published in 2008.

AmpegaGerling

The "AmpegaGerling" brand within Talanx stands for the Group's own asset management as well as for asset management and funds provider activities aimed at institutional and private clients. AmpegaGerling thus bears central responsibility for the investment management of all Group companies – extending from strategic and operational investment decisions to administrative services such as investment bookkeeping, accounting and investment reporting. Asset management, investment and real estate companies are operated under the AmpegaGerling brand. The product range extends from individual investment concepts for private investors to comprehensive solutions for institutional clients.

AmpegaGerling Asset Management GmbH handles the investments of the Talanx Group. AmpegaGerling Investment GmbH additionally operates as a funds provider for private clients and institutional investors. The Group's real estate management is concentrated in the hands of AmpegaGerling Immobilien Management GmbH. As a trio of closely cooperating companies, AmpegaGerling is thus one of the largest asset managers in Germany with no ties to a banking partner.

Institutional clients in the investment sector include 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, public funds and institutional asset management activities, including specialized administration services for clients outside the Group.

The total volume of assets under management at **AmpegaGerling Asset Management GmbH** amounted to EUR 59.8 billion as at year-end. It therefore exceeded the previous year's level by EUR 5.9 billion, influenced primarily by market effects. The profit on ordinary activities excluding income from profit transfer agreements increased in conjunction with the volume-driven rise in fees and commission income (+EUR 8 million) to EUR 23 (21) million. After adjustment for the supplementary allocations made to five special fund volumes of AmpegaGerling Investment GmbH in 2008 in an amount of EUR 9 million, personnel and material expenditures rose by EUR 11 million. This increase was due in particular to special project costs and consulting fees associated with the expansion and risk protection/quality assurance of the Talanx Group's process and performance structures as well as with certification by the Federal Financial Supervisory Authority (BaFin).

In retail business, the strategic focus of its sales activities, **AmpegaGerling Investment GmbH** was able to boost the volume by EUR 440 million to EUR 2.2 billion thanks to significant net cash inflows as well as the positive performance trend on equity and bond markets. This was an increase of 24% relative to the starting level in December 2008. Contrary to the industry development as a whole, AmpegaGerling recorded a net cash inflow on the market of EUR 276 million (excluding Group investments in public funds) and was thus able to grow against the trend: According to the association representing the German investment fund and asset management industry (BVI Bundesverband Investment und Asset Management e.V.), the industry as a whole showed a net cash outflow of EUR 781 million for public funds. In comparison with rival investment companies of German insurers, the picture is also a positive one: AmpegaGerling generated the highest net cash inflow from public funds. Against the backdrop of the significant market downturn in 2008, especially in retail business, and the transfer of financial portfolio mandates from the investment to the asset management company, fees and commission income of altogether EUR 23 (27) million were generated in the year under review. Personnel and material expenditures including cost allocation within the AmpegaGerling companies were slightly in excess of the previous year after adjustment for the fund allocations made in 2008. Overall, a profit on ordinary activities of EUR 7 (4) million was achieved in 2009.

The fair market value of the real estate under management at the end of the 2009 financial year was EUR 8 million higher than in the previous year at EUR 1.4 billion. The profit on ordinary activities generated by AmpegaGerling Immobilien Management GmbH amounted to EUR 0.2 (1.9) million; the decrease can be attributed inter alia to a reduction in other income.

Reinsurance purchasing by Protection Re

The Talanx segment of Corporate Operations also includes Protection Reinsurance Intermediaries AG (Protection Re), the professional reinsurance advisor and intermediary for non-life reinsurance cessions of the Talanx Group. Wholly owned by Talanx AG, Protection Re is headquartered in Hannover with a branch office in London. The company is tasked with safeguarding on a long-term basis the reinsurance capacity needed for all insurance undertakings 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.

The core business of Protection Re consists of providing the Group's primary insurers with comprehensive advice on all aspects of outward reinsurance. Protection Re handles the complete spectrum of the reinsurance business process for each Group cedant to the extent necessary in each particular case. From portfolio analysis, advising on the structuring of reinsurance programs to administration and run-off of the placed reinsurance arrangements, specialized teams develop and support viable solutions that help Group cedants to achieve their business objectives on a lasting basis.

Segment result

The investment income in this segment encompasses principally personnel and social expenditures for administration of the Group's own investments and third-party portfolios. It is therefore frequently negative, but this has no implications for the Group's net investment income. The latter is described below in the subsection entitled "Financial position and assets".

Net investment income in the segment improved to –EUR 22 (–96) million. This increase can be attributed to stock sales by Talanx, which were to some extent opposed by write-downs owing to further price declines in the first quarter. Other income fell to EUR 37 (80) million. The decrease, which resulted in particular from Talanx AG, was due to lower interest income (–EUR 17 million) above all in connection with an interest rate swap; this was opposed by the financing costs from the line of credit. The operating profit (EBIT) was comfortably in positive territory at EUR 11 million, after a negative result (–EUR 16 million) in the previous year.

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 globally operating insurance group. The dominant item on the assets side is the investments, which – excluding funds held by ceding companies (EUR 10.8 billion) – accounted for 70% of total assets. They serve first and foremost as security for the provisions constituted in insurance business, which – including provisions in the area of life insurance insofar as the investment risk is borne by policyholders – totaled EUR 78.5 billion.

The substantial increase of EUR 7.5 billion in our **total assets** to EUR 103.0 billion can be attributed first and foremost to the marked growth in our investments of around EUR 7 billion – equivalent to 10% – to EUR 77.8 (70.8) billion. Cash inflows from the technical account as well as the favorable development of the fair values in our portfolio of fixed-income securities were the primary factors that pushed up the value of our assets under our own management (+EUR 4.8 billion). The growth in the investment portfolio was also positively influenced by the sharp rise of 26% in funds

Balance sheet structure and key figures	**31.12.2009** [1]	**31.12.2008** [1]
Figures in EUR million		
Assets		
Intangible assets	2,745	2,938
Investments	77,814	70,807
Investments for the account and risk of holders of life insurance policies	4,975	3,371
Reinsurance recoverables on technical provisions	5,974	6,989
Accounts receivable on insurance business	4,342	4,438
Deferred acquisition costs	3,544	3,509
Cash	1,685	1,408
Deferred tax assets	235	295
Other assets	1,655	1,736
Assets of disposal groups classified as held for sale	35	43
Total assets	**103,004**	**95,534**
Liabilities		
Shareholders' equity	7,192	5,718
Subordinated liabilities	2,003	2,074
Technical provisions	73,499	69,612
Technical provisions in the area of life insurance insofar as the investment risk is borne by policyholders	4,975	3,371
Other provisions	2,644	2,416
Liabilities	11,179	10,966
Provisions for deferred taxes	1,512	1,377
Debts of disposal groups classified as held for sale	—	—
Total liabilities	**103,004**	**95,534**

[1] Adjusted on the basis of IAS 8

held by ceding companies to EUR 10.8 billion; of this amount, additions of EUR 0.8 billion were attributable to the acquisition of the US life reinsurance portfolio in the Life/Health Reinsurance segment alone. Detailed explanations of the investments are provided below in this section as well as in the Notes, principally in the subsections "Nature of risks associated with insurance contracts and financial instruments" (page 145) and "Notes on the consolidated balance sheet" (page 170 onwards).

The balance sheet item "Technical provisions in the area of life insurance insofar as the investment risk is borne by policyholders" grew by EUR 1.6 billion 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. In the case of these life insurance products, under which policyholders themselves carry the investment risk, the technical liabilities reflect the higher fair values of the corresponding assets.

Parcels of investment property from the Group segment of Life Primary Insurance, the sale of which is highly probable within one year, are recognized under the item **"Assets of disposal groups classified as held for sale".** The procedure is explained in greater detail in the subsection of the Notes entitled "Disposal groups".

The breakdown of the major **provisions connected with the insurance business,** after allowance for the shares of reinsurers, was as follows as at the balance sheet date:

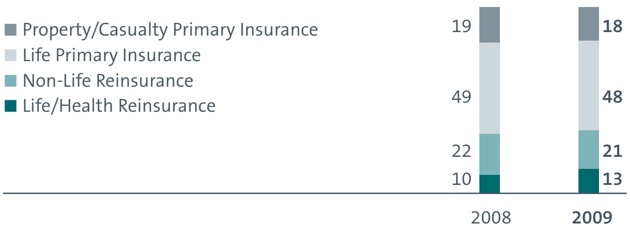
	31.12.2009	31.12.2008
Figures in EUR billion		
Benefit reserve	39.0	35.5
Loss and loss adjustment expense reserve	22.5	21.7
Unearned premium reserve	4.6	4.5
Provision for premium refunds	1.2	1.0

The marked rise in the benefit reserve – representing future obligations in life insurance – of 10% to EUR 39.0 billion derived very largely from the Life/Health Reinsurance segment and is associated with the acquisition of the US portfolio as well as gratifying organic growth. Nevertheless, the life insurance business written by our primary insurers, especially in the Bancassurance Division, also contributed to the increase in the benefit reserve.

The slight increase in the loss and loss adjustment expense reserve resulted first and foremost from the Non-Life Reinsurance segment. Crucial to this development – against the backdrop of virtually unchanged gross loss reserves year-on-year – were first and foremost the increased level of retained premium due to lower retrocessions as well as movements in exchange rates. Most notably, the rise of the US dollar against the euro – despite opposing effects associated with other major foreign currencies – led to a modest increase in the loss reserves on a euro basis. The net loss reserves in the Property/Casualty Primary Insurance segment were slightly higher than in the previous year.

The technical provisions (after consolidation) were divided as follows among the individual Group segments:

Technical provisions
in %



The year-on-year comparison of our technical provisions in each Group segment highlights the increasingly well-balanced Group structure. The proportion of the technical liabilities attributable to reinsurance business stood at around 34 (32)%, while primary insurance business accounted for 66 (68)%. The slight shift in favor of the reinsurance segments was driven by Life/Health Reinsurance. Along with the extremely positive business experience, this was triggered primarily by the acquisition of the life reinsurance portfolio. As a consequence of this transaction the Group assumed benefit reserves of some EUR 1 billion.

Particularly as a consequence of the portfolios of PBV Lebensversicherung and PB Versicherungen added in previous years, the Group segment of Life Primary Insurance was significantly strengthened. Almost half of the technical provisions were apportionable to this Group segment. Extensive information on these liabilities is provided in the Notes, "Notes on the consolidated balance sheet – liabilities", page 193.

Our recognized technical provisions and liabilities, which include the funds held under reinsurance treaties, liabilities under direct written business and reinsurance payable, came to 86% of the balance sheet total and are more than covered by our investments, funds held by ceding companies, accounts receivable on insurance business and the reinsurance recoverables on technical provisions.

The **long-term debt** taken out was slightly lower than in the previous year, principally due to the repurchase of several tranches of our own issued debentures inter alia of Talanx Finanz S.A., Luxembourg, as well as the complete redemption of the subordinated debt of Hannover Finance, Inc., Wilmington/USA. As at the balance sheet date it was composed of altogether six subordinated debts in a total nominal amount of EUR 2.0 (2.1) billion and a loan of nominally EUR 550 (550) million. More detailed information is provided in the Notes in the subsections "Subordinated liabilities" (page 195) and "Notes payable and loans" (page 207). Long-term debt complements our shareholders' equity and serves primarily to optimize our cost of capital. It makes up altogether 3 (3)% of the balance sheet total or 26 (32)% of the sum total of shareholders' equity and long-term debt.

There were also **contingent liabilities and other financial commitments,** which are described in the corresponding subsection of the Notes.

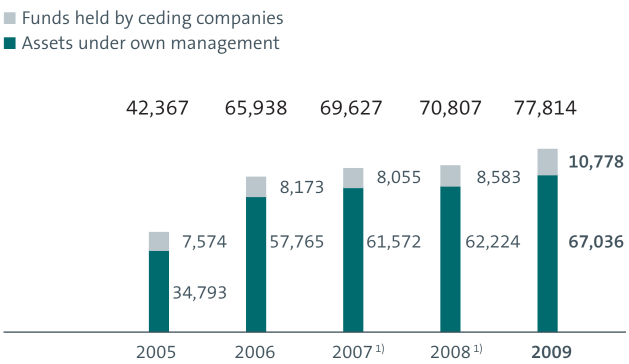
Asset/liability management

The structure of our technical provisions and other liabilities essentially establishes the basis for the Talanx Group's investment strategy. The linking and harmonization of the technical liabilities with the investment portfolio are achieved through integrated asset/liability management (ALM). The aim is to stabilize the position in the face of fluctuations on capital markets. Please see also the risk report on page 79 et seq.

We also use derivative financial instruments in order to structure asset management activities as effectively as possible (see here our remarks in the subsection of the Notes entitled "Derivative financial instruments and hedge accounting", page 187).

Investments

Breakdown of the investment portfolio
Figures in EUR million



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

Compared with the increases in the investment portfolio in the previous year, substantial growth of EUR 7.0 billion to EUR 77.8 billion was generated in 2009.

After a stable first quarter of 2009, asset holdings grew steadily thereafter. Cash inflows from the technical account were invested in accordance with the existing investment structure. We reclassified fixed-income securities in an amount of roughly EUR 1.5 billion from the "available for sale" to the "held to maturity" category in order to minimize balance sheet volatility. In addition, the attractive state of the markets from the first quarter of 2009 onwards prompted us to modestly increase our equity exposure again, although the equity allocation remained unchanged relative to 2008 at 2 (2)%.

Within the scope of the investment strategy and in compliance with the higher-order standards defined by statutory guidelines and the guidelines of the Talanx Group, the diversification of the investment portfolio as at the balance sheet date was as follows:

Breakdown of the investment portfolio
%

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

Fixed-income securities

The bulk of the asset portfolio of the Talanx Group continues to be comprised of investments in fixed-income securities and loans. The share of this asset class grew by EUR 3.9 billion in 2009 to EUR 57.9 (54.0) billion. More than 80% of this increase was attributable to asset classes, the portfolios of which are recognized at amortized cost; fluctuations in fair value therefore do not have any effects on income or shareholders' equity. The increase in the holding of "financial assets held to maturity" derived principally from the reclassification of maturing securities from the "available for sale" asset class. The debentures recognized in the "loans and receivables" category climbed by almost 6% from EUR 28.3 billion to EUR 30.0 billion, largely due to the reinvestment of technical cash flows in the 2009 financial year.

The share of "financial assets available for sale", holdings the volatility of which impacts shareholders' equity, climbed by a mere 2.6% (EUR 0.6 billion) to EUR 24.2 billion. This comparatively modest increase resulted above all from the previously described strategy aimed at reducing the interest rate risk.

With a volume of around EUR 22.9 (21.2) billion, the focus of our investments in fixed-income securities was on government bonds or instruments issued by debtors of similar quality; they accounted for a share of 40 (39)%. Exactly as in the previous year, a further 30% of the portfolio was invested in mortgage- or other asset-backed securities; these were comprised largely of German mortgage bonds and public-sector covered bonds (Pfandbriefe).

The 2009 financial year was notable for the particularly tense situation affecting institutions protected by the Financial Market Stabilization Fund (SoFFin), including a number of regional banks (Landesbanken), Commerzbank and Hypo Real Estate. The total portfolio of instruments that came under scrutiny amounted to around EUR 4.7 billion in the case of fixed-income securities, of which EUR 3.9 billion carried a government or real guarantee. These securities were also tested regularly for impairment.

The linkage of the underwriting portfolios on the liabilities side with the risk characteristics of the investments on the assets side gives rise to company-specific parameters, which are continuously monitored and as necessary adjusted. Thus, for example, the duration (average period of capital commitment) in the life segment of 7 years is significantly longer than in the non-life segment (3.8 years). The duration of the Talanx Group's entire portfolio of fixed-income securities was reduced from 5.9 years to 5.5 years in 2009.

In accordance with the principle of matching currency coverage, investments denominated in US dollars – at around 64% – continued to account for the bulk of holdings in foreign currencies. The proportion of the total investment portfolio held in foreign currencies at year-end remained virtually unchanged at 21%.

Compared to the previous year, the mortgage loans and policy loans granted and disbursed to predominantly German policyholders contracted by around EUR 0.2 billion to EUR 1.6 billion, accounting for altogether 2 (3)% of the investments.

Within the scope of our investment strategy, the balanced mix of asset holdings serves to reduce risks. A commensurate return is generated for the companies in light of the transacted insurance business and the organizational framework conditions. The Talanx Group continues to pursue a conservative investment policy. It remains the case that more than 90% of instruments in the asset class of fixed-income securities are rated "A" or better.

Thanks to the neutral to defensive diversification of the fixed-income portfolio described above and the unconventional steps taken by central banks in the course of the year, results in 2009 moved back within the planned parameters. The write-downs taken on fixed-income securities were lower than in the previous year, dropping from EUR 191 million to EUR 101 million.

The favorable movement of the market pushed up the balance of unrealized losses and unrealized gains on available-for-sale financial assets to EUR 498 (–128) million as at year-end.

Our portfolio of fixed-income securities – measured by rating classes – was of a good quality: as at 31 December 2009 roughly 98 (99)% of our fixed-income securities had an investment grade rating (AAA to BBB).

Rating of fixed-income securities
%

For detailed information on the quality of our investments please see pages 157–163 of the Notes.

Equities and equity funds

In the course of 2009 our portfolio of equities and equity funds increased to EUR 1.9 billion. This was driven above all by the thoroughly favorable market development since the first quarter of 2009, Relative to the enlarged total investment portfolio of the Talanx Group, however, the equity allocation remained unchanged at 2%. Equity holdings were partially hedged against price losses – in view of the high option prices principally using dynamic stop loss strategies.

The aforementioned positive market development also had implications for the net balance of unrealized gains and losses on equity securities classified as available for sale. Unrealized gains of EUR 342 million were recognized as at 31 December 2009, compared with unrealized losses of EUR 53 million as at the previous year's balance sheet date.

The funds held by ceding companies increased – principally on account of the acquisition of the life reinsurance portfolio – by 26% from EUR 8.6 billion to EUR 10.8 billion in the year under review.

Real estate including shares in real estate funds

The value of the investment property – including shares in real estate funds – rose modestly in 2009 from EUR 1.0 billion to EUR 1.2 billion. The real estate allocation consequently rose from 1% to 2%; relative to the total investment portfolio, however, this is still low. This item does not include own-use real estate, since this is recognized in the balance sheet item "Other assets". As in previous years, this asset class too is subject to constant review and monitoring with an eye to risk and return ratios.

Investment income

Development of net investment income

	2009	2008	2007 [1]	2006	2005
Figures in EUR million					
Ordinary investment income	3,061	3,067	2,857	2,544	1,666
thereof current income from interest-bearing securities	2,461	2,447	2,345	1,869	1,177
thereof income from funds held by ceding companies	447	330	251	283	372
Profit from shares in associated companies	–6	3	11	5	3
Realized net gains on investments	236	148	241	169	234
Write-ups/write-downs on investments [2]	–332	–1,408	–220	–64	–36
Unrealized net gains/losses on investments	52	–38	–63	–15	34
Other investment expenses	145	162	119	123	67
Net investment income	**2,866**	**1,610**	**2,697**	**2,516**	**1,837**

[1] Adjusted on the basis of IAS 8
[2] In 2008 write-downs on equities in an amount of EUR 40 million were erroneously recognized in the unrealized losses. The figures for the previous year have been adjusted accordingly

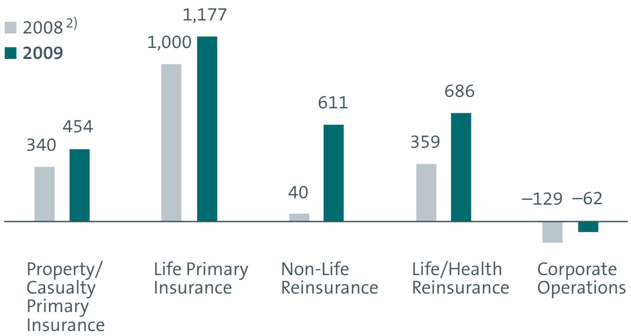
Net investment income enjoyed a marked recovery in 2009. Write-downs, which had taken a heavy toll on the result in the previous year, were sharply lower, as a consequence of which net investment income climbed back to the level prior to the financial crisis. It should, however, be borne in mind that ordinary investment income did not rise in step with the portfolio growth. Rather, it remained virtually on a par with the previous year at EUR 3.1 billion.

On balance, a profit of EUR 236 (148) million was generated in the 2009 financial year from the disposal of investments as part of proactive asset management. Losses realized on the scaling back of equities in the first quarter were subsequently offset in the course of the year. As at year-end we generated gains from the positions that had been entered into, and a profit of EUR 55 million was therefore booked in this asset category. In addition, realized losses of EUR 107 million on fixed-income assets were more than made up for by realized gains of EUR 262 million.

Write-downs were moderate compared to the previous year: impairments taken on equities totaled EUR 112 million (EUR 1.2 billion) and were for the most part due to the poor state of the market in the first quarter. A total of EUR 101 million was written off fixed-income securities in 2009. The amount recognized at year-end also included write-downs taken on instruments with a profit participation issued by regional banks (Landesbanken).

The continued adherence to an investment policy geared to risk minimization through a high degree of diversification led to consolidation of the net investment income in 2009. It was nevertheless necessary to write down the exposure to regional banks (Landesbanken) in light of the current evaluation of the counterparties. The total amount stood at roughly EUR 38 million.

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

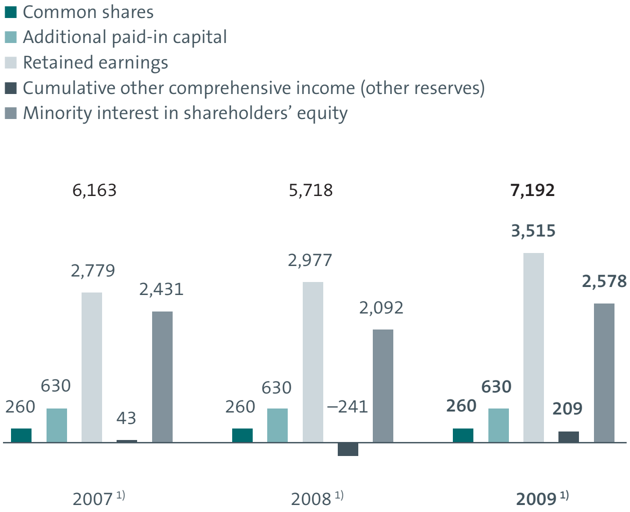


[1] Presentation after elimination of intra-Group relations between two segments
[2] Previous year's figures adjusted on the basis of initial application of IFRS 8

The investment income reported by the Group segment of Corporate Operations consists principally of the costs of managing all assets – both the Group's own and third-party holdings. The comparison with the previous year is of only limited informational value in this case owing to a special effect.

Group shareholders' equity and valuation reserves not recognized in the balance sheet

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 increased by EUR 1,474 million or 26% to EUR 7.2 (5.7) billion; the Group's share amounts to EUR 4,614 (3,626) million (see also the "Statement of changes in shareholders' equity" on page 94). The major changes in shareholders' equity were due to the following reasons:

The Group net income attributable to our shareholders surged by a substantial 187% to EUR 526 (183) million and was allocated in full to retained earnings.

The "Cumulative other comprehensive income (other reserves)" also increased sharply year-on-year by EUR 450 million to EUR 209 million. This can be attributed principally to the sharp rise in unrealized gains and losses on investments. Net gains rose from EUR 363 million to EUR 799 million in the year under review. The increase derived principally from the decline in the risk-free interest rate as well as credit risk charges for corporate risks. The positive balance of unrealized gains and losses in our portfolio of available-for-sale fixed-income securities consequently climbed to EUR 498 (–128) million.

As a result of fluctuations in the exchange rates of foreign currencies against the euro, the currency translation reserve increased in the year under review by EUR 70 million to –EUR 141 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 grew by EUR 486 million to around EUR 2.6 billion. The rise derived principally from the minority interest in the result generated in the year under review amounting to EUR 406 million. The minority interest in the Group's gratifying net income thus increased by EUR 474 million in comparison with the previous year.

Valuation reserves not recognized in the balance sheet

The unrecognized valuation reserves shown in the following table make no allowance for technical liabilities.

	31.12.2009	31.12.2008 1)	31.12.2007 1)
Figures in EUR billion			
Group shareholders' equity	7.2	5.7	6.2
Valuation reserves not recognized in the balance sheet before taxes, including the shares of policyholders and minority interests	1.1	1.6	–1.2

1) *Adjusted on the basis of IAS 8*

Capital and performance management

Capital management process

Capital management is based on a process geared to optimizing the steering and use of capital within the Group that is structured according to clear guidelines and workflows.

Due to a disproportionately strong growth phase the Talanx Group is considerably more complex today than it was some years ago. We therefore use our tools for managing the Group in order to systematically chart a course for the years ahead. At the same time, the regulatory environment, capital markets and rating agencies are placing increasingly exacting requirements on insurance groups. The point of departure determined by these internal and external influencing factors causes us to define the following goals:

- Increase profitability and create value
- Make optimal use of capital
- Optimize the cost of capital
- Invest in areas where we generate the highest risk-adjusted return over the long term
- Seize strategic opportunities and at the same time remain aware of and manage the immanent risks

We pursue these goals with the aid of our integrated management system, in which we devote special attention to the four fundamental management processes that govern the interplay between the holding company Talanx AG and the Group's various divisions: capital management, performance management, risk management and mergers & acquisitions (M&A).

Capital management

The Group steering function of capital management

- creates transparency as to the actually available (company's) capital,
- specifies the required risk-based capital and coordinates the determination thereof,
- optimizes the capital structure, implements financing measures and supports all structural changes that have implications for the required capital.

An important subfield of capital management is identifying capital that exceeds the required risk-based 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 Value at Risk defines the estimated maximum loss that with a specified probability will not be exceeded within a specified holding period. If such over- or undercapitalization exists, the next step is to rectify or at least alleviate it by taking appropriate corrective actions. In the case of significant overcapitalization at the company level, for example, capital management measures may be geared to systematically reducing free excess capital.

In this context our stated aim is 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 three fundamental capital concepts, namely "Company's Capital", "Risk-Based Capital" and "Excess Capital".

In the context of our value-based management approach, the company's capital serves as a basis for determining the cost of capital and 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/division), and is composed of the IFRS shareholders' equity 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 insurance and life/health reinsurance.

Risk-based capital is the amount of capital necessary for the conduct of the insurance business in order to ensure that the probability of capital erosion is kept below 0.5% (cf. the risk report). The comparison with the available (company's) capital indicates over- or undercapitalization and capital adequacy.

Excess capital is the residual of the company's capital and risk-based capital; it constitutes the capital that is not at risk.

Performance management

Performance management is the centerpiece of our array of steering tools. Under our systematic approach a clear strategy geared to ensuring the Group's long-term survival (cf. page 26) and the consistent implementation of this strategy are fundamental to efficient enterprise and group management. 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 alignment of our entrepreneurial actions with the 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 these subgoals into operational goals that are backed by concrete measures.

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

- The Board of Management of the holding company sets out strategic indications as a framework for the planning and orientation of business activities. The focus is on the Group's core management ratios and on Group-wide strategic initiatives. The target indications set by the holding company thus define the Group's aspirations to economic value creation, profitability, level of security and growth initiatives.
- The holding company and segments/divisions use a consistent performance metric to manage their business. 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.
- Performance is discussed and assessed in regular meetings between the Board members with responsibility for the holding company and the segments/divisions on the basis of this performance metric. Consideration is given not only to the current operational and financial results but also to long-term aspects that are vital to a sustainable performance going forward.

We link our strategic planning with the operational planning using the performance metric by setting out our strategy measurably in structured overviews and monitoring its execution.

Core management ratios

From Group parameters and strategic program planning of the segments/divisions:

- **IVC, xRoCC**
- **Dividend**
- **Risk budget, capital adequacy ratio (CAR)**

Operational management ratios

Operational requirements from the segments/divisions:

Financial perspective **Finance**	Market and customer perspective **Market/Customers**
Internal perspective **Processes**	Learning and development perspective **Staff**

Our five core management ratios:

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

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

Management indicators

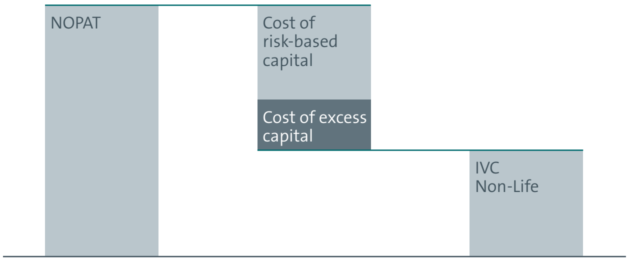
As part of our performance management we measure economic value creation from strategic planning to operational management using our central management indicator, namely Intrinsic Value Creation (IVC).

The IVC enables us to record and consistently allocate the value contributions of the Group on different hierarchical levels – Group, segment/division and company. The IVC and its methodological determination form the basis on which the value contributions of the segments/divisions and of the individual operational units can be measured in a comparable manner – making allowance for their specific characteristics – in order to reliably identify value-creating areas. The core management ratios, the operational management ratios and their respective degrees of goal accomplishment create the transparency needed to optimize the allocation of capital and resources, pinpoint risks and opportunities and initiate further measures.

We further refined our value-based management tools in 2009 and revised the calculation of the cost of capital. The methodological determination of the IVC – and hence of the economic value creation – according to the basic scheme for the non-life and life sectors remains unchanged. Under this approach, the intrinsic value creation constitutes the economic net income for the period less the cost of capital.

The IVC is calculated differently in the non-life and life sectors on the basis of distinct specific ratios:

IVC calculation in non-life



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 for risk-based capital and excess capital.

The NOPAT is an economically informative performance and management ratio for the reporting period in question. It is comprised of the Group net income recognized under IFRS after tax and fair value adjustments that arise out of the change in differences between present values and carrying amounts in the balance sheet (loss reserve discount, excess loss reserves, fair value changes not recognized in income).

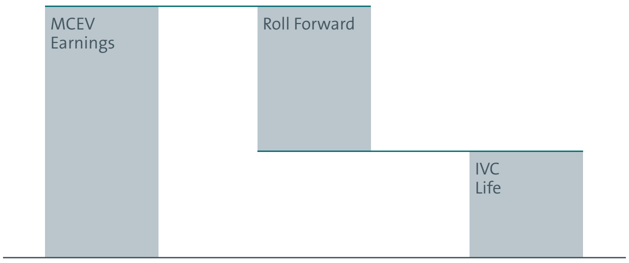
The cost of capital consists of the costs for the allocated risk-based capital and the costs of excess capital. While the risk-based capital is divided between the profit centers in a manner commensurate with the risk using the Talanx risk model on the basis of a 99.5 percent Value at Risk, the excess capital is arrived at as the difference between the risk-based capital and the company's capital. The costs for the risk-based capital are determined from the following components: a risk-free basic interest rate*, frictional costs** and a risk margin to reflect the market in question. For the excess capital, on the other hand, only the risk-free interest rate and the frictional costs are used, since the capital involved here is not at risk.

** Calculated as the three-year average of ten-year swap rates*

*** Opportunity costs incurred by shareholders as a consequence of the fact that they invest their capital not directly in the capital market but rather by a "roundabout route" through a company and the capital is tied to the company rather than being freely fungible*

On the basis of our currently applicable determination of the cost of capital, the investor incurs opportunity costs for the risk-based capital that are 600 basis points above the risk-free interest rate. Value is created above this rate of return. The targeted return-on-equity for the Group of at least 750 basis points above "risk-free" defined in our umbrella strategy thus already includes a not inconsiderable aspiration to intrinsic value creation.

IVC calculation in life



Value creation in life business (Life Primary Insurance and Life/Health Reinsurance) is measured on the basis of the change in the Market Consistent Embedded Value (MCEV), which is expressed in the MCEV earnings. The MCEV earnings are thus equivalent to the NOPAT. The MCEV is defined as the value of the undertaking, which is measured as the discounted present value of future earnings until final run-off of the in-force portfolio plus the fair value of equity, making allowance for capital commitment costs. We chose the MCEV as the basis for value-based management of the life insurance business because it constitutes the value of the undertaking inherent in the already transacted insurance portfolio from the standpoint of the shareholder. The IVC Life is determined as the difference between the MCEV earnings and the roll forward; the latter corresponds to the expected cost of capital after allowance for the risk exposure in relation to capital market risks.

In order to measure the comparable return delivered by business units or divisions of varying size, the IVC is considered in relation to the corresponding available capital. In this way we arrive at the ratio known as the xRoCC (Excess Return on Company's Capital), which indicates the return for the shareholder in excess of the cost of capital.

Ratings 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 a company's ability to meet its obligations to customers – i.e. in our case the policyholders –, and the "Issuer Credit Rating" or "Counterparty Credit Rating", which provides investors with information from an independent source about a company's credit quality in general.

Financial Strength Ratings of the Talanx Group and its subgroups

	Standard & Poor's		A.M. Best	
	Grade	Outlook	Grade	Outlook
Talanx Group[1)]			A	Stable
Talanx Primary Group[2)]	A+	Stable		
Hannover Re subgroup[3)]	AA–	Negative	A	Stable

[1)] Designation used by A.M. Best: "Talanx AG's main operating subsidiaries"
[2)] This rating applies to the subgroup of primary insurers (Property/Casualty Primary Insurance and Life Primary Insurance segments of the Talanx Group) as a whole as well as its major core companies
[3)] This rating applies to Hannover Re and its major core companies. The Hannover Re subgroup essentially corresponds to the Non-Life Reinsurance and Life/Health Reinsurance segments of the Talanx Group

On the basis of this A rating awarded by the rating agency A.M. Best, the financial stability of the Talanx Group is assessed as "Excellent" (with respect to both the Talanx primary insurance sector and the Talanx reinsurance sector). The outlook for both ratings is stable. A rating of "A" corresponds to the second-best rating category at A.M. Best.

In the case of Standard & Poor's, the Hannover Re subgroup is awarded a rating in the second-best rating category at AA- ("Very Strong"), while the Primary Group was placed within the third-best rating category with an A+ ("Strong"). While the outlook for the Talanx Primary Group is assessed as stable, S&P assigned Hannover Re a negative outlook in June 2009. S&P attributed this inter alia to Hannover Re's restricted financial flexibility as a consequence of the fact that it was unable to fully place its CAT bonds (catastrophe bonds) on the capital market.

The strong competitive position of both subgroups is highlighted by S&P as a particularly impressive strength. A.M. Best affirmed inter alia the very good capitalization of both subgroups, which had even improved further despite the financial crisis.

The rating activities of the Talanx Group have been significantly expanded in past years. Most recently, for example, the two life insurance subsidiaries using the Postbank distribution channel, namely PB Lebensversicherung AG and PBV Lebensversicherung AG, as well as the Austrian company HDI Versicherung AG were rated A by S&P. In addition, the South African subsidiary of Hannover Re – Hannover Life Reassurance Africa Ltd. – was subjected to the S&P rating process for the first time in 2009. This company, too, was awarded a very good initial rating of A with a stable outlook. The financial strength ratings from the primary insurance sector are summarized in the following table:

Financial Strength Ratings of companies belonging to the Talanx Primary Group

	Standard & Poor's		A.M. Best	
	Rating	Outlook	Rating	Outlook
HDI Direkt Versicherung AG	A+	Stable	—	—
HDI-Gerling Firmen und Privat Versicherung AG	A+	Stable	—	—
HDI-Gerling Industrie Versicherung AG	A+	Stable	A	Stable
HDI-Gerling Lebensversicherung AG	A+	Stable	A	Stable
Aspecta Lebensversicherung AG	A+	Stable	—	—
neue leben Lebensversicherung AG	A+	Stable	—	—
HDI-Gerling Welt Service AG	A+	Stable	—	—
HDI-Gerling America Insurance Company	A+	Stable	A	Stable
Targo Lebensversicherung AG	A	Stable	—	—
PB Lebensversicherung AG	A	Stable	—	—
PBV Lebensversicherung AG	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 Versicherung AG	A	Stable	—	—

S&P defines the first eight 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 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.

Current ratings of Hannover Re subsidiaries are available on the Hannover Re website.

Issuer Credit Ratings of companies belonging to the Talanx Group

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

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

On the basis of the rating of A– ("Strong") shown in the table, Talanx AG's ability to pay is assessed by S&P as "Very Good", hence corresponding to the third-best category within the issuer credit ratings. A.M. Best rates the ability to pay of Talanx AG as bbb+ ("Good"), corresponding to the fourth-best rating category. The outlook of these ratings for Talanx AG is assessed as stable by both rating agencies.

The somewhat inferior assessment of Talanx AG relative to the Financial Strength Ratings can be attributed 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.

Hannover Re has received an Issuer Credit Rating (ICR) from S&P of AA– ("Very Strong") from S&P, equivalent to the second-best rating category. The outlook of the rating for Hannover Re is negative in keeping with its Financial Strength Rating. A.M. Best has awarded Hannover Re an Issuer Credit Rating of a+ ("Strong"); the outlook for this rating is stable. This assessment corresponds to the third-best rating category on the ICR rating scale used by A.M. Best.

Various ratings also exist for the subordinated liabilities issued by Group companies (issue ratings). These ratings are set out in the explanatory notes on the consolidated balance sheet under item (17) "Subordinated liabilities" in the Notes.

Analysis of the consolidated cash flow statement

The cash flow statement should be regarding as having only minimal informational value for the Talanx Group. The cash flow movements of the 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. We also generate current income from our investments. For our company, therefore, the cash flow statement does not make up for liquidity planning and financial planning, nor is it used as a management tool.

The full statement of cash flows is published in the cash flow statement on page 95; it is summarized below:

	31.12.2009	31.12.2008[1)]
Figures in EUR million		
Cash flow from operating activities	5,472	963
Cash flow from investing activities	–5,072	–1,117
Cash flow from financing activities	–129	–460
Change in cash and cash equivalents	271	–614

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

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

The point of departure for determining the cash flow from operating activities is the net profit of EUR 932 (115) million.

The **cash flows from operating activities,** which also include incoming payments from the generated investment income, rose sharply year-on-year to EUR 5,472 (963) million. In the context of this calculation the net profit of EUR 932 million was adjusted in the consolidated cash flow statement (net perspective) to allow for the increase in technical provisions (EUR 3.3 billion). This development was driven principally by the strong increase in the benefit reserve – above all in the Life/Health Reinsurance segment and the Bancassurance Division (see also our explanatory remarks in the subsection describing the financial position and assets).

The **outflow of funds from investing activities** is determined by payments made for the purchase of investments. Amounting to EUR 2.7 billion, they exceeded the incoming payments from the sale or final maturity of investments. The cash outflow from changes in investments for the account and risk of holders of life insurance policies in an amount of EUR 1.6 billion (previous year: cash inflow of EUR 0.9 billion) was also a factor here. The acquisition of the US life reinsurance portfolio completed in the year under review produced inflows of EUR 131 million in relation to investments and EUR 982 million in relation to the technical provisions. The acquisition of HDI Seguros, S.A. de C.V. did not give rise to any significant cash inflows or outflows.

The **cash outflow from financing activities** was chiefly influenced in the year under review by the changes associated with other financing activities. Substantial dividend payments comparable with the previous year were not made in 2009. The cash flow from financing activities consequently decreased by more than EUR 300 million.

The total cash and cash equivalents increased by altogether EUR 277 million in the year under review to EUR 1.7 billion.

For further details of our cash management please see the subsection of the risk report entitled “Liquidity risk” on page 80.

Overall assessment of the economic situation

The Management of Talanx AG assesses the overall development of business in 2009 as successful. The result was in line with our expectations; in a difficult environment we achieved our targets with respect to the premium volume and operating profit (EBIT). We surpassed our goal of generating a return on equity 750 basis points above the risk-free interest rate: it stood at 12.8 (5.0)%. At the time when the management report was drawn up the Group’s economic situation continued to be favorable.

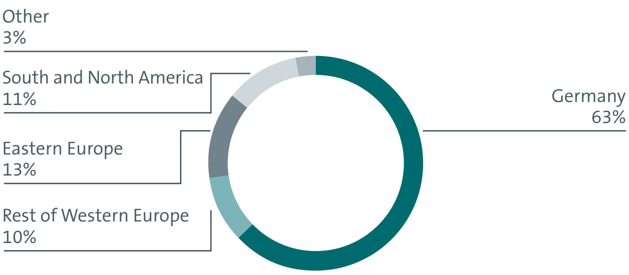
Non-financial performance indicators

Staff

As in previous years, our staff were again the guarantors of our success. They played a vital role in ensuring that we generated a good result despite a difficult market situation. The Board of Management would like to express its appreciation to all of the Group's staff for their dedication and their performance in the financial year just-ended. The Board of Management thanks all the Employee Council bodies for their trusting and constructive cooperation.

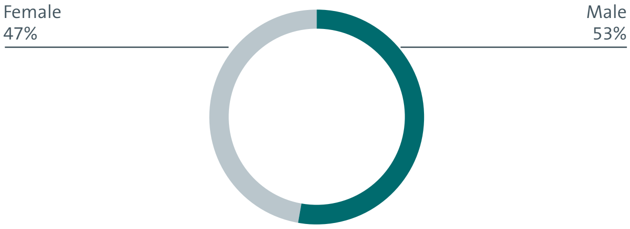
The number of staff employed by all Group companies at year-end stood at 18,038 (17,734); this is equivalent to 16,921 (16,541) full-time positions. The workforce thus grew by 1.7%. The increase can be attributed in large measure to acquisitions in Mexico and the United States, which added 395 and 129 employees respectively. This contrasted with integration-related manpower reductions in Germany. Of the 18,038 employees that constitute the total labor force, 6,656 (6,029) – i.e. 37% – worked abroad and 11,382 (11,705) in Germany. Our Group has employees in 40 countries on five continents around the world. In Germany, roughly three-quarters of staff are employed in the federal states of North-Rhine Westphalia and Lower Saxony.

Headcount by regions



In Germany the proportion of female staff stood at 47%, while the proportion of part-time employees remained unchanged at 16% – both figures one percentage point higher than the industry average. The average age of our German employees was 43.5, while the average length of service with the company was 14.2 years – both figures also slightly above the industry average.

Headcount by gender

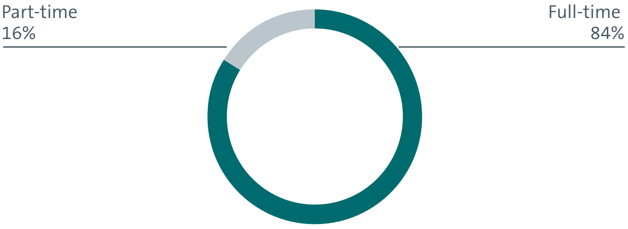


For the Talanx Group, state-of-the-art human resources management is crucial to the successful execution of strategy. In the year under review Group-wide personnel activities were focused above all on personnel marketing, personnel development and training.

One consequence of the demographic shift will be a massive shortage of qualified university graduates and specialists in the near future. The "battle for talent" will be reignited. In order to ensure that Talanx continues to be able to attract highly skilled graduates and recruits to the Group and its companies going forward, considerable importance attaches to boosting the recognition of the Talanx Group and its individual brands. In the year under review the Group segments and the holding company jointly developed a number of measures designed to familiarize potential applicants with the mostly still undiscovered career opportunities and interesting openings available within the Talanx Group. In 2010, for example, a comprehensive employer image campaign was launched under the slogan "Talanxize your career". The Talanx Group will also continue to attend major university job fairs so as to enter into an on-the-spot dialog with graduates and students. The opening salvo was Talanx's presence as an umbrella brand together with virtually all the Group companies at the 2009 graduate job fair held in Cologne. Last but not least, a Group-wide intern affinity program has been set in motion with a view to staying in touch with interns who perform particularly well until the time comes for them to enter working life.

Personnel marketing is directed at an internal as well as an external audience. The compatibility of work and family life is assuming growing significance for all employers across Germany. Our diverse range of part-time working models, which are utilized by 1,781 employees in Germany (i.e. roughly 16% of the regular workforce), facilitate the harmonization of family life and career. What is more, Group companies are increasingly providing childcare facilities in the immediate vicinity of their office premises. Hannover Re, for example, set up a company daycare center with places for 30 of its employees' children in 2008. In the year under review the Cologne-based HDI-Gerling life insurers combined their relocation with an offer of childcare just off-site that was realized in cooperation with a private kindergarten.

Headcount by part-time/full-time status



Human resources development continues to constitute a major focus of our personnel activities. As in past years, our employees' skills were systematically enhanced to handle their demanding tasks by way of training and personnel development measures. The goal is to consolidate and extend the above-average skills set of our workforce in order to optimally prepare the Group for the challenges presented by the market. In addition to activities designed to refine technical skills, regular instruction is also provided in methodological and social skills.

The most significant innovation in this respect on the Group level is the establishment of the Talanx Corporate Academy. Through cooperation in some areas with eminent European business schools, it offers an especially high-quality range of training for senior managers of all Group companies worldwide. Complementing the offerings of the divisions and national companies, the Corporate Academy serves in particular to convey Talanx strategy and management methods. Another important goal, however, is to enhance communication and links between the holding company and the divisions as well as between the various divisions. Professors from highly reputed business schools are joined by members of the Talanx Board of Management as guest speakers and discussants.

The considerable enthusiasm among staff for further training activities has been gratifying across all divisions. They not only made the most of offerings relating to specialist topics, but also worked intensively on the refinement of their methodological, managerial and social skills. In many instances they drew upon special programs developed with specific target groups in mind.

Following completion of the Gerling integration in terms of structural and process aspects, the HDI-Gerling Property & Casualty Group found itself confronted by the challenge of defining a common corporate culture for the entities belonging to the property/casualty insurance segment. In more than 50 workshops the members of staff in the P&C sector have drawn up corporate guidelines for management and cooperation. They encompass the absolute imperatives of customer orientation, readiness to perform and the will to improve as well as essential requirements governing respect and fairness. Binding and compulsory values foster identity, provide orientation and ensure reliability. They thus put in place the necessary foundation for lasting corporate success. Another area of emphasis for the HDI-Gerling Property & Casualty Group is the promotion of young talent. Trainee programs have given account managers and underwriters the opportunity to expand their specialist knowledge and skills in the individual insurance lines in order to serve the growing needs of the P&C companies.

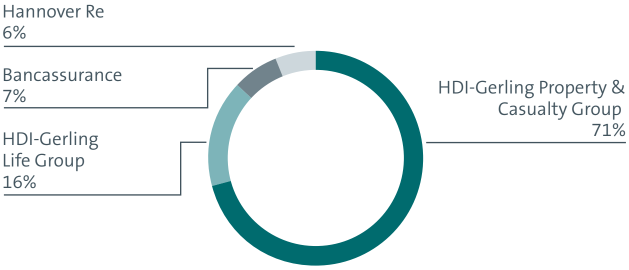
In the course of process and project management the staff of the HDI-Gerling Life Group not only learned the basic methods, they also became familiar with Six Sigma.

The Bancassurance Division developed a new employee skills profile and a concept for the introduction of a specialist career: given that not all staff seeking to improve their skills are able or willing to assume managerial responsibility, it is increasingly important to offer such individuals attractive opportunities for further development on the professional level. This goal is served through the launch of a specialist career. In addition, within the scope of their own sales academy the sales staff of Targo Lebensversicherung AG attended specially developed seminars that support systematic progression from sales coach through senior sales coach and sales manager to the level of (deputy) sales director.

The personnel development activities of Hannover Re stress a holistic approach that extends from strengthening the employer brand through competency management and succession planning to further training. As part of competency management the specialist qualifications of the various function groups are regularly reviewed with an eye to market requirements. Consideration is now also given to the repercussions of demographic change, in light of which the performance capability of employees needs to be preserved until a relatively high age. Various measures are therefore offered to improve the work/life balance.

The Group also attaches considerable importance to initial training: solid training for young people puts in place the platform for an individual's successful start to their working life, while for the company it means the acquisition of capable, skilled and motivated recruits over the long term. The vast majority of those undergoing training are taken on following completion of their instruction. 391 (389) apprentices and student trainees were employed by the Talanx Group in Germany as at 31 December 2009.

Split of apprentices by division



Sustainability

The member companies of the Talanx Group demonstrate their sense of responsibility to the environment in a broad variety of ways. Three courses of action are available to our insurers: sustainable enterprise management, the development of products that promote criteria such as environmental conservation, energy consumption and social responsibility, and observance of such criteria in their own investment decisions.

At our companies we are committed inter alia to energy-saving measures, which take a number of forms in our office buildings. New buildings, in particular, offer an opportunity to pay close attention to environmentally compatible construction techniques and ecologically friendly operation. In the autumn of 2010, for example, Neue Leben will move into its new headquarters: this is the first office complex in Hamburg to have been certified as a "green building" in accordance with the LEED NC certification procedure. The certification requirements include, inter alia, a particularly non-polluting and energy-saving construction as well as environmentally compatible operation of the building. Resource-saving considerations are similarly being given special prominence in the building of the new Group headquarters in Hannover, which Talanx expects to complete at its own responsibility by 2011: triple glazing, geothermal energy, heat recovery and temperature adjustment of the rooms through activated concrete ceilings are intended to ensure that the project comes in comfortably within the regulations governing energy consumption.

On the product side our range of insurance offerings includes coverage extensions for photovoltaic systems as well as preferential rates in motor insurance for fuel-efficient vehicles, hybrid vehicles and those with engines powered by electricity, gas, hydrogen or fuel cells. HDI-Gerling offers an actively managed eco-portfolio in all its current fund products. The "Zukunft" ("Future") investment strategy contains sustainable equity, mixed and bond funds. The selection criteria are conservation of the natural environment, economical use of resources, fair treatment of people and an attractive return. AmpegaGerling's portfolio also contains investment products that accommodate sustainability concerns. It offers several sustainable investments, including not only the Gerling Responsibility Fund but also the special bond and equity funds terrAssisi Renten I AMI and terrAssisi Aktien I AMI. These funds invest in entities and issuers that incorporate not only economic but also environmental and social criteria into their company strategy and which are considered trailblazers when it comes to assuming responsibility for a sustainable future.

Our Group invests in accordance with regulatory requirements with an eye to the greatest possible profitability, liquidity and security so as to be able to render the agreed insurance benefits at all times. If investment options are available to us that accommodate particular ethical, social and ecological concerns while at the same time meeting all the aforementioned requirements, these are given special consideration.

Corporate social responsibility

With an eye to its responsibility to society, Talanx puts the focus on education and training; it thereby devotes itself to an issue that is of considerable importance to the future of every individual as well as of the company and the national economy as a whole. The Group has set up the Talanx Foundation as the centerpiece of its corporate social responsibility activities: we believe it is important to offer financial assistance to particularly strong and deserving students. The aim is to support above all those students who themselves lack the resources to complete their degree in the standard period of study and with an outcome that reflects their talent if they do not receive appropriate assistance. To this end, the Talanx Foundation was set up in the year under review; it makes funds available for the awarding of scholarships to students. In so doing, the foundation cooperates closely with selected insurance-related disciplines at universities in Hannover, Leipzig, Cologne and Ulm as well as the Karlsruhe Institute of Technology. Each semester up to ten students will be accepted into the program – starting for the first time in April for the 2010 summer semester.

Sales, marketing and advertising

The multi-brand principle pursued within the Talanx Group is reflected in its polyphonic external communications 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 and HDI-Gerling engage directly with the broader public, using inter alia TV commercials, publicity campaigns and sponsorship activities. Reinsurance and asset management operations focus on their particular target groups. Talanx AG systematically speaks to 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 sales channels employed by the Group's companies are extremely diverse: they range from our own tied agents' organizations and local representation by branch offices and sales outlets through the use of brokers and independent agents to highly specialized bancassurance cooperations. For further information please see the subsections on the various Group segments.

Risk report

The acceptance of risks in return for payment 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. With its various Group segments the Talanx Group offers an extensive range of products encompassing not only insurance but also financial and other services. Talanx AG and its subsidiaries consequently employ a diverse spectrum 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 powerful planning and controlling tools.

In accordance with an approach geared to ensuring comparatively extensive individual responsibility and decentralization, the subsidiaries each maintain their own risk management systems; for they are best able to assess and quantify their risks and implement timely risk controlling measures. Group Risk Management nevertheless defines guidelines for the structuring of local risk management systems – thereby assuring a consistent minimum standard across the Group that may be aggregated – and determines the risk situation of the Talanx Group as a whole from the local risks with the aid of an internal risk model. This internal risk capital model enables us to adequately quantify the risks. It is currently still based in key respects on a refined so-called GDV standard 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 risk quantification is to calculate the risk-based capital on the basis of a 99.5% Value at Risk. The time horizon considered under the model is a calendar year. The risk model makes allowance for the effects of correlations between Group companies and risk categories. A stochastic, Solvency II-oriented risk-based capital model is currently under development that will facilitate the Talanx-wide use of internal models. The Federal Financial Supervisory Authority (BaFin) began to examine this model in 2008, and we are seeking to obtain regulatory approval for its adoption. As far as capital resources are concerned, we strive for a capital adequacy ratio in our internal risk capital model that gives us a sizeable safety cushion. As a collateral condition to regulatory overfulfillment of capital adequacy, Talanx pursues a target rating corresponding to the Standard & Poor's category of "AA".

Group Risk Management holds quarterly meetings with the divisional risk managers in order to remain constantly updated on the risk situation at the subsidiaries. The divisional risk managers report material changes in the risk position to Group Risk Management on an ad hoc basis. Regular reporting on both current business developments and on risk management ensures that the Board of Management of Talanx AG is kept continuously informed of risks and can intervene as necessary to take controlling action; the Supervisory Board is also kept regularly informed of the risk situation.

The Risk Committee of the Talanx Group, comprised in particular of the Chief Risk Officer and the Chief Financial Officer of Talanx AG as well as the risk managers from the individual divisions, monitors the capitalization and risk profile of the entire Group and ensures that the relationship between these two parameters is appropriate and in accordance with the risk strategy. The Risk Committee is also tasked with further enhancing risk controlling and ensuring that comprehensive risk awareness is firmly anchored in the Talanx Group.

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 and accommodate appropriate countermeasures in a timely manner. The plans of all Group companies and of the Group as a whole are discussed and approved by the Board of Management and Supervisory Board of Talanx AG.

Accounting-related internal control and risk management system

The hallmark of risk management within the Talanx Group is its decentralized organizational structure. Responsibilities in the area of risk management are therefore split between local risk management on the level of the segments/divisions and central risk management on the Group level.

The salient features of the internal control and risk management system implemented at Talanx AG with regard to the Group accounting process can be described as follows:

- There is a clear management and corporate structure. Key functions that span multiple areas are managed centrally.
- The functions of the major participating areas of Finance and Accounting, on the one hand, and Controlling, on the other, are clearly separated with respect to the accounting process. Areas of responsibility are clearly allocated (separation of functions).
- The financial systems used are protected against unauthorized access by appropriate measures on the IT side. Where possible, the financial systems used run standard software.
- An adequate system of guidelines (e.g. guidelines on recognition and measurement, working instructions etc.) has been set up and is constantly updated.
- The departments and units involved in the accounting process have the appropriate quantitative and qualitative resources at their disposal.
- Integrated controls have been put in place for the relevant process steps. Bookkeeping data that is received or forwarded is constantly checked for completeness and correctness. Programmed plausibility checks are run using database-supported software.
- The principle of dual control is applied to all processes with a bearing on accounting matters.

With regard to the Group accounting process, integrated controls ensure that the consolidated financial statement is correct and complete. The processes relating to the organization and execution of the consolidation tasks as well as the preparation of the consolidated financial statement of Talanx AG together with the accompanying controls are documented in a comprehensive ICS Guideline and regularly revised and optimized in light of compliance considerations. The ICS Guideline forms an integral component of an organizational manual.

All Group-internal recognition and measurement rules are collected in an accounting manual. This is made available in IT-supported form to all Group companies and is provided to all employees indirectly or directly involved in the preparation of individual or consolidated financial statements. The manual is intended to ensure consistent and correct application of International Accounting Standards on a Group-wide basis. It is regularly updated and modified as standards evolve. Close support from the staff in Group Accounting for the local accounting units at the subsidiaries safeguards compliance with the rules set out in the manual. This is regularly confirmed by the Group auditors.

The consolidated financial statement of Talanx AG is drawn up on the basis of IFRS packages from the subsidiaries that are incorporated into it. To this extent, the risk management measures taken on the level of the subsidiaries also have implications for Talanx AG.

Reporting by the companies included in the consolidated financial statement is carried out using an intranet-based IT application. The items of the balance sheet, statement of income, cash flow statement, statement of changes in shareholders' equity, segment report and notes stored in a database are uploaded to the consolidation system via interfaces and processed in this system. Internal transactions within the Group are verified through prior reconciliation processes and adjusted where necessary. Written instructions exist in this regard to ensure that an appropriate procedure is followed. Manual bookings and the appropriate release rules for exceptional and infrequent business transactions are set out in working instructions.

The consolidated financial statements of Talanx AG as well as the IFRS packages of the companies included in the consolidated financial statement are regularly examined by the independent auditor of the annual accounts and given an unqualified audit certificate.

Risks of future development

No specific 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. Particularly with an eye to the further unfolding of the banking crisis, however, there is a considerable abstract degree of uncertainty. The same is true of ongoing developments in the legal framework governing our entrepreneurial activities. Substantial capital, reserves and underwriting provisions have been built up in order to cover for the financial consequences of conceivable risks.

The risk situation of the Talanx Group can be broken down into the 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

A restructuring of the Talanx Group is planned in the context of the "Fokus" project. The core of the new structure is a reconfiguration of the Group segments in primary insurance business. The new structure will be geared to our customer segments: in global industrial business, on the one hand, and – spanning the various lines of insurance – in German as well as foreign retail business, on the other. Possible implications for the opportunity/risk profile can only be analyzed once an adequately detailed implementation plan is available.

Effects of the banking crisis

The Talanx Group, in common with other industry players, was unable to escape the repercussions of the banking crisis entirely unscathed. After extensive write-downs had been taken on securities in 2008 owing to the adverse capital market climate, the situation eased appreciably in 2009. The market risk associated with stock investments was reduced by significantly scaling back the equity allocation in 2008 and to a very large extent hedging the remaining holdings against price losses.

Talanx's exposure is limited by the investment guidelines, and dependencies on individual debtors that could jeopardize the Group's survival are thereby ruled out. In the context of the advancing banking crisis, the Talanx Group tightened up its previously applicable risk limits in key respects so to further minimize risks.

Should the current low interest rate level be sustained or indeed should further interest rate cuts ensue, this would give rise to a considerable reinvestment risk for the life insurance companies offering traditional guarantee products since it would become increasingly difficult to generate the guaranteed return. The Group reduces this interest guarantee risk primarily by means of interest rate hedges (see under "Material underwriting risks").

The contraction in bank lending that has been observed in the market as part of the banking crisis and the associated potential difficulties raising cash are of only minor significance to the Talanx Group (compared to the banking industry) for reasons connected with the business model; this is because Talanx inherently has sufficient cash owing to the regular premium payments and interest income from invested assets as well as its liquidity-oriented investment policy. Extensive unused lines of credit are also available to the Group. Liquidity risks may, however, arise in particular as a consequence of illiquid capital markets and – in the life insurance sector – due to increased cancellations by policyholders, if this necessitates the liquidation of a large volume of additional investments at short notice. Overall, against a backdrop of declining interest rates, higher volatilities and increased risk spreads, we observed appreciable falls in the Market Consistent Embedded Value of the life insurers for 2008. The MCEV for 2009 will be calculated in the first half of 2010.

Furthermore, the banking crisis may have implications for the business models of the Talanx Group's individual segments/divisions, e.g. in the form of a possible softening of demand for insurance coverage.

Material underwriting risks

In addition to the information provided below, the Notes contain a detailed and quantitative description of the risks associated with insurance contracts and financial instruments.

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

Property/Casualty Primary Insurance

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, for example due to higher inflation.

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. This may then give rise to a need to establish additional reserves. 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 – and an external expert assessment of the reserves is commissioned 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" (page 198).

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 manage 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 of peak exposures is also reduced with the aid of reinsurance coverage. 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 pricing 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 correspondingly heavy losses. 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 manage these risks through their underwriting policy: here too there are underwriting exclusions and limits that serve as a criterion for risk selection. 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.

For the Hannover Re Group, scenario calculations are performed in order to identify natural hazards accumulation risks – particularly for net account – at an early stage. In this context, for example, simulation models are used to analyze the worldwide implications of natural disasters due to 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.

Life Primary Insurance

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 to increase the benefit reserve. The adequacy of the biometric actuarial bases is therefore regularly reviewed.

Epidemics, a pandemic 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 use safety loadings to 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 invest a sufficiently large asset portfolio in short-term holdings. They also 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 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 brokers 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 upon policy termination. 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 additionally 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. 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. For a large part of our life insurance portfolio the interest guarantee risk is reduced through contractual provisions. The surplus distributions paid in addition to the guaranteed interest rate can be adjusted according to the state of the capital market. Under unit-linked life insurance policies the investment risks and opportunities are borne by policyholders. The investment risks could, however, be shifted back onto the life insurers as a consequence of adverse legal developments.

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 in most instances 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). 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 intermediaries. 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 Credit 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 as well as a required minimum capital adequacy, 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. Intermediaries are subject to credit checks. In addition, adequate general bad debt provisions are established to allow for the default risk.

Material investment risks

Investment risks should be considered in the context of the investment policy. Based on a Group investment guideline, 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.

Particularly in the interests of policyholders as well as with a view to accommodating the future requirements of the capital market, the investment policy adopted by Talanx is essentially 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 above all 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 regulators.

Within the scope of the Group guidelines, detailed investment guidelines are in force for 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 (VAG), 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 Management and local risk management as well as 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 Ampega-Gerling Asset Management GmbH simulate possible market changes that can cause significant price and interest losses. The Value at Risk, which is determined daily on the basis of historical data, is a vital tool used to manage market price risks. In addition, the risk of market changes is identified using enterprise-specific stress tests and those required by regulators with the corresponding fixed 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 reviewed 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 in particular to hedge against price risks or interest rate risks affecting existing assets, to prepare the subsequent purchase of securities or to 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 a 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. Particularly in the area of profit-participating loans, there is a risk of default on interest payments. This risk has to some extent materialized as a consequence of the banking crisis. 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 internal rating is determined. This is done by way of mark-ups and mark-downs 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 of being unable to convert investments and other assets into cash in order to meet our financial obligations when they become due. Thus, for example, it may not be possible to sell holdings (or to do so only with delays) or to close open positions (or to do so only with price markdowns) due to the illiquidity of the markets. We counteract this risk through regular liquidity planning as well as continuous reconciliation of the maturities of investments with the financial obligations. A liquid asset structure ensures that the Group is able to make the necessary payments 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.

Material 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, cause-based risk management and an efficient internal control system minimize such risks, which may be associated with business activities of all types, members of staff or technical systems. In addition to Internal Auditing, the Compliance function also bears responsibility for overseeing compliance with applicable laws as well as with external and internal guidelines.

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 prevailing 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.

We view with some concern the extensions of government powers to intervene in banks if there is a danger of them falling below the ratios set by regulators. Particularly with respect to profit participation certificates and silent partners' contributions, there is a latent risk of state intervention to the detriment of consumers and institutional investors as well as the investing insurance industry. What is more, a bank levy is envisaged in the United States to at least partially cover the costs of bailing out the banking sector. In this connection there is a risk that such a levy to build up contingency funds will be introduced in Germany or the rest of Europe, too, not only for banks but also for insurers – and hence it could also impact the Talanx Group. The consequences of this indirect risk associated with the banking crisis are not currently clear to us.

There are also legal disputes and court decisions, especially with respect to life insurance, that could have implications for the entire German insurance industry and hence also for the Talanx Group. What is more, contrary to a very clear opinion expressed by specialist attorneys, the revenue authority is of the view that not inconsiderable investment income generated by the Group's reinsurance subsidiaries domiciled in Ireland is subject to additional taxation at the parent companies in Germany on the basis of the provisions of the Foreign Transactions Tax Act. Insofar as tax assessments to this effect have already been received, appeals have been filed – also with respect to the amounts already recognized as a tax expense. Our opinion has been confirmed in full by the court of the first instance.

The Talanx Group – in common with the entire insurance industry – is also facing far-reaching changes against the backdrop of the impending and in some cases already implemented reform of regulatory requirements, especially in the context of IFRS, Solvency II and the Minimum Risk Requirements for Insurance Undertakings (MaRisk VA). We have identified the more exacting standards associated with the regulatory changes and initiated measures to refine our risk management accordingly and hence enable us to satisfy the more complex and extensive requirements going forward.

Other operational risks include the failure of data processing systems and data security. 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 electronic data transfer, this also 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 customer 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.

On the marketing side the Talanx Group works together with external agents, brokers and 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 portfolios.

The World Health Organization (WHO) raised the influenza pandemic alert to level 6 in June 2009 with respect to the new strain of the influenza A virus (H1N1), also known as "swine flu". The Group's crisis management team was convened in response and crisis management teams were also set up at the divisional level. The Group and local crisis management teams are in close contact with one another and have initiated measures to safeguard operating procedures. The Talanx Group continues to monitor the situation with an eye to the "swine flu" so as to be able to respond quickly and appropriately to the latest developments.

Other material 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. Through profit transfer agreements and dividend payments Talanx AG participates directly in the business development and risks of the subsidiaries. What is more, negative results trends at the subsidiaries can prompt a need to write down the book values of participating interests at Talanx AG.

The Group uses appropriate tools in the areas of 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 not only about the Group but also about the business development at all major subsidiaries. They are thus able to intervene at all times in order to control risks. Risks associated with a lack of stability in the results of the portfolio of participating interests or with an inadequate business balance are reduced for the various risk sources primarily by means of segmental and regional diversification, appropriate strategies for risk minimization and risk shifting 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 or their inadequate profitability is kept as low as possible through intensive due diligence checks conducted in cooperation with independent professional consultants and auditors as well as close monitoring of the business development. 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 by 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 following forecast and in the subsection of the Notes entitled "Events after the balance sheet date" from page 231 onwards.

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. Although we arrived at the underlying assumptions with great diligence and to the best of our knowledge, the possibility cannot be ruled out – in view of the fundamental uncertainties applicable to statements regarding the future – that actual developments may diverge from the developments anticipated here. Forecasting reliability has been made even more difficult by the imponderables associated with the international financial market crisis as well as the repercussions and duration of the global economic crisis. Even though signs of stabilization are currently emerging in large areas of the global economy, the danger of fresh setbacks cannot be underestimated. What is more, experience shows that there is a time lag before the relevant macroeconomic influencing factors make themselves felt on the insurance markets. For this reason, too, the insurance industry will probably not have seen the last of the effects of the financial and economic crisis for the foreseeable future.

Economic environment

Future macroeconomic situation

In the course of 2010 the recovery in the real economy should be sustained. This will initially be supported by the effect of the ongoing economic stimulus programs, although these will gradually come to an end as the year progresses. The inventory and investment cycle will also provide a boost over the coming months. Capital spending, in particular, was so heavily curtailed of late that in the medium term expenditure on replacement equipment will be necessary in order to preserve the capital stock. Expansion-oriented capital expenditures, on the other hand, are not anticipated since capacities are heavily underutilized.

Economic growth is, however, likely to be hampered by public and private-sector debt. The urgently needed reduction of indebtedness will restrict the potential for consumption. The picture on the labor market is a mixed one: while the United States will probably have bottomed out soon, rising rates of unemployment are not expected in Germany until the current year when wage support payments come to an end. To this extent, time that was "bought" is now slowly running out. All in all, it is our expectation that the recovery in the real economy is facing a rocky road which will cause repeated stumbles. The growth potential of the coming years will level off below that of the years prior to the economic slump, and the effects of the financial crisis will be felt for quite some time to come.

Inflation rates should rise moderately in 2010 and move back towards the target level set by the central banks. Given low capacity utilization and high unemployment, however, there should not be any sharp increase in cost pressure. The stronger recovery of the US economy – in relative terms – should have a positive effect on the movement of the greenback in 2010, which will likely tend to appreciate against the euro. The expected narrowing of the interest rate differential between the United States and the Eurozone should also prove a supporting factor if the Federal Reserve makes the first move on interest rates ahead of the ECB. The pound sterling may be squeezed by the more uncertain inflationary outlook in 2010. Weak economic growth is also acting as a drag on the UK currency. Since the recovery here has hitherto lagged behind the United States and the Eurozone, there is, however, the possibility of a race to catch up lost ground, which would tend to have a supportive effect on the currency. Yet this is opposed by the high fiscal deficit in the UK relative to the Eurozone, which in turn is likely to be an adverse factor.

Capital markets

For 2010 the expectation is that central banks will begin to claw back the surplus liquidity on the markets. As long as the liquidity fails to reach the real economy and the economic upturn remains weak, inflationary pressure will be moderate. For the Fed, therefore, the first interest rate increases are not being priced in until the third quarter of 2010. The ECB is expected to follow the Federal Reserve. Market players are expected to increasingly turn to higher-risk asset classes in 2010. The quest for returns, coupled with the high issue volume of government bonds forecast for 2010, will probably lead to rising 10-year yields on government bonds. Overall, in conjunction with the increases in the prime rate, we anticipate a flattening of the interest rate curve on a higher level. We continue to expect a stable development on the markets for corporate bonds, always allowing for news-driven short-term volatility.

The favorable development on stock markets seen in recent months should be sustained. Fundamental values are still significantly below the long-term average. A trend reversal in corporate profits has already been ushered in. Following the crash in company earnings in 2009, an appreciable surge in profitability can even be anticipated – albeit from a low level. From a historical perspective, the rally since the lowest point of March 2009 has been exceptionally strong. The pace of recovery should therefore slow somewhat.

Future state of the industry

Although the insurance industry cannot divorce itself from the financial and economic crisis, its current underlying mood is characterized by considerable stability. The industry is looking to future developments with confidence.

For the **German life insurance sector,** we anticipate a moderate business development – relative to the economic auspices – which in our assessment will be accompanied by rather muted growth in premiums and new business. It is our expectation that premium growth will likely be flat or will decline somewhat. A reliable forecast is made more difficult by the fact that several trends are currently superimposed: in the first place, the purchasing restraint exhibited by large sections of the population on account of the continuing economic uncertainty is likely to curb demand. In this regard, the hope remains that the need for provision – which undoubtedly exists, especially in relation to individual retirement provision – will be reflected in rising policy numbers again in life business over the short or long term. Secondly, growth stimuli – particularly for traditional life insurance – can also be identified inasmuch as the financial crisis has considerably elevated the appeal of security considerations in the eyes of potential customers relative to a one-sided focus on returns. On the other hand, the caution towards unit-linked insurance products is likely to persist – at least until stock markets show a sustained recovery. It is comparatively difficult to assess the future development of single-premium business, the pace of growth of which is particularly dependent on capital market conditions and the supply of competing products. While the trend towards increased single premiums is essentially likely to continue – assuming the economy normalizes – two contrary effects can probably be anticipated if the current period of low interest rates is sustained: a growing significance of short-term capitalization products and at the same time a softening in the long-term savings propensity, which could be reflected in a decline in single premiums due to the cessation of new business by established providers, e.g. with respect to immediate annuities.

The factors that will influence the macroeconomic environment in **German property and casualty insurance** are still heavily shaped by the repercussions of the international financial and economic crisis. The financial latitude open to both retail customers and commercial/industrial clients has contracted owing to the crisis. While the economic position of retail customers and private households is broadly stable overall, the plight of businesses is comparatively strained as a consequence of the recession-triggered slump in sales and the higher cost of capital. Given possible premium losses in commercial/industrial business owing to declining turnover volumes – which have a bearing on the premium calculation – premium income in this segment must therefore be expected to hold stable overall or decline somewhat.

In **motor insurance** there are growing indications that price competition is abating. Despite incipient market hardening, however, it will probably not yet be possible to turn the premium erosion of recent years around into growth, since sales of new vehicles and hence demand for insurance coverage in 2010 are likely to be overshadowed by the pull-forward effects induced by the German government's car scrappage scheme. Premium declines are also expected in industrial property insurance and marine insurance owing to economic factors, reduced output and cost pressure. All in all, it may be anticipated that the growth stimuli in property and casualty insurance will be limited, not least on account of the business climate, the moderate claims experience of recent years and market saturation. The expectation of below-average to slightly negative premium growth goes hand-in-hand with sustained pressure on expense ratios despite the cost-saving programs that have been initiated across the board. A protracted period of low returns on investments will also serve to ratchet up the pressure on the underwriting result and combined ratio if a commensurate return on equity is to be achieved.

On the international level our assessment of the business prospects in primary insurance and reinsurance spans a broad spectrum ranging from skeptical/cautious to mutedly optimistic. From a medium-term perspective the capital markets cannot be expected to deliver any lasting growth impetus for insurance companies; at the same time, in operational insurance business the anticipated low interest rate level and below-average premium growth will likely mean continued challenging market conditions overall. Nevertheless, the international insurance industry will again be a major factor in the sector's stability in 2010.

On **international life insurance markets** the caution among potential customers towards contracts with long-term premium commitments will probably continue to make itself felt. Single-premium business, on the other hand, should play a significant role for the foreseeable future, albeit with a differing pace of growth and range of fluctuation from country to country. Further stabilization of the general economic environment will be necessary before demand for traditional retirement provision products can pick up. Good growth prospects can be identified in emerging markets, where the increasing affluence and provision needs of an expanding population are accompanied by comparatively low insurance penetration.

The general framework conditions in **international life and health reinsurance** can in principle be described as favorable for the next two to three years. In the coming years we expect the reinsurance market to develop a more vigorous growth momentum than the primary market. Despite fierce yet professionally conducted competition among life/health reinsurers, earnings prospects will remain on a satisfactory level.

In **international non-life insurance and reinsurance** it must be anticipated that underwriting results will come under increasing pressure. In view of low interest rates and investment returns, it will only be possible to earn the cost of capital on the basis of adequate combined ratios. The key to improving combined ratios is premium hikes and/or cost cutting. Yet the scope for wide-ranging premium increases is surely relatively slight in the current macroeconomic situation.

In this business segment, too, the success prospects for globally operating insurers are to be found in expansion into markets characterized by above-average potential for growth and/or below-average insurance penetration. Entry into new markets – such as emerging countries – brings about a better spread of business activities and hence to greater diversification effects.

Orientation of the Group over the next two financial years

The orientation of the Group during the forecast period will be crucially shaped by the restructuring launched in September 2009. The Talanx Group intends to pool its forces and build on its strengths by reconfiguring its structure. The focus here, above all, is on boosting competitiveness and process efficiency.

The far-reaching restructuring program extends to the primary insurance sector as well as the holding company and service functions. A detailed description is provided on pages 12 to 19. The primary reasons for the strategic realignment relate to both our orientation towards the market and efficiency enhancement within the organization.

By way of this repositioning Talanx is seeking to systematically align itself with customer requirements, streamline the Group structure and put in place an organizational platform for targeted and efficient market cultivation. At the same time, the new structure will also respond better to the requirements of the capital market. Talanx intends to stand by its proven and successful multi-brand strategy without reservation.

Orientation towards the market

- **We aim to become a global player in industrial business.**
- **We are seeking to optimize customer value and reclaim market shares in Germany.**
- **We want to grow substantially in foreign retail business.**

Efficient enhancement within the organization

- **Reduction of complexity (creation of a flexible, transparent Group structure)**
- **Improved transparency and manageability through greater interlinking**
- **Harmonization of data, processes and organization**
- **Standardization and optimization**

The further modernization and restructuring of our Group-wide information technology systems constitute another focus of our attention. In addition, we shall press ahead with Group-wide projects designed to further enhance our management of results and risks. These include, inter alia, the development of a Group-wide stochastic internal risk model and its certification by the Federal Financial Supervisory Authority (BaFin) as well as ongoing implementation of the Minimum Requirements for Risk Management in Insurance Undertakings (MaRisk VA).

Opportunities

Opportunities associated with the development of the general business environment

Insurance demand: Trust in banks and bank-related products was battered by the financial crisis. The security of products consequently took on greater importance again. Particularly among buyers of provision solutions who value security, traditional endowment insurance may enjoy a renaissance. The Talanx life insurance companies could profit from this development disproportionately strongly thanks to their innovative products.

Demographic change: In view of the prevailing demographic trend, two markets offering considerable growth potential have been the focus of attention of late: in the first place, the market for senior citizens, and secondly, the market for young customers who need to take out additional provision at their own responsibility as a consequence of the decreasing benefits afforded by social insurance schemes. Senior citizens are calling for more and more benefits – and they have a considerable willingness and capacity to pay for them. What is more, they are becoming increasingly active and – in view of this profile – are also exposing themselves more to risks against which they need protection. For providers, then, it is not simply a matter of supplementing existing products with assistance benefits; rather, innovatively designed products must be offered to cover these newly emerging needs. By way of example, we may cite here products for secondary residences, extensive foreign travel, sporting pursuits or the handing down of assets to children. With an eye to the reinvestment of maturing endowment policies in (life) annuity insurances, single-premium products are also assuming greater importance among this target clientele on account of assets regrouping. At the same time, young people, too, are becoming increasingly aware of the issue of financial security in old age. This potential can be tapped into through a broad range of individual provision products and attractive employer offerings for occupational retirement provision. For this customer group we expect, in particular, a stronger demand trend for retirement provision products with flexible saving and dissaving phases. Based on their comprehensive range of products tailored to customer groups and their sales positioning, the Talanx life insurance companies are well placed for the “seniors’ market” and the “young customers’ market”.

Opportunities created by the company

Transparency through reform of the Insurance Contract Act (VVG): The reform enables insurance customers to better compare providers and products. Companies with low competitive expense ratios are particularly well placed to profit from this development.

Anticipated development of the Group

The following outlook is based on the existing segment structure of the Talanx Group in order to enable us to describe the forecast development in relation to the development of the financial year just-ended on a consistent basis.

The future financial statements of the Talanx Group will be compiled according to the new structure, i.e. with the newly announced divisions in the primary insurance sector of Industrial Worldwide, Retail Germany and Retail Foreign. The reinsurance segments will remain unchanged. Figures for the previous year will then also be reported in accordance with the new Group structure.

Property/Casualty Primary Insurance

We anticipate gross written premium in the order of EUR 5.8 (2009: 5.8) billion for the Property/Casualty Primary Insurance segment in 2010. Expansion of our successful market position in industrial insurance will be hampered by the economic climate; it is still too early to foresee all the consequences of the economic crisis. Private customer business in Germany will be shaped by the development of motor insurance in the years ahead, since falling premiums continue to be expected industry-wide on account of fierce competition. We have revamped our product range and launched extensive product innovations and coverage extensions in the personal liability, accident and property insurance lines with respect to both tariffs and conditions in order to offer customers products that surpass the market average. We are realigning our cooperation business in order to optimize the recruitment of new cooperation partners. In the marketing channel of direct service and here especially the online sales channel (HDI24) we are seeking to expand our sales in affinity business and with cooperation partners. In addition, we have signaled our intention to step up sales activities in the lines of liability, accident and property insurance. All in all, slight declines in premium income at the domestic companies are planned in light of the market environment.

In contrast, the foreign business transacted by the subsidiaries of HDI-Gerling International should enjoy further significant expansion. Along with vigorous organic growth in countries such as Brazil, the acquisition of HDI Seguros Mexico completed on 1 October 2009 will also contribute to growth in foreign markets.

Life Primary Insurance

Gross written premium (including savings elements of premium under unit-linked policies) in the Life Primary Insurance segment is likely to continue rising through the end of 2010. In the long run the life insurance industry will be able to grow with fresh vigor in the aftermath of the financial crisis. For a clientele putting renewed emphasis on security, traditional products as well as hybrid products with guarantee elements are particularly well suited to meet the challenges of demographic change. Conversely, the market climate for performance-oriented unit-linked products will remain difficult for the time being.

We expect our Bancassurance Division to deliver above-average premium growth. Targo Lebensversicherung intends to continue charting a successful course with its cooperation partner – including with the latter's new owner Crédit Mutuel. The Neue Leben companies are strengthening their regional presence in order to further improve the service and support given to their Sparkasse partners in the areas of retirement provision and risk protection, intensify cooperation with the existing partners and acquire new Sparkasse partners. For PB Lebensversicherung the focus going forward is on long-term consolidation of profitable growth, outstanding cost efficiency and the excellent quality of its products and services; PBV Lebensversicherung AG will maintain its orientation towards increasing the value of the in-force portfolio through further improvement of the cost situation and the investment income. It will continue to position itself as a specialty provider of products for individual retirement provision. In credit life business we are planning market expansion into eleven European countries through a cooperative venture with Rheinland Versicherung.

Despite the anticipated challenging market climate and relatively major uncertainties surrounding the development of life insurance, based on our strong brands and their product ranges tailored to specific customer requirements we are aiming for a premium volume of EUR 5.8 (2009: 5.7) billion.

Non-Life Reinsurance

Gross written premium in the Group segment of Non-Life Reinsurance – which is predominantly represented by the Hannover Re Group – is forecast to rise significantly to a good EUR 6 (2009: 5.8) billion. Along with selective rate increases, e.g. in the area of credit and surety reinsurance, we are planning additional new business in Australia and Korea, in the offshore sector and from surplus relief contracts, the potential inherent in which we intend to maximize against the backdrop of the equity requirements associated with Solvency II and the increased market-wide use of risk-based capital models.

All in all, terms and conditions in worldwide non-life reinsurance continue to be favorable. The renewals as at 1 January 2010 passed off largely in line with expectations and we were satisfied with the outcome. Insurers and reinsurers alike have for the most part rebuilt the capital lost as a consequence of the financial market crisis in a very short space of time. Sufficient capacity was therefore available, and prices broadly held stable. They even softened slightly in loss-free segments; rate increases were observed in lines that had seen heavy losses, such as aviation reinsurance. Given that the returns attainable on investments have been reduced due to the low interest rate level, the primary focus is increasingly turning to the underwriting result. It is our anticipation that a combined ratio of less than 97% is possible for 2010 in non-life reinsurance. This is conditional upon the burden of major claims and catastrophe losses – which substantially exceeded the expected level in the first quarter – remaining within the bounds of our assumptions for the full financial year.

In view of its financial strength, as documented by excellent ratings, Hannover Re is optimally placed to profit from available market opportunities and generate attractive business. In non-life reinsurance our focus remains firmly directed towards profitable niche markets, and we expect business to develop very favorably in the current year and beyond.

Life/Health Reinsurance

Premium in the Life/Health Reinsurance segment is expected to surge appreciably to EUR 4.6 (2009: 4.5) billion in 2010. It should be borne in mind in this context that the portfolio acquired in 2009 will gradually be reduced over the years, which means that organic growth is more modest than it would have been if the acquisition of this portfolio were not taken into consideration. The know-how gained through the transaction at the same time puts in place a superb platform for tapping into additional business opportunities in risk-oriented life business.

Even under the shadow of the international financial market crisis, we anticipate a favorable constellation in life/health reinsurance from the medium-term perspective; in most markets this will lead to further dynamic growth on account of long-range demographic changes. Hannover Life Re's "Five Pillar" model demonstrated its resilience even during the volatile years of 2008/2009, and we shall therefore persevere systematically with this strategic approach. Areas of concentration for the year ahead will be the US mortality market (part of the "conventional reinsurance" pillar) as well as UK annuity and pension business (part of the "new markets and products" pillar).

The main drivers of our business development in the current year will continue to be the mature insurance markets of the United States, United Kingdom, Germany, Australia, South Africa and France. In all these markets we are recognized as a leading reinsurer – a role that we intend to build on purposefully. Along with our organic growth we anticipate – as in the case of the transaction completed in 2009 – portfolio acquisitions from the developed insurance markets.

Group as a whole

Based on a US dollar exchange rate of 1.41 against the euro, we expect the gross written premium (including savings elements of premium under unit-linked life and annuity policies) booked by the Talanx Group on a consolidated basis to surpass EUR 21 billion in 2010. Premium growth is expected to derive principally from the Non-Life Reinsurance and Life/Health Reinsurance segments. We shall stand by our goal of further increasing the level of retained premium within the Group in light of our risk-carrying capacity. Given the planned increase in the Group retention rate in 2010, net written premium will rise disproportionately strongly relative to gross premium.

Following the "lost" year of 2008 and the subsequent return to the successful track pursued in the years prior to the banking crisis, the order of the day in 2010 will be to build on the 2009 result. Attainment of this goal will by no means be automatic in a generally difficult environment, but can be attained only through the concentrated efforts of all members of staff. What is more, goal accomplishment is contingent upon the Group not incurring catastrophe loss expenditure significantly in excess of the expected level and is subject to there being no further drastic downturns on capital markets. Under these premises we are confident – despite the challenging general environment in some areas – of generating a return on equity in 2010 in line with the target enshrined in our umbrella strategy of 750 basis points above the average risk-free market interest rate over the past five years for ten-year German government bonds.

Consolidated financial statements. Contents

Notes

Consolidated balance sheet
as at 31 December 2009

Assets	Note			31.12.2009	31.12.2008 [1]
Figures in EUR million					
A. Intangible assets					
a. Goodwill	1		593		621
b. Other intangible assets	2		2,152		2,317
				2,745	**2,938**
B. Investments					
a. Investment property	3		726		584
b. Investments in affiliated companies and participating interests	4		61		66
c. Investments in associated companies	5		134		135
d. Loans and receivables	6		31,548		30,123
e. Other financial instruments					
i. Held to maturity	7	2,858			1,378
ii. Available for sale	8	26,002			24,865
iii. At fair value through profit or loss	9/12	919			793
iv. Trading	10/12	180			423
			29,959		**27,459**
f. Other investments					
i. Funds held by ceding companies			10,778		8,583
ii. Other invested assets	11		4,608		3,857
				77,814	**70,807**
C. Investments for the account and risk of holders of life insurance policies				4,975	3,371
D. Reinsurance recoverables on technical provisions				5,974	6,989
E. Accounts receivable on insurance business	13			4,342	4,438
F. Deferred acquisition costs	14			3,544	3,509
G. Cash				1,685	1,408
H. Deferred tax assets	27			235	295
I. Other assets	15			1,655	1,736
J. Assets of disposal groups classified as held for sale				35	43
Total assets				**103,004**	**95,534**

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

Liabilities	Note		31.12.2009	31.12.2008 [1)]
Figures in EUR million				
A. Shareholders' equity	16			
a. Common shares		260		260
b. Reserves		4,354		3,366
Total shareholders' equity excluding minorities		**4,614**		**3,626**
c. Minority interests		2,578		2,092
Total shareholders' equity			**7,192**	**5,718**
B. Subordinated liabilities	17	2,003		2,074
C. Technical provisions				
a. Unearned premium reserve	18	5,026		4,894
b. Benefit reserve	19	39,754		36,386
c. Loss and loss adjustment expense reserve	20	27,256		27,161
d. Provision for premium refunds	21	1,242		973
e. Other technical provisions		221		198
		73,499		**69,612**
D. Technical provisions in the area of life insurance insofar as the investment risk is borne by policyholders		4,975		3,371
E. Other provisions				
a. Provisions for pensions	22	1,298		1,272
b. Provisions for taxes	23	771		619
c. Sundry provisions	24	575		525
		2,644		**2,416**
F. Liabilities				
a. Notes payable and loans	25	675		602
b. Funds held under reinsurance treaties		5,943		5,463
c. Other liabilities	12/26	4,561		4,901
		11,179		**10,966**
G. Deferred tax liabilites	27	1,512		1,377
Total liabilities/provisions			**95,812**	**89,816**
H. Debts of disposal groups classified as held for sale			—	—
Total liabilities			**103,004**	**95,534**

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

Consolidated statement of income
for the 2009 financial year

Figures in EUR million	Note		2009	2008 [1]
1. Gross written premium including premium from unit-linked life and annuity insurance			20,923	19,005
2. Savings elements of premium from unit-linked life and annuity insurance			979	1,081
3. Ceded written premium			2,530	2,711
4. Change in gross unearned premium			–67	–184
5. Change in ceded unearned premium			24	114
Net premium earned	28		**17,323**	**14,915**
6. Investment income	29			
a. Income from investments		3,769		4,347
b. Expenses for investments		903		2,737
			2,866	1,610
thereof profit/loss from investments in associated companies			–6	3
7. Other income	32		1,007	998
Total income			**21,196**	**17,523**
8. Claims and claims expenses (gross)	30	15,069		13,607
Reinsurers' share		1,055		1,781
Claims and claims expenses (net)		**14,014**		**11,826**
9. Acquisition costs and administrative expenses (gross)	31	4,754		4,102
Reinsurers' share		710		545
Acquisition costs and administrative expenses (net)		**4,044**		**3,557**
10. Other expenses	32	1,334		1,407
Total expenses			**19,392**	**16,790**
Profit before amortization of insurance-related intangible assets and goodwill impairments			**1,804**	**733**
11. Amortization of insurance-related intangible assets and goodwill impairments	33		269	121
Operating profit (EBIT)			**1,535**	**612**
12. Financing costs	34		130	156
13. Taxes on income	35		473	341
Net income			**932**	**115**
thereof minority interest in profit or loss			406	–68
thereof Group net income			526	183

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

Consolidated statement of comprehensive income
for the 2009 financial year

	2009	2008[1]
Figures in EUR million		
Net income	**932**	**115**
1. Unrealized gains and losses on investments		
Gains (losses) recognized directly in equity during the period	846	–2,139
Reclassification of net realized gain (loss)	164	1,751
Tax income (expense)	–116	–25
	894	**–413**
2. Currency translation		
Gains (losses) recognized directly in equity during the period	89	–86
Reclassification of net realized gain (loss)	–3	–4
Tax income (expense)	1	–9
	87	**–99**
3. Changes from cash flow hedges		
Gains (losses) recognized directly in equity during the period	–7	–26
Reclassification of net realized gain (loss)	—	—
Tax income (expense)	2	8
	–5	**–18**
4. Changes in policyholder participation/shadow accounting		
Gains (losses) recognized directly in equity during the period	–464	200
Tax income (expense)	20	–12
	–444	**188**
5. Changes from the measurement of associated companies		
Gains (losses) recognized directly in equity during the period	—	–2
Reclassification of net realized gain (loss)	–1	–1
Tax income (expense)	—	—
	–1	**–3**
6. Other changes		
Gains (losses) recognized directly in equity during the period	8	–21
Reclassification of net realized gain (loss)	—	—
Tax income (expense)	–3	6
	5	**–15**
Taxes on income and expense recognized directly in equity	**–96**	**–32**
Income and expense recognized directly in equity during the period after taxes	**536**	**–360**
Total recognized income and expense during the period	**1,468**	**–245**
thereof attributable to minority interests	490	–150
thereof attributable to the Group	978	–95

[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 invest-ments	Gains/losses from currency translation	Other changes in shareholders' equity		
Figures in EUR million								
Balance at 31.12.2007 1)	**260**	**630**	**2,818**	**167**	**–112**	**–50**	**2,429**	**6,142**
Adjustments pursuant to IAS 8	—	—	–19	21	–15	32	2	21
Reclassifications 2)	—	—	—	52	—	–52	—	—
Adjusted balance at 01.01.2008	**260**	**630**	**2,799**	**240**	**–127**	**–70**	**2,431**	**6,163**
Changes in proportionate holding	—	—	–5	—	—	—	–8	–13
Total recognized income and expense	—	—	183	–363	–84	169	–150	–245
thereof adjustments pursuant to IAS 8	—	—	–4	—	16	—	–12	—
Dividends paid	—	—	—	—	—	—	–213	–213
Other changes	—	—	—	—	—	–6	32	26
Balance at 31.12.2008 1)	**260**	**630**	**2,977**	**–123**	**–211**	**93**	**2,092**	**5,718**
Adjustments pursuant to IAS 8			12	–8		7	1	12
Adjusted balance at 01.01.2009	**260**	**630**	**2,989**	**–131**	**–211**	**100**	**2,093**	**5,730**
Total recognized income and expense	—	—	526	799	70	–417	490	1,468
Dividends paid	—	—	—	—	—	—	–18	–18
Capital increase	—	—	—	—	—	—	12	12
Other changes	—	—	—	—	—	–1	1	—
Balance at 31.12.2009	**260**	**630**	**3,515**	**668**	**–141**	**–318**	**2,578**	**7,192**

1) *Adjusted on the basis of IAS 8*

2) *The change in unrealized gains/losses on investments attributable to the profit participation of policyholders and deriving from the shadow accounting were allocated to the other changes in shareholders' equity in the reporting period; we have adjusted the previous year accordingly.*

Cash flow statement
for the 2009 financial year

Figures in EUR million	2009	2008 [1]
I. 1. Net income	932	115
I. 2. Changes in technical provisions	3,295	1,834
I. 3. Changes in deferred acquisition costs	5	–322
I. 4. Changes in funds held and in accounts receivable and payable	–930	–2,772
I. 5. Net changes in contract deposits	71	1,924
I. 6. Changes in other receivables and liabilities	117	9
I. 7. Changes in financial assets held for trading	226	–234
I. 8. Net gains and losses on investments	–237	–148
I. 9. Changes in other balance sheet items	–67	–81
I. 10. Other non-cash expenses and income as well as adjustments to net income	2,060	638
I. Cash flows from operating activities	**5,472**	**963**
II. 1. Cash inflow/outflow from the sale of consolidated companies	—	–7
II. 2. Cash inflow/outflow from the purchase of consolidated companies	79	–21
II. 3. Cash inflow from the sale of real estate	43	29
II. 4. Cash outflow from the purchase of real estate	–225	–102
II. 5. Cash inflow from the sale and maturity of financial instruments	18,622	21,169
II. 6. Cash outflow from the purchase of financial instruments	–21,329	–23,055
II. 7. Changes in investments for the account and risk of holders of life insurance policies	–1,603	946
II. 8. Changes in other invested assets	–659	–76
II. Cash flows from investing activities	**–5,072**	**–1,117**
III. 1. Cash inflow from capital increases	12	—
III. 2. Dividends paid	–18	–213
III. 3. Net changes from other financing activities	–123	–247
III. Cash flows from financing activities	**–129**	**–460**
Change in cash and cash equivalents (I. + II. + III.)	**271**	**–614**
Cash and cash equivalents at the beginning of the financial year	**1,408**	**2,038**
Cash and cash equivalents – exchange rate differences on cash	**6**	**–12**
Cash and cash equivalents of companies no longer included in the consolidated financial statements	**—**	**4**
Cash and cash equivalents at the end of the financial year	**1,685**	**1,408**
Additional information		
Taxes paid	–3	284
Interest paid	260	201

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

Notes on the cash flow statement

The cash flow statement shows how the cash and cash equivalents of the 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 are presented in accordance with IAS 7 “Statement of Cash Flows” 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 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 shown in the line “Cash inflow/outflow from the purchase of consolidated companies”; the sum total of purchase prices paid less acquired cash and cash equivalents is recognized here.

The assets and liabilities assumed through the acquisition of HDI Seguros, S.A. de C.V., Mexico, and the US ING life reinsurance portfolio are described in the section of the Notes entitled “Business combinations”. The transactions gave rise to purchase price payments of EUR 40 million. After allowance for payment of the purchase price, the cash assets from the assumed business operations totaled EUR 79 million at the time of acquisition.

Segment report

The segment reporting of the Group in the year under review is based for the first time on IFRS 8 “Operating Segments”. In addition to requiring extended information in the Notes, this also results in modification of the disclosure provided in the segment report.

Through its adoption of the management approach the Group has established its reporting segments on the basis of the information reported to the Group’s chief operating decision-makers for the allocation of resources and the measurement of profitability. The breakdown of overall activities into individual segments is therefore determined by the areas of responsibility on the Group Board of Management, i.e. the decisive criterion is the allocation of business activities to the areas of responsibility defined on the Board of Management of the Group’s holding company (Talanx AG). For further information on the determination of the reporting segments and on the products and services with which the business segments generate income please see the separate section of the Notes entitled “Segment reporting” from page 139 onwards.

The Group’s reporting segments are identified within the scope of IFRS 8 as

- Property/Casualty Primary Insurance
- Life Primary Insurance
- Non-Life Reinsurance
- Life/Health Reinsurance
- Corporate Operations

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 as at 31 December 2009

Assets	Property/ Casualty Primary Insurance 31.12.2009	Property/ Casualty Primary Insurance 31.12.2008	Life Primary Insurance 31.12.2009	Life Primary Insurance 31.12.2008
Figures in EUR million				
A. Intangible assets				
a. Goodwill	187	194	398	415
b. Other intangible assets	46	134	1,949	2,118
	233	**328**	**2,347**	**2,533**
B. Investments				
a. Investment property	117	107	446	456
b. Investments in affiliated companies and participating interests	11	10	13	14
c. Investments in associated companies	25	25	9	9
d. Loans and receivables	5,192	5,406	23,965	22,989
e. Other financial instruments				
i. Held to maturity	245	219	224	250
ii. Available for sale	5,068	4,047	6,791	6,263
iii. At fair value through profit or loss	199	132	418	359
iv. Trading	65	175	115	248
	5,577	4,573	7,548	7,120
f. Other investments				
i. Funds held by ceding companies	43	56	65	60
ii. Other invested assets	1,062	779	1,328	1,458
	12,027	**10,956**	**33,374**	**32,106**
C. Investments for the account and risk of holders of life insurance policies	32	18	4,943	3,353
D. Reinsurance recoverables on technical provisions	4,488	4,827	2,817	2,711
E. Accounts receivable on insurance business	1,367	1,668	322	340
F. Deferred acquisition costs	178	185	1,406	1,256
G. Cash	467	372	723	572
H. Deferred tax assets	96	101	30	56
I. Other assets	770	872	748	621
J. Assets of disposal groups classified as held for sale	—	—	35	43
Total assets	**19,658**	**19,327**	**46,745**	**43,591**

[1] *Adjusted on the basis of IAS 8*
[2] *Previous year's figures adjusted due to first-time application of IFRS 8*

	Non-Life Reinsurance		Life/Health Reinsurance		Corporate Operations		Consolidation		Total	
	31.12.2009	31.12.2008	31.12.2009	31.12.2008 [1)]	31.12.2009	31.12.2008 [2)]	31.12.2009	31.12.2008 [2)]	31.12.2009	31.12.2008 [1)]
	8	8	—	—	—	4	—	—	593	621
	45	51	110	13	2	2	—	—	2,152	2,317
	53	**59**	**110**	**13**	**2**	**6**	**—**	**—**	**2,745**	**2,938**
	161	20	2	1	—	—	—	—	726	584
	4	7	1	—	32	42	—	–7	61	66
	84	87	14	12	2	3	—	—	134	135
	2,657	1,636	45	148	2	254	–313	–310	31,548	30,123
	2,949	1,453	4	43	—	—	–564	–587	2,858	1,378
	10,173	11,863	3,653	2,647	317	44	—	—	26,002	24,865
	208	247	94	55	—	—	—	—	919	793
	—	—	—	—	—	—	—	—	180	423
	13,330	13,563	3,751	2,745	317	44	–564	–587	29,959	27,459
	626	817	11,591	8,766	—	—	–1,547	–1,116	10,778	8,583
	1,833	1,404	267	148	1,052	965	–934	–897	4,608	3,857
	18,695	**17,534**	**15,671**	**11,820**	**1,405**	**1,308**	**–3,358**	**–2,917**	**77,814**	**70,807**
	—	—	—	—	—	—	—	—	4,975	3,371
	1,633	2,009	265	269	—	—	–3,229	–2,827	5,974	6,989
	1,897	1,977	975	826	—	—	–219	–373	4,342	4,438
	331	319	1,507	1,559	—	—	122	190	3,544	3,509
	257	330	200	95	38	39	—	—	1,685	1,408
	15	43	7	8	87	87	—	—	235	295
	1,085	905	54	38	449	524	–1,451	–1,224	1,655	1,736
	—	—	—	—	—	—	—	—	35	43
	23,966	**23,176**	**18,789**	**14,628**	**1,981**	**1,964**	**–8,135**	**–7,151**	**103,004**	**95,534**

Segment report. Balance sheet as at 31 December 2009

Liabilities	Property/ Casualty Primary Insurance 31.12.2009	Property/ Casualty Primary Insurance 31.12.2008	Life Primary Insurance 31.12.2009	Life Primary Insurance 31.12.2008
Figures in EUR million				
B. Subordinated liabilities	269	302	105	116
C. Technical provisions				
a. Unearned premium reserve	1,643	1,509	1,922	2,098
b. Benefit reserve	1,310	1,155	31,138	29,951
c. Loss and loss adjustment expense reserve	10,350	10,687	785	760
d. Provision for premium refunds	80	7	1,163	966
e. Other technical provisions	56	42	2	2
	13,439	**13,400**	**35,010**	**33,777**
D. Technical provisions in the area of life insurance insofar as the investment risk is borne by policyholders	32	18	4,943	3,353
E. Other provisions				
a. Provisions for pensions	455	440	123	121
b. Provisions for taxes	210	218	139	60
c. Sundry provisions	291	272	184	176
	956	**930**	**446**	**357**
F. Liabilities				
a. Notes payable and loans	640	640	—	—
b. Funds held under reinsurance treaties	45	87	2,286	2,012
c. Other liabilities	1,712	1,667	2,367	2,439
	2,397	**2,394**	**4,653**	**4,451**
G. Deferred tax liabilites	246	197	217	254
Total liabilities/provisions	**17,339**	**17,241**	**45,374**	**42,308**
H. Debts of disposal groups classified as held for sale	—	—	—	—

	Non-Life Reinsurance		Life/Health Reinsurance		Corporate Operations		Consolidation		Total	
	31.12.2009	31.12.2008	31.12.2009	31.12.2008 [1]	31.12.2009	31.12.2008 [2]	31.12.2009	31.12.2008 [2]	31.12.2009	31.12.2008 [1]
	1,365	1,377	35	18	264	309	–35	–48	2,003	2,074
	1,438	1,252	75	83	—	—	–52	–48	5,026	4,894
	—	—	7,954	5,913	—	—	–648	–633	39,754	36,386
	15,395	15,412	2,032	1,556	—	—	–1,306	–1,254	27,256	27,161
	—	—	—	—	—	—	–1	—	1,242	973
	106	123	40	34	—	—	17	–3	221	198
	16,939	**16,787**	**10,101**	**7,586**	**—**	**—**	**–1,990**	**–1,938**	**73,499**	**69,612**
	—	—	—	—	—	—	—	—	4,975	3,371
	60	57	17	16	643	638	—	—	1,298	1,272
	263	189	7	16	152	136	—	—	771	619
	58	49	14	9	29	24	–1	–5	575	525
	381	**295**	**38**	**41**	**824**	**798**	**–1**	**–5**	**2,644**	**2,416**
	116	43	50	40	1,321	1,309	–1,452	–1,430	675	602
	331	262	5,993	4,942	—	—	–2,712	–1,840	5,943	5,463
	829	1,072	1,297	1,096	399	594	–2,043	–1,967	4,561	4,901
	1,276	**1,377**	**7,340**	**6,078**	**1,720**	**1,903**	**–6,207**	**–5,237**	**11,179**	**10,966**
	715	738	297	184	7	2	30	2	1,512	1,377
	20,676	**20,574**	**17,811**	**13,907**	**2,815**	**3,012**	**–8,203**	**–7,226**	**95,812**	**89,816**
	—	—	—	—	—	—	—	—	—	—

	31.12.2009	31.12.2008
Shareholders' equity [3]	**7,192**	**5,718**
Total liabilities	**103,004**	**95,534**

[1] *Adjusted on the basis of IAS 8*
[2] *Previous year's figures adjusted due to first-time application of IFRS 8*
[3] *Group shareholder's equity incl. minority interests*

Segment report. Statement of income for the 2009 financial year

	Property/ Casualty Primary Insurance		Life Primary Insurance	
	2009	2008 [1]	2009	2008
Figures in EUR million				
1. Gross written premium including premium from unit-linked life and annuity insurance	5,847	5,896	5,653	5,691
thereof with other segments	9	17	6	—
thereof with outside third parties	5,838	5,879	5,647	5,691
2. Savings elements of premium from unit-linked life and annuity insurance	—	—	979	1,081
3. Ceded written premium	2,042	1,966	540	559
4. Change in gross unearned premium	–20	15	175	–64
5. Change in ceded unearned premium	–41	81	170	9
Net premium earned	**3,826**	**3,864**	**4,139**	**3,978**
6. Investment income				
a. Income from investments	589	897	1,625	1,917
b. Expenses for investments	135	555	468	932
	454	342	1,157	985
thereof: interest and similar income	428	486	1,277	1,273
impairments/depreciation on investments	28	316	183	533
write-ups on investments	—	—	—	17
profit/loss from investments in associated companies	—	—	—	—
7. Other income	410	349	340	275
thereof: interest and similar income	19	21	5	14
write-ups on accounts receivable and other assets	—	—	—	—
Total income	**4,690**	**4,555**	**5,636**	**5,238**
8. Claims and claims expenses (gross)	3,737	4,210	4,478	4,150
Reinsurers' share	1,127	1,477	205	187
Claims and claims expenses (net)	**2,610**	**2,733**	**4,273**	**3,963**
9. Acquisition costs and administrative expenses (gross)	1,390	1,288	1,298	1,081
Reinsurers' share	372	350	576	349
Acquisition costs and administrative expenses (net)	**1,018**	**938**	**722**	**732**
10. Other expenses	557	560	338	331
thereof: interest and similar expenses	42	38	55	65
write-downs on accounts receivable and other assets	43	50	39	49
Total expenses	**4,185**	**4,231**	**5,333**	**5,026**
Profit before amortization of insurance-related intangible assets and goodwill impairments	**505**	**324**	**303**	**212**
11. Amortization of insurance-related intangible assets and goodwill impairments	142	65	120	56
Operating profit/loss (EBIT)	**363**	**259**	**183**	**156**
12. Financing costs	51	54	20	22
13. Taxes on income	106	47	94	68
Net income	**206**	**158**	**69**	**66**

[1] Adjusted on the basis of IAS 8
[2] Previous year's figures adjusted due to first-time application of IFRS 8

	Non-Life Reinsurance		Life/Health Reinsurance		Corporate Operations		Consolidation		Total	
	2009	2008 [1)]	2009	2008 [1)]	2009	2008 [2)]	2009	2008 [2)]	2009	2008 [1)]
	5,753	4,997	4,529	3,135	—	—	–859	–714	20,923	19,005
	472	363	372	334	—	—	–859	–714	—	—
	5,281	4,634	4,157	2,801	—	—	—	—	20,923	19,005
	—	—	—	—	—	—	—	—	979	1,081
	338	551	420	335	—	—	–810	–700	2,530	2,711
	–200	–98	–27	–16	—	—	5	–21	–67	–184
	–22	61	3	–1	—	—	–86	–36	24	114
	5,237	**4,287**	**4,079**	**2,785**	**—**	**—**	**42**	**1**	**17,323**	**14,915**
	886	1,105	717	481	63	55	–111	–108	3,769	4,347
	266	1,058	23	110	85	151	–74	–69	903	2,737
	620	47	694	371	–22	–96	–37	–39	2,866	1,610
	688	637	571	462	41	52	–105	–104	2,900	2,806
	136	468	1	11	5	57	—	—	353	1,385
	21	—	—	—	—	—	—	—	21	17
	–5	3	—	—	–1	—	—	—	–6	3
	212	226	190	35	191	202	–336	–89	1,007	998
	—	1	—	—	16	35	–7	–8	33	63
	99	34	—	—	—	—	—	—	99	34
	6,069	**4,560**	**4,963**	**3,191**	**169**	**106**	**–331**	**–127**	**21,196**	**17,523**
	3,786	3,374	3,538	2,302	—	—	–470	–429	15,069	13,607
	–22	343	231	206	—	—	–486	–432	1,055	1,781
	3,808	**3,031**	**3,307**	**2,096**	**—**	**—**	**16**	**3**	**14,014**	**11,826**
	1,323	1,153	1,112	897	—	—	–369	–317	4,754	4,102
	36	90	116	93	—	—	–390	–337	710	545
	1,287	**1,063**	**996**	**804**	**—**	**—**	**21**	**20**	**4,044**	**3,557**
	217	344	288	177	154	122	–220	–127	1,334	1,407
	57	29	173	126	56	55	–23	–22	360	291
	50	100	7	4	3	2	—	—	142	205
	5,312	**4,438**	**4,591**	**3,077**	**154**	**122**	**–183**	**–104**	**19,392**	**16,790**
	757	**122**	**372**	**114**	**15**	**–16**	**–148**	**–23**	**1,804**	**733**
	—	—	3	—	4	—	—	—	269	121
	757	**122**	**369**	**114**	**11**	**–16**	**–148**	**–23**	**1,535**	**612**
	77	77	2	1	71	91	–91	–89	130	156
	216	200	71	36	–23	–32	9	22	473	341
	464	**–155**	**296**	**77**	**–37**	**–75**	**–66**	**44**	**932**	**115**
					thereof minority interest in profit or loss				**406**	**–68**
					thereof Group net income				**526**	**183**

Segment report

The geographical breakdown shown below is based on the regional origin of the investments and the gross written premium with respect to external clients. No transactions with external clients amounting to at least 10% of total gross premium occurred during the reporting period.

Investments excluding funds held by ceding companies [1]	Primary Insurance	Reinsurance	Corporate Operations	31.12.2009 Total
Figures in EUR million				
Germany	32,178	5,996	222	38,396
United Kingdom	682	1,338	211	2,231
Rest of Europe	10,218	5,790	313	16,321
United States	837	5,852	3	6,692
Rest of North America	82	803	—	885
Asia and Australia	178	1,349	—	1,527
Rest of the world	537	447	—	984
Total	**44,712**	**21,575**	**749**	**67,036**

Investments excluding funds held by ceding companies [1]	Primary Insurance	Reinsurance	Corporate Operations	31.12.2008 Total
Figures in EUR million				
Germany	32,649	5,527	313	38,489
United Kingdom	545	1,100	208	1,853
Rest of Europe	7,885	4,729	119	12,733
United States	672	5,756	4	6,432
Rest of North America	132	645	—	777
Asia and Australia	168	1,017	—	1,185
Rest of the world	322	433	—	755
Total	**42,373**	**19,207**	**644**	**62,224**

[1] *After elimination of internal transactions within the Group across segments*

Gross written premium 1)	Primary Insurance	Reinsurance	2009 Total
Figures in EUR million			
Germany	8,095	696	8,791
United Kingdom	190	1,808	1,998
Rest of Europe	2,538	1,561	4,099
United States	112	2,841	2,953
Rest of North America	1	386	387
Asia and Australia	32	1,218	1,250
Rest of the world	517	928	1,445
Total	**11,485**	**9,438**	**20,923**

Gross written premium 1)	Primary Insurance	Reinsurance	2008 Total
Figures in EUR million			
Germany	8,356	654	9,010
United Kingdom	197	1,453	1,650
Rest of Europe	2,474	1,408	3,882
United States	86	1,733	1,819
Rest of North America	—	360	360
Asia and Australia	26	1,165	1,191
Rest of the world	432	661	1,093
Total	**11,571**	**7,434**	**19,005**

1) *After elimination of internal transactions within the Group across segments*

Notes

General information

As a financial and management holding company Talanx AG heads Germany's third-largest insurance group, with premium income of EUR 20.9 (19.0) billion in 2009. It is not, however, itself active in insurance business. The Group transacts business worldwide in more than 150 countries in the areas of property/casualty insurance, life insurance, non-life reinsurance, life/health reinsurance and financial services.

The Group operates highly successfully on international markets as a multi-brand provider in the insurance and financial services industry. Its brands include first and foremost the HDI-Gerling insurers, with their core fields of industrial and retail business in property/casualty and life insurance, Hannover Re, one of the world's leading reinsurance groups, the bancassurance specialists Neue Leben, TARGO Versicherungen (formerly CiV Versicherungen), PB Versicherungen and PBV Lebensversicherung, Aspecta, and the investment fund provider and asset manager AmpegaGerling.

At the end of 2009 the companies belonging to the Talanx Group employed a total global workforce* of 16,921 (16,541). 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".

Talanx AG is a wholly-owned subsidiary of HDI Haftpflichtverband der Deutschen Industrie Versicherungsverein auf Gegenseitigkeit, Hannover (HDI V.a.G.). In accordance with §§ 341 et seq. 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.

** Full-time equivalents as at 31 December*

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

As the parent company of the Talanx Group, Talanx AG has drawn up a consolidated financial statement pursuant to § 290 of the German Commercial Code (HGB). The consolidated financial statement was prepared voluntarily on the basis of § 315 a Para. 3 of the German Commercial Code (HGB) pursuant to Article 4 of Regulation (EC) No, 1606/2002 in accordance with International Financial Reporting Standards (IFRS) in the form adopted for use in the European Union. The standards and rules specified in § 315 a Para. 1 of the German Commercial Code (HGB) were observed in full.

Since 2002 the standards adopted by the International Accounting Standards Board (IASB) have been referred to as IFRS (International Financial Reporting Standards); the standards approved in earlier years still bear the name IAS (International Accounting Standards). 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. Insurance-specific transactions for which IFRS do not contain any separate standards are recognized in compliance with IFRS 4 "Insurance Contracts" according to the pertinent provisions of United States Generally Accepted Accounting Principles (US GAAP).

The consolidated financial statement reflects all IFRS in force as at 31 December 2009 as well as all interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC), application of which was mandatory for the 2009 financial year. 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.

The consolidated financial statement was drawn up in euros (EUR). The amounts shown have been rounded to EUR millions, unless figures are required in EUR thousands 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 applicable standards/interpretations and changes in standards

IFRS 8 "Operating Segments": IFRS 8 replaces the previous IAS 14 "Segment Reporting" and as part of the convergence project aligns the standards governing segment reporting with the standards contained in FAS 13 "Disclosures about Segments of an Enterprise and Related Information". First-time adoption of the standard – which is to be applied with effect from 1 January 2009 – within the Group resulted primarily in a modification of the segment reporting. IFRS 8 requires adoption of the management approach to reporting on the economic position of segments. Under this approach, the segmentation and the disclosures for the segments are based on the information used internally by management for evaluating segment performance and deciding on the allocation of resources. Our segment definitions had already been aligned closely with the requirements of the new IFRS 8 in the previous year. The only major change is that the "Financial Services" segment has now been combined with the companies performing corporate operations (principally Talanx AG) – which had previously been recognized in the "Consolidation" segment – and renamed "Corporate Operations". The context for this modified allocation is the largely functional role played by the AmpegaGerling companies as Group service providers for internal asset management and the placement of reinsurance cessions for the Talanx primary insurers by Protection Reinsurance Intermediaries AG. Consolidation bookings are shown in a pure consolidation column, in which the effects of internal Group transactions between segments are eliminated. Based on the new disclosure duties contained in IFRS 8 with respect to certain income and expense components, we have also extended the segmental statement of income to include supplementary thereof notes (in addition to the disclosures in the consolidated financial statement, further information on segment reporting is included in the corresponding section of the Notes).

IAS 1 (rev. 2007) "Presentation of Financial Statements": we applied the revised standard for the first time in the reporting period. The significant change in the revised version of IAS 1 is the presentation of the total comprehensive income of the reporting period, which is composed of the profit or loss for the said reporting period as well as other comprehensive income and expenses recognized directly in equity. We decided in favor of a two-part presentation variant in which the conventional statement of income is supplemented by a presentation of the other comprehensive income encompassing non-owner changes in equity. The corresponding tax effects and the realized gains and losses (reclassification) of the period are disclosed for each component of the other comprehensive income and expenses recognized directly in equity in the "Consolidated statement of comprehensive income". As a consequence of this revision, the statement of changes in shareholders' equity essentially contains transactions with owners in their capacity as owners, the total comprehensive income for the year and any effects of retroactive adjustments. In addition, in the event of retrograde adjustment of the financial statements pursuant to IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors", the revised IAS 1 requires publication of an additional balance sheet as at the beginning of the earliest comparative period of the present consolidated financial statement. We did not avail ourselves of the option to rename the individual components of the consolidated financial statement.

Amendments to IFRS 7 "Financial Instruments: Disclosures": The amendments require extended disclosures concerning the fair value measurement of financial instruments and liquidity risks. Published in March 2009 and adopted in European law in November 2009, these amendments are to be applied to financial years beginning on or after 1 January 2009. We have availed ourselves of the option to dispense with the provision of comparative disclosures for the previous reporting period in the first year of application. The disclosures concerning fair value measurement are clarified through the adoption of a breakdown for each class of financial instruments – based on a three-level fair value hierarchy borrowed from US GAAP – and an extended scope of disclosure requirements. The liquidity risk disclosures relate principally to financial liabilities.

Amendments to IAS 32 "Financial Instruments: Presentation" and IAS 1 "Presentation of Financial Statements": In February 2008 the amendments to IAS 32 and IAS 1 "Puttable Financial Instruments and Obligations arising on Liquidation" were published. Application of the amendments is mandatory in the year under review. The amendment of IAS 1 refers to revised disclosure requirements applicable to puttable financial instruments and obligations arising on liquidation. The revised version of IAS 32 permits the balance sheet classification of puttable financial instruments as equity in the future under certain conditions. The revision of IAS 1 and IAS 32 was of no practical significance to the consolidated financial statement.

As at the balance sheet date the Group did not avail itself of the facilities offered by the amendments to IAS 39 “Financial Instruments: Recognition and Measurement” and IFRS 7 “Financial Instruments: Disclosures”, which entered into force in October 2008, regarding the reclassification and measurement of selected financial instruments.

In addition to the accounting standards described above, the following amendments to standards and interpretations were observed as at 1 January 2009:

- 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. This new standard had no effect on the consolidated financial statement.
- IFRIC 14 “IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction”. IFRIC 14 clarifies certain provisions of IAS 19 “Employee Benefits” concerning how to measure an asset under defined benefit plans when there is a minimum funding requirement.
- Amendments to IFRIC 9 “Reassessment of Embedded Derivatives” and IAS 39. The amendments clarify how embedded derivatives are to be treated if a hybrid contract is reclassified from the “fair value through profit or loss” category. These amendments had no effect on the consolidated financial statement.
- IFRS 2 “Share-based Payment”: The applicable amendments principally clarify the treatment of vesting conditions. The revisions had no implications for the Group.
- IAS 23 “Borrowing Costs”: Following revision entities no longer have the option of immediately expensing borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset. Such borrowing costs are to be capitalized without exception and form part of the cost of the asset. The change had no practical relevance to the consolidated financial statement.
- Amendments to IFRS 1 “First-time Adoption of International Financial Reporting Standards” and IAS 27 “Consolidated and Separate Financial Statements”: Following the amendment of IFRS 1, a first-time adopter may use in its separate financial statement – as a substitute for the initial cost of investments in subsidiaries, jointly controlled entities or associates – either the fair value at the time of the entity’s move to IFRS or the carrying amount determined at this time in accordance with previous GAAP. These amendments had no relevance to the consolidated financial statement in the reporting period.
- The collective standard regarding the amendment of various IFRS (2008) “Improvement of IFRS” is the first standard issued in the context of the IASB Annual Improvement Process; it contains numerous minor IFRS amendments. Most amendments are applicable to financial years beginning on 1 January 2009.

Insofar as they were of any practical relevance to the consolidated financial statement, the adoption of these amendments and interpretations had no material influence on the Group’s net assets, financial position or net income in the reporting period.

New codification of US GAAP

In July 2009 the Financial Accounting Standards Board (FASB) launched the "Accounting Standards Codification" (ASC). The FASB ASC is a major restructuring of accounting and reporting standards designed to simplify user access to all official US GAAP documents by providing the authoritative literature in a topically organized structure; it is not intended to change US GAAP.

Insurance accounting under US GAAP is largely summarized in FASB ASC 944. This standard sets out, above all, the items of the balance sheet and statement of income, instead of breaking them down according to various types of insurance contracts as was previously the case. The old standards governing insurance accounting – FAS 60, 97, 113 and 120 – are fully integrated into the new FASB ASC 944. The presentation of the various types of contract is contained largely in FASB ASC 944-20 (Insurance Activities). Deposit accounting under US GAAP is reflected in FASB ASC 340-30 in the new codification.

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

In November 2009 the IASB published a new standard on the classification and measurement of financial instruments. IFRS 9 is the first step in a three-phase project intended to replace IAS 39 "Financial Instruments: Recognition and Measurement". The new standard introduces a revised classification of financial assets. In the future, the standard envisages only two classifications – those measured at "fair value" and "amortized costs". Reclassification will only be possible if the business model changes significantly. Equity investments within the scope of IFRS 9 are to be measured at fair value in the balance sheet, with value changes recognized in profit or loss. An exception in this regard is an equity investment which an entity elects to measure at fair value through other comprehensive income (FVTOCI). The standard, the implications of which for the Group are currently under review, has not yet been adopted into law by the European Union.

In November 2009 the IASB published the revised IAS 24 "Related Party Disclosures". Among the major new features of IAS 24 (rev.) is the requirement for disclosures of guarantees and undertakings as well as commitments that are dependent upon whether (or not) a particular event occurs in the future. The definition of a related entity or a related person is also clarified. The standard, the implications of which for the Group are currently under review, has not yet been ratified by the European Union.

In November 2009 the IFRIC published IFRIC 19 "Extinguishing Financial Liabilities with Equity Instruments". The interpretation requires that differences between the fair value of an equity instrument and the carrying amount of the financial liability extinguished be recognized in profit or loss. The interpretation is applicable to reporting periods beginning on or after 1 July 2010. It has not yet been ratified by the European Union.

In July 2009 the IASB published amendments to IFRS 1 "Additional Exemptions for First-time Adopters". Essentially, the amendments extend certain exemptions. The amended standard is to apply to financial years beginning on or after 1 January 2010. It has not yet been ratified by the European Union. We do not expect these amendments to have any effect on the consolidated financial statement.

In November 2000 the IASB issued "Prepayments of a Minimum Funding Requirement (Amendments to IFRIC 14)" regarding the standards for recognition of pension plans. The amendments are subject to the condition that an entity is subject to minimum funding requirements and makes voluntary prepaid contributions that satisfy these requirements. In future, the amendments will permit an entity to recognize as an asset the benefits from such a prepayment. The amendments to IFRIC 14 are to enter into force with binding effect on 1 January 2011. An endorsement is expected for the second quarter of 2010. We are currently reviewing the implications for 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. Both revised versions were ratified by the European Union on 3 June 2009. Since the new provisions are to be applied prospectively, implications for the Group can only arise in connection with future acquisitions.

In June 2009 the IASB issued amendments to IFRS 2 "Share-based Payment" clarifying the recognition of group cash-settled share-based payment transactions. They were ratified by the European Union in March 2010. No implications for the Group are currently anticipated.

In July 2008 "Eligible Hedged Items – Amendment to IAS 39 Financial Instruments: Recognition and Measurement" was published. The amendments to IAS 39 clarify circumstances in which the inflation portion of financial instruments can be hedged and how to treat option contracts used as hedging instruments. The amendments, which were adopted in European law in September 2009, are applicable to financial years beginning on or after 1 July 2009. Implications for the Group's net assets, financial position or net income are not anticipated.

In July 2008 the IASB published IFRIC 15 "Agreements for the Construction of Real Estate". IFRIC 15 provides guidance as to when revenue from the construction of real estate is to be recognized in the financial statement and whether an agreement to construct real estate falls within the scope of IAS 11 "Construction Contracts" or IAS 18 "Revenue". The interpretation is applicable to financial years beginning on or after 1 January 2010 and was adopted in European law on 29 July 2009. We do not expect application of the interpretation to have any effect on the Group.

In July 2008 the IFRIC published IFRIC 16 “Hedges of a Net Investment in a Foreign Operation” (adopted in European law in June 2009). This interpretation provides guidance on possible hedges of a net investment in a foreign operation and on the accounting thereof in an entity’s consolidated financial statements. IFRIC 16 is applicable to financial years beginning on or after 1 July 2009. We do not expect application of the interpretation to have any effect on the consolidated financial statement.

In December 2009 the EU adopted the amendments to IAS 32 “Financial Instruments: Presentation” in European law. The amendments relate to the recognition of subscription rights, options and warrants if the issued instruments are not denominated in the functional currency of the issuing entity. The amendments to IAS 32 are applicable to financial years beginning on or after 31 January 2010. Implications for the consolidated financial statement are not expected.

In April 2009 the IFRIC published IFRIC 17 “Distributions of Non-cash Assets to Owners”. The interpretation clarifies recognition of such distributions. IFRIC 17 is applicable to financial years beginning on or after 1 July 2009. The interpretation was adopted in European law on 26 November 2009. We do not expect application of the interpretation to have any effect on the consolidated financial statement.

In the context of the IFRS annual improvement process, IFRS 5 “Non-current Assets Held for Sale and Discontinued Operations” was revised and ratified by the EU in January 2009. The amendments encompass principally specifications of disclosure requirements. The amendments are applicable to financial years beginning on or after 1 January 2011. We are currently reviewing the implications for the consolidated financial statement.

In March 2009 the amendments to IFRIC 12 “Service Concession Arrangements” were endorsed by the EU. IFRIC 12 clarifies how underlying infrastructure assets are to be recognized by the operator of a service concession arrangement. The interpretation is applicable to financial years beginning on or after 1 January 2010. We do not expect application of the interpretation to have any effect on the consolidated financial statement.

The collection of amendments to various International Financial Reporting Standards issued in 2009 as “Improvements to IFRS” is the second such collection published in the context of the IASB annual improvement process; it contains numerous necessary but non-urgent IFRS amendments. Most are applicable to financial years beginning on or after 1 January 2010; they were adopted in European law in March 2010. We are currently reviewing the implications for the consolidated financial statement.

Summary of major accounting policies

Changes in accounting policies and accounting errors

In the 2009 financial year we adjusted the previous year's figures with respect to the following circumstances retrospectively as at 31 December 2008 in accordance with the requirements of IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors":

a) In the 2009 financial year the Group corrected the balance sheet recognition of a life reinsurance contract with a US cedant. In accordance with applicable US GAAP (FASB ASC 340-30), certain technical assets and liabilities relating to this contract are to be offset in the balance sheet. This offsetting was omitted in the consolidated financial statement for the 2008 financial year; we have therefore adjusted the comparative figures in the present consolidated financial statement. The adjustments have no implications for the Group net income reported in the previous year. The contractual relationship referred to above commenced on 1 October 2008. The correction therefore has no implications for the opening balance sheet of the 2008 financial year or the balance sheets of reporting periods prior to 2008.

b) In the fourth quarter of 2009 the Group corrected the calculation system for debt consolidation and the calculation of minority interests in foreign currencies. The previous year's figures as at 31 December 2008 were adjusted directly in equity in an amount of EUR 6 million. In addition, this gave rise to reclassifications in the currency translation reserve between the Group share and minority interests (EUR 12 million). The opening balance as at 1 January 2008 was not affected by the accounting error.

The adjustments made in the 2009 financial year pursuant to IAS 8 have the following effects on the consolidated balance sheet as at 31 December 2008. Reflecting the explanatory remarks provided above, the specific circumstances are labeled with the letters a) and b):

Consolidated balance sheet	31.12.2008 as reported	Changes from adjustments pursuant to IAS 8 in 2008		31.12.2008
Figures in EUR million		Re a)	Re b)	
Assets				
B. f. i. Funds held by ceding companies	9,094	–511	—	8,583
Liabilities				
A. b. Reserves	3,354	—	12	3,366
A. c. Minority interests	2,104	—	–12	2,092
F. b. Funds held under reinsurance treaties	5,974	–511	—	5,463

The effects on the consolidated statement of income for the 2008 financial year are as follows:

Consolidated statement of income	31.12.2008 as reported	Changes from adjustments pursuant to IAS 8 in 2008		31.12.2008
Figures in EUR million		Re a)	Re b)	
10. Other expenses	1,401	—	6	1,407
Net income – thereof minority interest in profit or loss	–66	—	–2	–68
Net income – thereof Group net income	187	—	–4	183

In addition, the Group adjusted the accounting policy from prior periods in relation to the amortization of certain securities in the opening balance sheet as at 1 January 2009 outside the statement of income through retained earnings and other reserves. Differences with respect to variable-yield financial instruments attributable to interim changes in the market interest rate are thus amortized until the next interest rate adjustment date. Retrospective adjustment for prior years was omitted after weighing up cost/benefit considerations. The adjustments had the following implications for the 2009 opening balance sheet:

Consolidated balance sheet		Adjustments 2009
Figures in EUR million		
Assets		
B. d.	Loans and receivables	36
H.	Deferred tax assets	–2
Passiva		
A. b.	Reserves	11
A. c.	Minority interests	1
C. d.	Provision for premium refunds	21
G.	Deferred tax liabilites	1

Changes in estimates during the reporting period

a) Within the scope of the accounting of "modified coinsurance" and "coinsurance funds withheld" (ModCo) reinsurance treaties, under which securities deposits are held by the ceding companies and payments rendered on the basis of the income from certain securities of the ceding company, the interest-rate risk elements are clearly and closely related to the underlying reinsurance arrangements. Embedded derivatives consequently result solely from the credit risk of the underlying securities portfolio. The Group calculates the fair value of the embedded derivatives in ModCo treaties using the market information available on the valuation date on the basis of a "credit spread" method. The markets for traded credit risks have evolved significantly, and the Group responded to this trend by refining the calculation logic for the derivatives in question in the fourth quarter. The determination of credit risks based on rating classes was thus converted to a largely issue-based calculation. The risks from the aforementioned contracts are thereby established on a more market-oriented basis. Retention of the parameters used until the third quarter of 2009 to calculate the fair values of this derivative would have produced a positive value of EUR 109 million. The refinement of the calculation logic gave rise to a positive fair value of EUR 32 million for the derivative. The derivatives are recognized under "financial assets at fair value through profit or loss". The effect of this change on future reporting periods could only have been determined with a disproportionately high effort and presentation has therefore been omitted.

b) When determining the reinsurers' share of the loss and loss adjustment expense reserve with respect to our German risk carriers in the Property/Casualty Primary Insurance segment, we refined the calculation factors in 2009 on the basis of additional information. This revision involves above all a higher aggregation of derivation factors as well as percentage-based allowance for non-proportional reinsurance. If the parameters used had already been applied in the previous year, the reinsurers' shares would have been EUR 13 million lower. Presentation of this effect on future periods was omitted on account of the disproportionately high effort required in this connection to perform the calculation.

c) Particularly in view of the improved level of information available in the area of unit-linked life insurance regarding a Group company in the Life Primary Insurance segment, we adjusted in 2009 the estimation methods used to determine the amortization patterns with respect to deferred acquisition costs. Principally on account of this change in estimation methods, additional acquisition expenses of EUR 4 million resulted in the reporting period.

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 definitively regulate the recognition and measurement of insurance contracts. The Exposure Draft on the recognition of insurance contracts is expected for the second quarter of 2010. 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 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. 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

FASB ASC 944-20 requires that life insurance products 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 (previously included in FAS 120 in conjunction with SOP 95-1 (Statement of Principles)).
- Short-term contracts with no surplus distribution (previously included in FAS 60).
- Insurance products with a separate account to which the premium payments less expenses and plus interest are credited (unit-linked life insurance; previously included in SFAS 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 Group.

Types of surplus distribution in life insurance

The German life insurance companies belonging to the 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.

Funds held and contracts without sufficient technical risk

In connection with insurance contracts that satisfy the requirements of both IFRS 4 and FASB ASC 944-20-15 (previously FAS 113), we show the cash and securities deposits that we furnished to our cedants under funds held by ceding companies. The funds held under reinsurance treaties represent the cash and securities deposits furnished to us by our retrocessionaires. Neither of these items triggers any cash flows and the funds cannot be used without the consent of the other party.

Insurance contracts that satisfy the test of a significant risk transfer to the reinsurer as required by IFRS 4 but fail to meet the risk transfer required by US GAAP are recognized using the "deposit accounting" method and eliminated from the technical account. The compensation elements for risk assumption booked to income under these contracts are netted under other income/expenses. The balances are shown as contract deposits on the assets and liabilities sides of the balance sheet, the fair values of which correspond approximately to their book values.

Funds held by ceding companies and funds held under reinsurance treaties are recognized at acquisition cost (nominal amount). Appropriate allowance is made for credit risks.

Major discretionary decisions and estimates

The preparation of the consolidated financial statement in accordance with IFRS to some extent 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 provisions, provisions for pensions and other post-employment benefit obligations), the calculation of fair values and impairment losses on financial instruments which are not based on publicly accessible prices of an active market, the categorization of financial assets as held to maturity, the value adjustment of account receivable, the calculation of goodwill 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 technical provisions, provisions for pensions and the description of the impairment test pursuant to IAS 36). The actual amounts may diverge from the estimated amounts.

Currency translation

The euro (EUR) is the reporting currency in which the consolidated financial statement is prepared. The financial statements of subsidiaries included in the consolidated financial statement are drawn up in the respective national currencies, which therefore constitute the functional currencies. 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 transaction rates. 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 Group's key foreign currencies were as follows:

		Balance sheet (balance sheet date)		Statement of income (average)	
Exchange rates		31.12.2009	31.12.2008	2009	2008
1 EUR corresponds to:					
AUD	Australia	1.6048	2.0257	1.7839	1.7437
BHD	Bahrain	0.5404	0.5312	0.5267	0.5563
BRL	Brazil	2.4963	3.2843	2.8024	2.6829
CAD	Canada	1.5048	1.7160	1.5916	1.5561
CLP	Chile	727.1109	900.4000	781.1374	774.4462
CNY	China	9.7847	9.6090	9.5419	10.2693
GBP	United Kingdom	0.9042	0.96000	0.8966	0.7985
HKD	Hong Kong	11.1172	10.8323	10.8274	11.4733
HUF	Hungary	272.2169	264.5050	280.0399	251.0727
KRW	South Korea	1,669.5842	1,775.0000	1,771.3279	1,602.6923
MXN	Mexico	18.6562	—	18.9262	—
MYR	Malaysia	4.9113	4.8700	4.9076	4.9064
PLN	Poland	4.1269	4.1823	4.3358	3.5425
SEK	Sweden	10.2986	10.9150	10.6210	9.6662
UAH	Ukraine	11.4827	10.8000	11.1792	7.7981
USD	United States	1.4336	1.3977	1.3969	1.4739
ZAR	South Africa	10.6121	13.1698	11.6273	11.9514

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	Max. 50 years
Insurance-related intangible assets (subject to the underlying insurance contracts)	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 positive difference between the cost of acquisition and the pro-rata fair value of identified assets, liabilities and contingent liabilities (fair value of the revalued net assets).

Goodwill is an asset with an indefinite useful life and hence scheduled depreciation is not taken; instead, in accordance with IFRS 3 "Business Combinations", goodwill is tested for impairment at least annually according to the "impairment only approach" and written down as necessary depending on the outcome of the test. An impairment loss established in this way is recognized in income.

For the purposes of the impairment test, goodwill is allocated pursuant to IAS 36.80 et seq. "Impairment of Assets" to so-called "cash generating units" (CGUs). Within the Group the CGUs normally correspond to the segments; the only exception here is the Life Primary Insurance segment, which is split into two 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.

Under IFRS 3 negative differences from initial consolidation are recognized immediately in profit or loss.

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; this is opposed on the assets side by an insurance-related intangible asset (policyholders' portion of the PVFP) in the same amount.

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 ("Intangible Assets") in conjunction with IAS 36.

Investments including income and expenses

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.

Investment property is measured at cost less scheduled depreciation and impairment. Scheduled depreciation is taken on a straight-line basis over a maximum 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.

In the case of the directly held 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, also based on the discounted cash flow method, in order to review the value. An external fair value opinion is obtained for real estate special funds every 12 months – the key date is the date of first appraisal. For properties that are not rented out, alternative methods can be used 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.

All **financial assets/liabilities including all derivative financial instruments** are carried in the balance sheet in accordance with IAS 39 "Financial Instruments: Recognition and Measurement". They are recognized as at the settlement date. Investments held in special funds are recognized as at the trading 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 and is carried out either at amortized costs or at fair value. The amortized costs are determined 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. Fair value 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 established on the basis of market prices or observable market data on the balance sheet date and recognized valuation models. Financial instruments carried as assets are measured at bid prices, while those carried as liabilities are measured at asked prices. Detailed information on the measurement principles applied within the Group and the valuation methods used to establish the fair values of financial instruments as well as a hierarchical categorization of certain securities is provided in the section "Fair value hierarchy" from page 166 onwards.

Financial instruments due on demand are recognized at face value. Such instruments include cash in hand and funds held by ceding companies.

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 Group. Investments in listed enterprises are recognized at fair value on the balance sheet date; other investments are recognized at cost, less impairments where applicable.

Investments in associated companies are generally 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. The shareholders' equity and year-end result are taken from the associated company's latest available annual financial statement. In this context, allowance is made for specific extraordinary circumstances in the appropriate reporting period, if they are material to the associated company's assets, financial position or net income.

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 using the effective interest rate method. 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. The Group 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 fixed-income or variable-yield financial assets that the Group does not immediately intend to sell and that cannot be allocated to any other category. We include them in our available-for-sale portfolio. 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 fair value are recognized in equity after allowance for accrued interest, deferred taxes and premiums at life insurers due to policyholders upon realization (provision for deferred premium refunds).

Financial assets at fair value through profit or loss consist of financial assets categorized as measured at fair value through profit or loss since acquisition. This refers principally to unsecured debt instruments issued by corporate issuers and derivative financial instruments. Structured products are also recognized in this category subject to application of the fair value option provided in IAS 39 "Financial Instruments: Recognition and Measurement". 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 the loans and receivables, held to maturity or available for sale categories are also recognized here. The Group utilizes the fair value option solely for selected parts of the investment portfolio. Insofar as embedded derivatives are separated from the underlying insurance contracts as required by IFRS 4.7 to 4.9 "Insurance Contracts", these are measured at fair value in accordance with IAS 39 and in the event of a positive fair value also allocated to this balance sheet item. All changes in value with respect to the fair values of these financial instruments are recognized through profit or loss 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 with positive fair values that do not satisfy the requirements for recognition as a hedging relationship (hedge accounting as per IAS 39) and have no connection with insurance contracts are carried here. We use derivative financial instruments to a carefully judged extent in order to hedge parts of our portfolio against interest rate and market price risks, optimize returns or realize intentions to buy/sell. Securities held for trading are carried at their fair value on the balance sheet date.

All unrealized gains or losses from this valuation are – in common with the realized gains and losses – recognized in net investment income.

At each balance sheet date we review our financial assets – with the exception of financial assets at fair value through profit or loss including the trading portfolio – with an eye to objective, substantial indications of **impairment**. Permanent impairments on all these financial assets are charged to the statement of income. IAS 39.59 contains a list of objective, substantial indications for impairment of a financial asset. IAS 39.61 sets out additional requirements with regard to indications of objective evidence for the impairment of equity instruments, according to which impairment exists if there is a significant or prolonged decrease in the fair value below acquisition cost. A decrease in fair value is deemed to be significant if it falls by more than 20% below acquisition cost; a prolonged decrease exists if the fair value falls consistently below cost for a period of nine months or more.

In principle, we take as a basis for fixed-income securities the same indicators as for equity instruments. In addition, qualitative case-by-case analysis is also carried out. Reference is made, first and foremost, to the rating of the instrument, the rating of the issuer/borrower as well as the individual market assessment in order to establish whether impairment exists. What is more, when instruments measured at amortized cost are tested for impairment, we examine whether material items – looked at on their own – are impaired. When it comes to assessing whether equity instruments are impaired, reference is made to the quantitative thresholds described above for the existence of a significant or prolonged decrease in fair value. In the case of securities denominated in foreign currencies, assessment is made in the functional currency of the entity holding the equity instrument.

Impairments on investments are recognized directly on the assets side – without using an adjustment account – separately from the relevant items.

Reversals on debt instruments are recognized in income up to the level of the amortized costs. In the case of financial assets available for sale, any further amount is recognized directly in equity. Reversals on equity instruments, however, are recognized directly in equity.

Securities loaned in the context of **securities lending** continue to be carried in the balance sheet since the material opportunities and risks resulting from such securities remain within the Group.

Other invested assets are recognized for the most part 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. Loans included in this item are recognized at amortized cost.

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

This item consists of 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 technical provisions. Policyholders are entitled to the profits 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 are variable costs which are related primarily to the acquisition or renewal of insurance contracts, i.e. there is no other functional area to which the bulk of the costs can be allocated. The definition of deferred acquisition costs encompasses both direct costs (e.g. commissions, costs of medical examinations) and indirect costs (e.g. costs associated with marketing support).

Insofar as the two requirements of variability and the primary correlation are cumulatively satisfied, the acquisition costs are to be capitalized and amortized over the period of the underlying contracts. Marketing-related payments are recognized using the same method and same assumptions. Deferred acquisition costs are regularly tested for impairment using an adequacy test.

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. They are amortized at a constant rate over the average contract period. In life primary insurance and life/health reinsurance, the deferred acquisition costs 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.

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.

Insofar as deferred taxes refer to items carried directly in shareholders' equity, the resulting deferred taxes are also recognized outside the statement of income.

Deferred taxes are based on the current country-specific 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 adopted in law. Deferred taxes at the Group level are booked using the Group tax rate of 31.6%, unless they can be allocated to specific companies.

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

Long-lived assets held for sale (or groups of assets and liabilities held for sale) are classified as held for sale pursuant to IFRS 5 if their carrying amount is realized largely through sale rather than through continued operational use. Sale must be highly probable. The assets or disposal group held for sale are measured at the lower of carrying amount and fair value less costs to sell and recognized separately in the balance sheet as assets or liabilities. Scheduled depreciation is recognized until the date of classification as held for sale.

More detailed information on the assets and disposal groups held for sale is contained in the subsection "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 as well as income and expenses from changes in the consolidated 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 hedging instruments under cash flow hedges. 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 calculation includes assumptions relating to mortality, disability, lapse rates and the future interest rate development. The actuarial bases used in this context allow an adequate safety margin for the risks of change, error and random fluctuation.

In the case of life insurance contracts without a surplus participation, the method draws on assumptions as to the best estimate of investment income, life expectancy and disability risk, allowing for a risk margin. These assumptions are based on customer and industry data. In the case of life insurance contracts with a surplus participation, reference is made to assumptions that are contractually guaranteed or used to establish the surplus participation.

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 ("best estimate"), 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 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 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 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 Group.

With the exception of a few reserves, the loss and loss adjustment expense reserves are not discounted.

The **provision for premium** refunds is constituted in life insurance for obligations regarding the surplus participation of policyholders that have not yet been definitively allocated to individual insurance contracts on the balance sheet date. It 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”.

Other provisions

This item includes inter alia the **provisions for pensions and other post-employment benefit obligations.** The Group companies 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). The Group uses the "corridor method" defined in IAS 19 to recognize its actuarial gains and losses. It does not avail itself of the option provided under IAS 19 to use a different method for more rapid recognition of actuarial gains and losses. Under the corridor method, a portion of the actuarial gains and losses is recognized in profit or loss to the extent that the hitherto unrecognized actuarial gains or losses at the beginning of the financial year exceed the higher of the following amounts: 10% of the present value of the earned pension entitlements or 10% of the fair value of any plan assets. The amount outside the corridor– divided by the expected average remaining working lives of the beneficiaries – is included as income or expense in the statement of income.

Other provisions are established on the basis of best estimates in the amount that is likely to be used. The provisions are discounted if the interest rate effect is of material significance. 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

Financial liabilities including subordinated liabilities, insofar as they do not involve funds held under reinsurance treaties or liabilities from derivatives, are reported at amortized costs. Subordinated liabilities are financial obligations that can only be satisfied after the claims of other creditors in the event of liquidation or bankruptcy. Funds held under reinsurance treaties are measured at amortized cost and liabilities from derivatives are recognized at fair value (on the measurement principles applied within the Group and the valuation methods used to establish fair values see the section "Fair value hierarchy". In addition, interest rate swaps used as hedging instruments under cash flow hedges are shown under the other liabilities. These are also carried at fair value (on the recognition of cash flow hedges see Note 12, page 187).

Deferred tax liabilities

Deferred tax liabilities must be recognized in accordance with IAS 12 "Income Taxes" 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.

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 is compiled in accordance with the requirements of IAS 27 "Consolidated and Separate Financial Statements". Subsidiaries are consolidated as soon as Talanx AG acquires a majority voting interest or de facto controlling influence. The same essentially applies to the inclusion of special purpose entities (see separate subsection on the consolidation of special purpose entities).

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

The capital consolidation of the subsidiaries and included special purpose entities and special funds is based on the revaluation 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 intra-group transactions were eliminated within the scope of the debt and earnings consolidation.

Investments in associated companies are generally recognized at equity and initially measured at their acquisition cost. The financial statements of companies recognized at equity are drawn up in accordance with consistent Group accounting policies. If a company measured at equity applies different accounting policies, appropriate adjustments to comply with IFRS Group requirements are made in an auxiliary calculation. The Group's share of the profits and losses of associated companies is shown separately in the consolidated statement of income in accordance with IAS 1 "Presentation of Financial Statements".

Consolidation of special purpose entities

With regard to the consolidation of special purpose entities, the Group makes a distinction below between investments (excluding special and public funds) and the securitization of reinsurance risks.

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 exercise a controlling influence in any of these transactions and a consolidation requirement therefore does not exist.

Hannover Re participates through various subsidiaries 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"). Since Hannover Re does not exercise a controlling influence in any of these transactions either, there is no consolidation requirement.

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.

With the aim of transferring to the capital market peak natural catastrophe exposures deriving from European windstorm events, Hannover Re issued a catastrophe ("CAT") bond that can be traded on a secondary market for the second time in July 2009. The CAT bond, which has a volume of EUR 150 million, was placed with institutional investors from Europe and North America by Eurus II Ltd., a special purpose entity domiciled in the Cayman Islands. Eurus II Ltd. is a successor transaction to the "Eurus" structure that was terminated on 8 April 2009 as per the contractual agreement. Hannover Re does not bear the majority of the opportunities or risks arising out of this transaction. Under IFRS this transaction is to be recognized as a financial instrument.

In September 2009, in a transaction referred to as "Fac Pool Re", Hannover Re for the first time transferred a portfolio of facultative reinsurance risks to the capital market as part of its extended Insurance-Linked Securities (ILS) activities. The contracts, which cover worldwide individual risks, are mediated by an external reinsurance intermediary, written by Hannover Re and placed on the capital market in conjunction with a service provider. The Fac Pool Re transaction consists of a quota share reinsurance arrangement and two non-proportional cessions. The total amount of capital provided stands at USD 60 million, with Hannover Re keeping a share of approximately USD 5 million and additionally assuming losses that exceed the capacity of Fac Pool Re. A number of special purpose entities participate in the reinsurance cessions within Fac Pool Re; Hannover Re does not hold any shares in these special purpose entities and does not bear the majority of the economic benefits or risks arising out of their activities through any of its business relations.

With effect from 1 January 2009 Hannover Re again used the capital market to obtain underwriting capacity for catastrophe risks. The “K5” transaction, which ended as per the contractual agreement on 31 December 2008, was replaced by the successor transaction “K6”. The volume of K6 was equivalent to EUR 120 million as at the balance sheet date. This securitization, which was again placed with institutional investors in North America, Europe and Asia, involves a quota share cession on worldwide natural catastrophe business as well as aviation and marine risks. As with the “K3” and “K5” transactions, Kaith Re Ltd., a special purpose entity domiciled in Bermuda, is being used for the securitization. The planned term of the transaction runs until 31 December 2011. In addition, Hannover Re uses the special purpose entity Kaith Re Ltd. for various retrocessions of its traditional covers to institutional investors. In accordance with SIC-12 Kaith Re Ltd. is included in the consolidated financial statement.

In 2007 Hannover Re transferred risks from reinsurance recoverables to the capital market. By way of 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. On the basis of this reference portfolio a volume in a nominal amount of EUR 95 million was securitized above and beyond the first EUR 60 million. The securities serving as collateral are issued through the special purpose entity Merlin CDO I B.V. A payment to Hannover Re is triggered by the insolvency of one or more retrocessionaires as soon as Hannover Re’s contractually defined cumulative deductible of EUR 60 million over the term of the contract is exceeded. As at the balance sheet date Hannover Re had purchased securitizations issued by Merlin with a nominal value of altogether EUR 34 million (EUR 11 million) on the secondary market, which it holds in its asset portfolio. Hannover Re does not derive the majority of the economic benefits or risks arising out of the special purpose entity’s activities through any of its business relations.

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 this context, the criterion of materiality is applied exclusively to companies that do not transact insurance business.

In addition to Talanx AG, 74 domestic and 54 foreign individual companies as well as three foreign subgroups – which are included as a group (including existing associated companies) – are fully consolidated. Seven companies are valued at equity as associated companies in the consolidated financial statement in accordance with IAS 28 “Investments in Associates”. Furthermore, 17 special funds and one public fund – thereof 16 domestic funds – are included in the consolidated group pursuant to SIC-12 “Consolidation – Special Purpose Entities”.

The consolidated financial statement does not include 33 subsidiaries, the overall influence of which on the Group’s net assets, financial position and results is considered minimal. The balance sheet total of these subsidiaries amounts to less than 0.1% of the average balance sheet total of the Group over the last three years; the result of these companies amounts to less than 1% of the average result of the Group over the last three years. In subsequent periods the subsidiaries not included in the consolidated group on grounds of materiality are examined on each closing date in order to verify whether consolidation is required in light of a reassessment of materiality.

Subsidiaries

	Individual companies		Subgroups	
Consolidated subsidiaries (fully consolidated)	Germany	Abroad	Abroad	Total
31.12.2008	73	54	3	130
Additions	4	2	—	6
Disposals	3	2	—	5
31.12.2009	74	54	3	131

The six additions consist of the first-time inclusion of four new establishments and two acquisitions. The five disposals result from internal mergers within the Group.

Specifically, the scope of consolidation of the Talanx Group has changed as follows since 31 December 2008:

Establishments

In the first quarter of 2009 HDI Reinsurance (Ireland) Ltd. was established with registered office in Dublin, Ireland. HDI-Gerling Sach Serviceholding – a wholly owned subsidiary of Talanx AG – holds all shares of the company. The Irish financial regulator awarded the company a license to transact non-life reinsurance business on 22 December 2009. Since that date the company has written reinsurance contracts with companies belonging to the Talanx Group.

In the second quarter of 2009 Talanx Beteiligungs-GmbH & Co. KG was established with registered office in Hannover. The company's business object is to build, hold and manage participating interests and long-lived investments; Talanx AG is the limited partner.

On 14 August 2009 the Cologne-based HG Sach AltInvest GmbH & Co. KG was entered in the commercial register. The company's business object is to build, hold and manage a portfolio of alternative investments such as private equity funds, real estate private equity funds and fixed-income debt securities – in particular by entering into participations in companies with a similar business object.

On 23 October 2009 Hannover Re established FUNIS GmbH & Co. KG with registered office in Hannover. Hannover Re is the company's managing limited partner and holds a capital contribution of EUR 100 thousand, which had not been paid in as at the balance sheet date; the capital contribution was paid on 25 January 2010. The company's business object is to hold, acquire and sell participating interests in other companies.

Acquisitions

On 1 October 2009 HDI-Gerling International Holding AG acquired from Genworth Life Insurance Company 99.45% of the shares in the company Genworth Seguros México, S.A. de C.V. León/Mexico, which has since been renamed HDI Seguros, S.A. de C.V. The company transacts property and casualty primary insurance as well as credit life business. With respect to the latter, the acquirer has undertaken and is entitled to conduct the credit life business solely on a fiduciary basis for the seller. Further information is provided in the section entitled "Business combinations in the reporting period" from page 140 onwards.

Under a contract dated 30 November 2009 HDI-Gerling Leben Serviceholding AG acquired all the shares in the shelf company HWD Dreissig GmbH, which was renamed ASPECTA Euro Group GmbH, Cologne. The company's business subject is to acquire and manage participating interests in foreign companies belonging to the Talanx Group.

Mergers

In June 2009 Poistovna HDI-Gerling Slovensko A.S. (Slovakia) was merged into HDI Versicherung AG (Vienna) and Gerling America Insurance Company was merged into HDI-Gerling America Insurance Company (both Chicago, United States). Both mergers were completed with retroactive effect as at 1 January 2009.

In September 2009 Gerling Kundenservice Firmen und Privat GmbH (Cologne), HDI-Gerling Autohaus Service GmbH (unconsolidated) and HDI-Gerling Vertrieb Makler Firmen und Privat GmbH (both Hannover) were merged into HDI-Gerling Firmen und Privat Versicherung AG, Hannover. In the same month Siton Beteiligungs-GmbH was merged into Hannover Beteiligungsgesellschaft mbH (both Hannover). All mergers were completed with retroactive effect as at 1 January 2009.

Other

On 13 July 2009 GLL HRE Core Properties L. P. based in Wilmington, Delaware/United States, commenced business operations. The company is 99.9% owned by Hannover Re Real Estate Holdings, Inc., Orlando/United States and is fully consolidated in the latter's sub-group financial statement. The company's business object is to acquire, hold and manage real estate in the United States.

Further corporate changes

In February and October 2009 Inversiones HDI Limitada increased its stake in HDI Seguros S.A., Chile, by 0.16% through acquisitions from minority shareholders and thus holds 99.92% of the Chilean company.

In March and April 2009 HDI-Gerling International Holding AG increased its stake in HDI STRAKHUVANNYA (Ukraine), Kiev, from 97.70% to 98.83% through acquisitions from minority shareholders.

Effective 1 June 2009 Talanx AG acquired a share of Talanx Finanz (Luxembourg) S.A., Luxembourg, that had previously been held by a third party. Talanx AG thus holds all the shares of the aforementioned company.

In addition to Talanx AG as the parent company (Corporate Operations segment), the following major companies* are included in the consolidated financial statement; the figures for the capital and reserves and the result for the last financial year are taken from the companies' local annual financial statements.

Name and registered office of the company	Participation		Capital and reserves		Result for the last financial year
Figures in currency units of 1000	%		in EUR [1]		in EUR [1]
Property/Casualty Primary Insurance					
HDI Asekuracja Towarzystwo Ubezpieczen S.A., Warsaw/Poland	100.00	PLN	262,598	PLN	27,081
HDI Assicurazioni S.p.A., Rome/Italy	100.00		136,772		12,192
HDI Direkt Versicherung AG, Hannover	100.00		162,000		73,465
HDI HANNOVER International España, Cía de Seguros y Reaseguros S.A., Madrid/Spain	100.00		44,898		4,911
HDI Seguros S.A., São Paulo/Brazil	99.99	BRL	478,726	BRL	48,981
HDI Versicherung AG, Vienna/Austria	100.00		41,930		7,512
HDI-Gerling America Insurance Company, Chicago/USA	100.00	USD	97,827	USD	4,592
HDI-Gerling Firmen und Privat Versicherung AG, Hannover	100.00		174,906		20,395
HDI-Gerling Industrie Versicherung AG, Hannover	100.00		287,493		153,882
HDI-Gerling Rechtsschutz Versicherung AG, Hannover	100.00		18,951		4,182
HDI-Gerling Verzekeringen N.V., Rotterdam/Netherlands	100.00		70,885		15,932
Life Primary Insurance					
ASPECTA Assurance International Luxembourg S.A., Luxembourg/Luxembourg	100.00		9,205		–1,303
ASPECTA Assurance International AG, Vaduz/Liechtenstein	100.00	CHF	7,619	CHF	–764
ASPECTA Lebensversicherung AG, Cologne	100.00		42,243		—
HDI-Gerling Lebensversicherung AG, Cologne	100.00		212,210		35,000
HDI-Gerling Pensionskasse AG, Cologne	100.00		28,237		500
Neue Leben Lebensversicherung AG, Hamburg	67.50		60,541		14,500
PB Lebensversicherung AG, Hilden	100.00		25,568		9,179
PBV Lebensversicherung AG, Hilden	100.00		51,163		14,949
TARGO Lebensversicherung AG (formerly: CiV Lebensversicherung AG), Hilden	100.00		72,682		39,188
TARGO Versicherung AG (formerly: CiV Versicherung AG), Hilden	100.00		6,342		17,600
Non-Life Reinsurance					
E+S Rückversicherung AG, Hannover	32.23		587,281		80,000
Hannover Finance, Inc., Wilmington/USA [2), 3)]	50.22	USD	346,426	USD	–30,077
Hannover Re (Bermuda) Ltd., Hamilton/Bermuda [4)]	50.22		1,089,623		199,630
Hannover Re Real Estate Holdings, Inc., Orlando/USA [3), 4)]	50.22	USD	196,317	USD	–24,899
Hannover Reinsurance (Ireland) Ltd., Dublin/Ireland [2)]	50.22		486,038		30,777
Hannover Reinsurance Group Africa (Pty) Ltd., Johannesburg/South Africa [2), 3), 5)]	50.22	ZAR	156,852	ZAR	50,719

** Gross premium of more than EUR 50 million in the case of insurance companies*

Name and registered office of the company	Participation	Capital and reserves	Result for the last financial year
Figures in currency units of 1000	%	in EUR[1]	in EUR[1]
Hannover Rückversicherung AG, Hannover	50.22	1,637,816	259,000
International Insurance Company of Hannover Ltd., Bracknell/United Kingdom[2]	50.22	GBP 108,148	GBP 3,937
Life/Health Reinsurance			
Hannover Life Re of Australasia Ltd, Sydney/Australia[2]	50.22	AUD 225,297	AUD 34,386
Hannover Life Reassurance (Ireland) Ltd., Dublin/Ireland[2]	50.22	863,222	176,556
Hannover Life Reassurance Company of America, Orlando/USA[4]	50.22	USD 139,932	USD –6,586
Corporate Operations			
AmpegaGerling Asset Management GmbH, Cologne	100.00	83,600	30,344
AmpegaGerling Immobilien Management GmbH, Cologne	100.00	20,437	222
AmpegaGerling Investment GmbH, Cologne	100.00	16,936	7,333
Protection Reinsurance Intermediaries AG, Hannover	100.00	387	11,465
Talanx Beteiligungs-GmbH & Co. KG, Hannover[6]	100.00	146,024	2,949

1) Differing currencies are specified
2) Provisional/unaudited figures
3) The company draws up its own subgroup financial statement
4) Figures according to IFRS
5) Also allocated to the Life/Health Reinsurance segment
6) The option not to publish financial statements pursuant to § 264 b Commercial Code (HGB) was exercised

A further twelve insurance companies were included in the Property/Casualty Primary Insurance segment, nine in the Life Primary Insurance segment, two in the Non-Life Reinsurance segment and two in the Life/Health Reinsurance segment. In addition, a further 69 non-insurance companies were consolidated across all segments.

Associated companies

Associated companies are those over which the Group exercises a significant but not controlling influence.

An associated company is presumed to exist if between 20% and 50% of its voting rights are held directly or indirectly (e.g. through subsidiaries). In the case of companies classified as associated despite a less than 20% share of the voting rights, the significant influence is largely attributable to membership of bodies pursuant to IAS 28.7 (a).

Three (three) domestic and four (four) foreign associated companies were consolidated "at equity" as at the balance sheet date.

Name and registered office of the company	Participation		Capital and reserves		Result for the last financial year
Figures in currency units of 1000	in %		in EUR [1]		in EUR [1]
HANNOVER Finanz GmbH, Hannover [2), 3)]	12.55		63,476		241
Neue Leben Pensionsverwaltung AG, Hamburg	33.07		14,768		385
WeHaCo Unternehmensbeteiligungs-GmbH, Hannover [2), 3)]	16.49		63,759		2,215
Apulia Prontoprestito S.p.A., Rome/Italy	10.60		236,795		35
DFA Capital Management, Inc., Wilmington/USA	26.30	USD	1,177	USD	–1,928
ITAS Vita S.p.A., Trento/Italy [2), 3)]	17.52		69,783		248
WPG IV Liquidation Trust, Grand Cayman/Cayman Islands [3), 4)]	14.77	USD	444	USD	–461

1) *Differing currencies are specified*
2) *Figures as at 31 December 2008*
3) *Indirectly held voting rights*
4) *Company is in liquidation; last annual financial statement dated 31 August 2006*

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.

Segment reporting

The segment information presented here is reported in a manner that reflects the system of internal reporting to the chief operating decision-maker. The segments are determined according to the areas of responsibility on the Group Board of Management of Talanx AG. The chief operating decision-maker is responsible for decisions regarding the allocation of resources to the business segments and for verification of their profitability.

In conformity with IFRS 8 “Operating Segments” the Group has therefore defined four reporting segments for its insurance activities: Property/Casualty Primary Insurance, Life Primary Insurance, Non-Life Reinsurance and Life/Health Reinsurance. Building upon the organizational structure of the Group, the business activities are first divided into the areas of primary insurance and reinsurance. Owing to the different types of products, risks and capital allocation, the insurance activities in the primary insurance sector were further subdivided into Property/Casualty and Life and in the reinsurance sector into Non-Life and Life/Health. In the Life Primary Insurance segment we have grouped together the operating divisions of “Life Insurance” and “Bancassurance”, principally on account of comparable business features. The area of Corporate Operations constitutes a separate reporting segment.

The products and services with which these reporting segments generate income are set out below:

Property/Casualty Primary Insurance: The scope of operations encompasses a wide selection of insurance products such as accident, liability, motor liability, fire, property, marine, aviation, credit, surety and all risks insurance. In addition, foreign shares of the premium volume under international programs written exclusively or led by HDI-Gerling Industrie for German clients are included here; the cedants in such cases are companies abroad belonging to the Talanx Group or members of the Royal & SunAlliance network.

Life Primary Insurance: Various types of insurance are offered in this segment in the form of individual, group or collective policies for a single or regular premium: endowment, annuity and term insurance, accident insurance, unit-linked and index-linked life insurance, occupational disability and strict “any occupation” disability insurance, foreign travel insurance and occupational retirement provision.

Non-Life Reinsurance: The most important activities encompass private, commercial and industrial property and casualty business – above all in the US and German markets –, marine and aviation business, credit/surety business, facultative and catastrophe business.

Life/Health Reinsurance: The segment consists of the international activities of the Hannover Re Group in the life, health, annuity and accident lines (the latter only to the extent that it is transacted by life insurers).

Corporate Operations: The Corporate Operations segment encompasses – in contrast to the four operating segments – management and other functional activities in support of the business conducted by the Talanx Group, primarily relating to asset management, placement of portions of the reinsurance cessions and Group financing.

All transactions between reporting segments are measured on the basis of standard market transfer prices that would also be applicable to transactions at arm's length. Such intra-group transactions between segments were eliminated within the scope of consolidation.

Depending upon the nature and timeframe of the commercial activities, various management ratios and performance indicators are used to assess the financial success of the reporting segments within the Talanx Group; the operating profit (EBIT) – determined from IFRS profit contributions – is, however, used as a consistent measurement basis. The net profit or loss for the period before income taxes is highlighted as a means of capturing true operating profitability and for the sake of better comparability. In addition, the result is adjusted for interest charges incurred for borrowing.

Business combinations in the reporting period

On 1 October 2009 (date of acquisition) the Group acquired through its subsidiary HDI-Gerling International Holding AG 99.45% of the shares in HDI Seguros, S.A. de C.V. – formerly Genworth Seguros México, S.A. de C.V. – for EUR 26 million. HDI Seguros S.A. is an insurance company transacting predominantly property and casualty primary insurance as well as credit life business in the Mexican retail market. The acquirer has undertaken and is entitled to conduct the credit life business solely on a fiduciary basis for the seller. HDI Seguros, S.A. de C.V., is consolidated in the Property/Casualty Primary Insurance segment.

In this connection HDI-Gerling International Holding AG also acquired for EUR 0.4 million as at the acquisition date of 1 October 2009 99.998% of the shares in Gente Compañía de Soluciones Profesionales de México, S.A. de C.V., a service company with which the employees of HDI Seguros, S.A. de C.V., have an employment relationship. The seller of both companies was Genworth Life Insurance Company. Especially in light of cost/benefit considerations, we omitted to consolidate the service company Gente Compañía de Soluciones Profesionales de México, S.A. de C.V., which does not have any appreciable assets or liabilities vis-à-vis third parties outside the Group and also does not transact insurance business. This will not give rise to any significant implications for the assets, financial position or net income of the Group.

The following table sets out in detail the acquired assets and the goodwill:

Figures in EUR million	
Purchase price	26
Costs connected with acquisition	1
Transaction value of acquisition	27
Fair value of acquired net assets	12
Goodwill	15

The goodwill reflects our expectations in relation to the profitability and growth potential of the acquired company that are associated with entry into the dynamically expanding Mexican insurance market.

The acquisition meets the required criteria of a business combination as defined by IFRS 3 "Business Combinations". As part of the preparation of the acquisition balance sheet as at 1 October 2009, the assets and liabilities of HDI Seguros, S.A. de C.V. were revalued and recognized at fair values (purchase price allocation). In so doing, the IFRS values as at 1 October 2009 (date of transfer of control) were established from the local financial statement as at 30 September 2009 in one step. Additional preparation of an IFRS financial statement at the point in time directly prior to acquisition would have entailed a disproportionately high effort and was therefore omitted. To this extent, the disclosures provided in accordance with IFRS 3.67 (f) are not complete.

The acquired assets and liabilities at the date of acquisition were carried in the following amounts as at 1 October 2009:

Figures in EUR million	
Intangible assets	2
Investments	32
Accounts receivable on insurance business	15
Reinsurance recoverables on technical provisions	1
Cash	1
Deferred tax assets	2
Other assets	3
Assets	**56**
Unearned premium reserve	24
Benefit reserve	3
Loss and loss adjustment expense reserve	8
Liabilities	3
Other provisions	1
Other liabilities	5
Liabilities	**44**
Net assets	12
thereof minority interests	—
thereof Group interest	12

The expenses and income of the company have been included in this consolidated financial statement since their initial consolidation as at 1 October 2009. The following table shows the premium volume of HDI Seguros, S.A. de C.V., since the date of initial consolidation. The "as if" presentation refers to the gross premium recognized since the beginning of the year under review, calculated in accordance with local accounting principles. The profit contributions since 1 January 2009 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 01.10.2009	16
Gross premium on as-if basis from 01.01.2009	67
Profit contribution from 01.10.2009	1

On 20 February 2009 the Group acquired the US ING life reinsurance portfolio under a reinsurance and asset purchase transaction with Scottish Re Group Limited, Hamilton/Bermuda, through its subsidiaries Hannover Life Reassurance Company of America, Orlando (HLRUS), and Hannover Life Reassurance (Ireland) Ltd., Dublin (HLRIr). Within the scope of the transaction the two aforementioned companies assumed the technical liabilities associated with this portfolio and, in return, received the necessary assets to fund the said liabilities. The reinsurance contracts were concluded effective 1 January 2009; no purchase price was paid.

In addition to the materialization of the reinsurance contracts, HLRUS acquired the infrastructure and operating assets needed to administer the life reinsurance business in North America for a purchase price of EUR 13 million. The infrastructure mainly encompasses the IT systems for administration and quotation of the business. A portion of the workforce was consequently also taken over from Scottish Re Group. In accordance with the requirements of IFRS 3 this acquisition is recognized as a business combination since the reinsurance contracts and the systems needed for their administration in conjunction with the assumed workforce are to be considered a separate and independent business for the purposes of IFRS 3.

The acquired business was included in the consolidated financial statement for the first time as at 1 January 2009. For the purpose of first-time consolidation, assumptions and estimations based on forecasts of future cash flows were in some cases used to establish the fair values of the acquired assets and liabilities within the framework of appropriate measurements methods. The acquired business was therefore initially included in the consolidated financial statement on a provisional basis, using the best available information.

IFRS 3 requires that this provisional recognition be completed within twelve months of the date of acquisition. Resulting changes in the values of recognized assets and liabilities are to be carried as if their adjusted fair value at the time of initial consolidation had been recognized from this point in time onwards. In the course of the year under review the provisional carrying amounts of the assets and liabilities assumed in this transaction were analyzed and as a result partially adjusted.

Following completion of the provisional recognition, the adjusted assets and liabilities of the acquired business as at the time of initial consolidation are as follows:

Figures in EUR million	
Investments	131
Funds held by ceding companies	754
Cash	117
PVFP	104
Other assets	14
Assets	**1,120**
Benefit reserve	982
Reinsurance payable	3
Deferred tax liabilites	13
Other liabilities	16
Liabilities	**1,014**
Net assets	106
thereof minority interests	53
thereof Group interest	53

In connection with the acquisition of the life reinsurance portfolio, an intangible asset was carried in accordance with IFRS 4 in conjunction with the standards of US GAAP relevant to the recognition of items of the technical account; this amount represents the present value of future cash flows from the assumed reinsurance contracts (known as the "present value of future profits" or PVFP). The PVFP was initially recognized at fair value on the basis of generally accepted actuarial methods ("actuarial appraisal method"), while in the subsequent periods scheduled amortization is taken on the PVFP over the period of the underlying reinsurance contracts in proportion to the future premium income. In addition, the intangible asset is regularly tested for impairment. As a consequence of detailed revision of the actuarial appraisal models, this asset was increased by EUR 14 million relative to the initial carrying amount to EUR 104 million.

Fresh insights from the scrutiny and individual measurement of the assumed reinsurance contracts resulted in a reduction of the benefit reserve by EUR 30 million to EUR 982 million, derecognition of the provisionally recognized reinsurance recoverables on the benefit reserve in an amount of EUR 27 million as well as other, altogether minimal adjustments. After recognition of all adjusted fair values of the identifiable assets, liabilities and contingent liabilities from the initial consolidation, total net assets after tax amounted to EUR 106 million. Negative goodwill resulted from the acquisition described above and in consideration of the purchase price of EUR 13 million paid for the other assets described above; this was recognized immediately in income as required by IFRS 3.56.

Negative goodwill

Figures in EUR million	
Net assets	106
Purchase price paid for other assets acquired	13
Negative goodwill	**93**
Incidental acquisition costs	6
Net gain	**87**
thereof Group interest	43

In accordance with the requirements of IFRS 3 as applicable to this reinsurance and asset purchase transaction, the directly allocable incidental costs of the entire transaction – i.e. including fees for consulting and audit services rendered by third parties – are counted towards the acquisition costs.

The incidental costs, the final amount of which was definitely established in the fourth quarter of 2009, amounted to EUR 6 million. Where there is negative goodwill, these incidental costs shall be deducted from the negative goodwill recognized in income, as a consequence of which the transaction produced a one-time net gain of altogether EUR 87 million, of which EUR 43 million is included in Group net income and EUR 44 million is attributable to minority interests. As at the balance sheet date the negative goodwill booked to income was recognized under other operating income. The incidental costs are included in the other operating expenses in the consolidated statement of income.

The gross written premium of the acquired business amounted to EUR 834 million from the date of initial consolidation until the balance sheet date. A net profit of EUR 45 million was booked for the same period from the acquired business. This figure does not include the other operating income from the reversal of the negative goodwill.

Disposal groups

Under the item "Assets of disposal groups classified as held for sale" a book amount of EUR 35 million was shown in the Life Primary Insurance segment as at 31 December 2009.

The real estate portfolio of Neue Leben Lebensversicherung AG, consisting of 16 mixed properties, had been combined into a disposal group as at 31 December 2008; this was reversed in the reporting period owing to the changes in the market environment. At the time of reversal an expense from continuing operations of EUR 0.3 million had been incurred. It is envisaged that the properties will be sold individually, rather than as part of a single transaction. Two properties (EUR 5 million) in Hamburg were classified as "held for sale" as at 31 December 2009. The two objects were sold for a price of altogether EUR 5.3 million with purchase dates of 7 and 8 December 2009 respectively. The transfer of beneficial ownership took place in February and March 2010.

In addition, in the fourth quarter of 2009 the transfer of beneficial ownership took place for the real estate of HDI-Gerling Lebensversicherung AG classified as "held for sale" in 2008. The object with a book amount of EUR 14 million has no longer been recognized since that date.

HDI-Gerling Lebensversicherung AG sold two buildings (EUR 15 million) in Hamburg and Leipzig on 29 October and 15 December 2009 respectively. The building in Hamburg is an office block that was sold for a purchase price of EUR 14.7 million owing to considerable vacant space. The residential building in Leipzig was sold for a purchase price of EUR 0.9 million principally on account of high management expenses and a difficult rental situation.

HDI-Gerling Lebensversicherung AG also classified real estate in Würzburg (EUR 15 million) as "held for sale". The building in question is owned by the real estate special fund "Gerling Immo Spezial 1". The object was sold in view of the impending high rehabilitation costs that would have been incurred before it could have been rented out again. In December 2009 a binding exclusivity agreement was signed; the purchase price will likely be EUR 18.6 million. The transaction is expected to be closed in the first half of 2010.

In February 2010 the management of HDI-Gerling Lebensversicherung AG took the decision to dispose of all the shares from its special equities fund GIK Leben 1 and return the special fund to the investment fund company. The same circumstances exist at HDI-Gerling Pensionskasse, which disposed of its special equities fund HGPK-Aktien. The shares were returned in February 2010. Since the criteria under IFRS 5.7 and 5.8 were not met until after the closing date, separate disclosure pursuant to IFRS 5 was omitted as at 31 December 2009. Both companies are consolidated in the Life Primary Insurance segment.

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.

Along with the classes of financial instruments that we have established, the nature and extent of risks associated with financial instruments – split into risks due to insurance contracts and those due to investments – are set out below. The section ends with a presentation of the fair value hierarchy of financial assets and liabilities recognized at fair value. In addition, the measurement methods used within the Group to determine these fair values are described.

Classes of financial instruments

IFRS 7 “Financial Instruments: Disclosures” sets out all the disclosures required for financial instruments. Some disclosure duties are to be met by establishing classes of financial instruments. The grouping made in this context must facilitate a minimum distinction between financial instruments measured at fair value and those measured at amortized cost. The establishment of classes need not necessarily be identical to the categorization of financial instruments pursuant to IAS 39.45-46 for purposes of subsequent measurement. The classes established for our financial instruments were guided by the needs of our portfolio and our balance sheet structure.

Essentially, the following classes of financial instruments were established:

- Financial instruments from insurance contracts
  - Accounts receivable on insurance business
  - Reinsurance recoverables on technical provisions
  - Funds held by ceding companies
  - Funds held under reinsurance treaties

- Financial instruments from investments
  - Investments in affiliated companies
  - Participating interests
  - Loans and receivables
  - Financial assets held to maturity
  - Financial assets available for sale
  - Financial assets at fair value through profit or loss
  - Financial assets – trading
  - Other invested assets, insofar as they are financial instruments

- Other financial instruments
  - Other assets, insofar as they are financial instruments
  - Subordinated liabilities
  - Notes payable and loans
  - Other liabilities, insofar as they are financial instruments

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 in both primary and reinsurance business.

Risks from insurance contracts

Risks from insurance contracts consist principally of insurance risks, default risks, liquidity risks and market risks. Insurance risks in property/casualty insurance are considered separately from those in life insurance because of the significant differences between them.

Management of technical risks in property/casualty insurance

Insurance risks in non-life business (primary insurance and reinsurance) 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. The reserving risk arises out of the potentially insufficient establishment of reserves in the balance sheet and the resulting strain on the technical result.

We counter the assumed premium/loss risk inter alia through appropriate 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	31.12.2009	31.12.2008	31.12.2007 [1)]	31.12.2006	31.12.2005 [1)]
%					
Property/Casualty Primary Insurance	65.1	66.7	61.2	61.6	62.0
Non-Life Reinsurance	94.1	89.0	82.2	82.0	76.1
Total Non-Life Insurance	79.5	76.9	71.4	73.0	71.5

[1)] Due to changes in segment allocation the years 2005 and 2007 are of only limited comparability

The rise in the level of retained premium on the Group level in 2009 resulted from the sharply increased retention in the Non-Life Reinsurance segment. The level of retained premium here climbed appreciably from 89.0% to 94.1% as a consequence of reduced retrocessions. This contrasted with a slight fall in the retention in primary insurance business. The increase in the level of retained premium from 2007 to 2008 in the Property/Casualty Primary Insurance segment can be attributed principally to industrial business. It resulted chiefly from the single premium payment for a stop loss contract in US casualty business, altered reinsurance structures and a special effect in 2007. Modifications made to the segment definition in 2006, 2007 and 2008 were a further reason for the increase in the retention in this segment. Most significantly, reallocations were made between the Property/Casualty Primary Insurance and Non-Life Reinsurance segments. In 2007 the life insurance business of the Italian subsidiary HDI Assicurazioni was reclassified 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 2008 Euro Re International was reallocated from the Property/Casualty Primary Insurance segment to the Non-Life Reinsurance segment. The immediately previous year was adjusted accordingly in each case.

The net loss ratio by segments developed as follows over the last five years:

Net loss ratio by segments	**2009**	**2008**	**2007 [1)]**	**2006**	**2005 [1)]**
%					
Property/Casualty Primary Insurance	67.2	69.1	73.5	73.7	69.4
Non-Life Reinsurance	72.8	70.5	73.6	71.3	82.4
Total Non-Life Insurance	70.6	69.9	73.6	72.2	78.8

[1)] *Due to changes in segment allocation the years 2005 and 2007 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. The rise in the loss ratio in the Non-Life Reinsurance segment as at the balance sheet date can be attributed above all to higher loss ratios in the target markets of Germany and North America. In primary insurance business, on the other hand, the actuarially calculated loss ratio for the financial year was significantly better than in the previous year. It should also be borne in mind here that following the experience of winter storm "Kyrill" in 2007 and the subsequent modification of the reinsurance structure, windstorm losses are subject to significantly higher participations on the part of reinsurers.

In order to ensure that the existing benefit commitments can be fulfilled at all times, corresponding provisions are established and their adequacy is continuously analyzed using actuarial methods. These also provide insights into the quality of the written risks, their spread across individual lines with differing risk exposures as well as the anticipated future claims payments. In addition, our portfolios are subject to active claims management. Analyses of the distribution of loss amounts and claim frequencies facilitate systematic management of the risks.

The loss reserves calculated in the reinsurance sector using actuarial methods are supplemented where necessary by additional reserves based on our own actuarial loss estimations and the IBNR (incurred but not reported) reserve for losses that have already occurred but have not yet been reported to us. Especially in casualty business, IBNR reserves – differentiated by risk classes and regions – are constituted in view of the long run-off of such claims.

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 Group's exposure to asbestos-related claims and pollution damage is, however, relatively slight. The adequacy of these reserves is normally measured using the so-called "survival ratio". This ratio expresses how many years the reserves would cover if the average level of paid claims over the past three years were to continue. At the end of the year under review our survival ratio in the reinsurance sector stood at 24.3 (25.0) years; the reserves for asbestos-related claims and pollution damage amounted to EUR 198 (150) million.

Licensed scientific simulation models, supplemented by the expertise of our own specialist departments, are used to assess the material catastrophe risks from natural hazards (earthquake, windstorm). Furthermore, we establish the risk to our portfolio from various scenarios (e.g. hurricanes in the US, windstorms in Europe, earthquakes in the US) in the form of probability distributions. The monitoring of the natural hazards exposure of the portfolio (accumulation control) is rounded out by the progressive inclusion of realistic extreme loss scenarios.

We analyze extreme scenarios and accumulations that could lead to large losses. Based on the current and most recently calculated figures, the potential net loss burdens for the Group are as follows:

Accumulation scenarios [1]	2009	2008
Figures in EUR million		
250-year loss US windstorm	763	628
250-year loss California earthquake	504	560
250-year loss European windstorm	581	582
250-year loss Tokyo earthquake	426	602
250-year loss Japanese windstorm	369	212
250-year loss Sydney earthquake	325	195

[1] *The actual natural catastrophe experiences may diverge from the model assumptions*

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.

Run-off triangles are another tool used to verify our assumptions within the Group. Such triangles show the changes over time in the reserves as a consequence of paid claims and in the recalculation of the reserves that are to be established as at each balance sheet date. Adequacy is monitored using actuarial methods (see here also our explanatory remarks on the balance sheet item "(20) Loss and loss adjustment expense reserve").

In property/casualty insurance the reserving risk is monitored and managed through analysis of the loss reserves using actuarial methods. In the case of the annuity reserve – as part of the loss and loss adjustment expense reserve – we also monitor the interest rate trend. A fall in interest rates would result in a charge to income owing to establishment of a reserve. The annuity reserve is calculated using the latest annuity tables as an actuarial basis.

An increase of 5 percentage points in the net loss ratio in both these segments of non-life insurance would reduce the net profit after tax by EUR 298 (268) million.

Management of market risks in life insurance

Typical risks in life insurance (Life Primary Insurance and Life/Health Reinsurance) are associated with the fact that policies contain long-term benefit guarantees. Along with interest rate risks, biometric risks and lapse risks are therefore particularly relevant here. Biometric actuarial bases such as mortality, longevity and morbidity are established at the inception of a contract in order to calculate premiums and reserves and measure deferred acquisition costs. Over time, however, these assumptions may prove to be no longer accurate and may therefore necessitate additional expenditures. The adequacy of the biometric actuarial bases is therefore regularly reviewed.

In view of the aforementioned risks, the calculation bases and our expectations may prove inadequate. Our life insurers use a variety of tools to counter this possibility:

- In order to calculate premiums and technical provisions the Group companies use prudently quantified actuarial bases, the adequacy of which is regularly assured through a continuous reconciliation of the claims expected according to the withdrawal tables and the claims actually incurred. In addition, the actuarial bases make appropriate allowance for the risks of error, random fluctuation and change by means of commensurate safety loadings.
- Life insurance policies for the most part involve long-term contracts with a discretionary surplus distribution. Minor changes in the assumptions with respect to the biometric factors, interest rates and costs on which tariffs are based are absorbed by the safety loadings built into the actuarial bases. If these safety loadings are not required, they generate surpluses that are for the most part – in accordance with statutory requirements – passed on to policyholders. The impact on profitability in the event of a change in the risk, cost or interest rate expectations is thus limited by adjustment of the future surplus participation of policyholders.
- We regularly review the lapse pattern of our policyholders and the lapse trend of our in-force portfolio.
- Additional protection is obtained against certain risks by taking out reinsurance treaties.

In life and health reinsurance, too, 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 in most instances due to the structure of the contracts.

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	31.12.2009	31.12.2008	31.12.2007	31.12.2006	31.12.2005
%					
Life Primary Insurance	88.4	87.9	86.9	86.0	85.2
Life/Health Reinsurance	90.7	89.3	90.8	85.4	92.8
Total	**89.6**	**88.4**	**88.5**	**85.8**	**88.2**

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' earnings 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 New Business Value (NBV) is also taken into consideration. The MCEV and NBV denote 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.

The MCEV is calculated for our major life insurers as well as the life/health reinsurance business written by Hannover Re. Sensitivity analyses highlight the areas in which the Group's life insurers and hence the Group as a whole are exposed in the life sector, and they provide pointers 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-than-expected lapse rate would to some extent negatively affect the MCEV.

Sensitivities to administrative expenses

Higher-than-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.

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 a one-time payment of the insured benefit (lump-sum option) under deferred annuities instead of pension transition. This gives rise to a potential risk if an unexpectedly large number of policyholders were to exercise their option at an interest rate level significantly above the discount rate used to calculate the annuities. The adequacy test required by IFRS 4 makes allowance for this option.

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.

Management of credit risks from insurance contracts

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. The selection of reinsurers also takes into account internal and external expert assessments, e.g. market information from brokers. 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. Default risks in reinsurance business are controlled largely with the aid of system-supported cession management: cession limits are specified for individual retrocessionaires and the remaining available capacities are calculated for short-, medium- and long-term business.

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 additionally 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. Our reinsurance partners are carefully selected by Security Committees, their credit status is constantly monitored and – where necessary – appropriate measures are taken to secure receivables.

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 that serve to minimize the default risk – was as follows (excluding funds held by ceding companies):

	31.12.2009 [1]			
Statement of book values of financial assets deriving from insurance contracts	Property/ Casualty Primary Insurance	Non-Life Reinsurance	Life Primary Insurance	Life/Health Reinsurance
Figures in EUR million				
Receivables				
Policy loans	2	—	199	—
Accounts receivable from policyholders	623	45	144	3
Accounts receivable from insurance intermediaries	184	277	152	—
Accounts receivable from reinsurance business	481	1.480	12	941
Other assets				
Reinsurance recoverables on technical provisions	3,222	1,595	892	265
Total	**4,512**	**3,397**	**1,399**	**1,209**

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

	31.12.2008 [1]			
Statement of book values of financial assets deriving from insurance contracts	Property/ Casualty Primary Insurance	Non-Life Reinsurance	Life Primary Insurance	Life/Health Reinsurance
Figures in EUR million				
Receivables				
Policy loans	2	—	195	14
Accounts receivable from policyholders	621	33	161	3
Accounts receivable from insurance intermediaries	275	217	117	—
Accounts receivable from reinsurance business	616	1,596	7	792
Other assets				
Reinsurance recoverables on technical provisions	3,604	1,951	1,165	269
Total	**5,118**	**3,797**	**1,645**	**1,078**

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

The funds held by ceding companies represent the cash and securities deposits furnished by Group companies to cedants that do not trigger any cash flows and cannot be realized by cedants without the consent of our companies. The durations of these deposits are matched to the corresponding provisions. In the event of default on such a deposit the technical provision is reduced to the same extent. The credit risk is therefore limited; with this in mind, it was not shown in the above table.

With respect to business ceded, we reduce 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 two 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 4.1 (4.8) billion. The resulting accounts receivable from reinsurers (after deduction of bad debt provisions) totaled EUR 389 (398) million. As at the balance sheet date more than 67% of these accounts receivable were rated A or better.

The ratings of the counterparties for the reinsurance recoverables on unpaid claims were as follows:

	AAA	AA	A	BBB	< BBB	No rating
%						
Reinsurance recoverables on technical provisions	11 (13)	23 (38)	54 (33)	1 (—)	— (1)	11 (15)

88 (84) % of our reinsurers are rated A or better. In determining the ratings, allowance has already been made for any collateral received – such as deposits or letters of credit.

In the two reinsurance segments the claims due from retrocessions amounted to EUR 1.9 (2.2) billion as at the balance sheet date. Altogether 96 (96) % of retrocessionaires have an investment grade rating. Of these, more than 94 (95) % 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:

	31.12.2009		31.12.2008	
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	112	8	62	2
Accounts receivable from insurance intermediaries	31	21	5	—
Accounts receivable from reinsurance business	232	148	215	119
Total	**375**	**177**	**282**	**121**

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 within the 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.

The primary insurers had 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 totaling EUR 120 (64) million and EUR 52 (5) million respectively. These figures were equivalent to levels of 15 (8)% and 9 (<1)% respectively. The combined average default rate over the past three years was 2.5%. The accounts receivable from passive reinsurance business with arrears of more than 90 days amounted to altogether EUR 229 (143) million, corresponding to a level of 46 (23)%. The average default rate over the past three years in this area was 4.8 (1.3)%.

Relative to the major companies of the Hannover Re Group, which make up the Group's reinsurance segments, EUR 258 million – or 8.6% – of our accounts receivable from reinsurance business totaling EUR 2.9 billion were older than 90 days as at the balance sheet date and in some cases impaired. The average default rate over the past three years was less than 0.2%.

Of our total reinsurance recoverables, 30.5% were secured by deposits or letters of credit – a level virtually unchanged from the previous year. 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.

Value adjustments were not taken on accounts receivable from insurance business 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:

Analysis of individually adjusted financial assets deriving from insurance contracts	31.12.2009 Risk provision	31.12.2009 Thereof 2009	31.12.2009 Book value after risk provision	31.12.2008 Risk provision	31.12.2008 Thereof 2008	31.12.2008 Book value after risk provision
Figures in EUR million						
Accounts receivable from policyholders	33	–1	815	34	6	818
Accounts receivable from insurance intermediaries	57	–20	613	77	21	609
Accounts receivable from reinsurance business	110	–21	2,914	131	–65	3,011
Total	**200**	**–42**	**4,342**	**242**	**–38**	**4,438**

In the year under review risk provision of EUR 21 million for accounts receivable from reinsurance business was released. This risk provision is no longer needed because in the previous year we significantly reduced the remaining credit risks through the securitization of default risks resulting from reinsurance recoverables.

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	2009	2008
Figures in EUR million		
Cumulative value adjustments at 31.12. of the previous year	242	280
Change in consolidated group	—	—
Value adjustments in the financial year	25	60
Write-ups	63	27
Allocation (+)/Release (–)	–3	–90
Exchange-rate fluctuations	–1	–1
Other changes	—	20
Cumulative value adjustments at 31.12. of the year under review	**200**	**242**

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 5 (6)%.

Specifically, the annual write-down rates were as follows:

Write-down rates	31.12.2009	31.12.2008	31.12.2007	31.12.2006
%				
Accounts receivable from policyholders	3.9	4.0	4.0	2.3
Accounts receivable from insurance intermediaries	8.5	11.2	8.6	7.0
Accounts receivable from reinsurance business	3.6	4.2	7.3	5.3

The annual default rates were as follows:

Default rates	31.12.2009	31.12.2008	31.12.2007	31.12.2006
%				
Accounts receivable from policyholders	1.8	4.2	2.1	3.9
Accounts receivable from insurance intermediaries	2.2	2.7	1.8	1.9
Accounts receivable from reinsurance business	0.2	0.1	0.3	0.1

The net gains/losses on financial instruments from insurance contracts were:

2009	Interest income	Interest expense	Value adjustment	Write-ups	Total
Figures in EUR million					
Funds held by ceding companies	447	—	1	3	449
Funds held under reinsurance treaties	—	207	—	—	–207
Reinsurance recoverables on technical provisions	—	—	10	33	23
Total	**447**	**207**	**11**	**36**	**265**

2008	Interest income	Interest expense	Value adjustment	Write-ups	Total
Figures in EUR million					
Funds held by ceding companies	330	—	4	1	327
Funds held under reinsurance treaties	—	171	—	—	–171
Reinsurance recoverables on technical provisions	—	—	20	—	–20
Total	**330**	**171**	**24**	**1**	**136**

Risks from investments

The risks from investments principally encompass the market risk (includes the foreign currency risk, the risk associated with changes in fair value due to interest rate movements, the cash flow risk due to interest rate movements and the market price risk), the default risk and the liquidity risk.

Management of risks from investments

The structure of the asset portfolios is regularly examined in order to review the strategic asset allocation. The breakdown for the Group (excluding funds held by ceding companies) as at 31 December 2009 was as follows:

Weighting of major asset classes	Parameter as per investment guidelines	Position as at 31.12.2009	Position as at 31.12.2008
%			
Bonds (direct holdings and investment funds)	At least 50	84	85
Listed equities (direct holdings and investment funds)	At most 25	3	2
Real estate (direct holdings and investment funds)	At most 5	2	2

In this regard it is evident that the bonds, equities and real estate are within the defined Group limits. 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 market risks, default risks and liquidity risks.

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 monitoring and managing market price risks. It defines the estimated maximum loss that will not be exceeded within a set holding period (e.g. 10 days) and a set probability (e.g. 95%). The VaR is established daily on the basis of historical data. Within the scope of these calculations the loss potentials of both the total portfolio and partial portfolios are monitored and limited. 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. This means that this estimated loss potential will be exceeded within 10 days with a probability of 5%.

The daily updated holdings are fed into the calculation as input data. The scope of the market data history used for risk analysis is 181 weeks. On this basis, 180 weekly changes are calculated for each relevant market parameter, such as equity prices, exchange rates and interest rates, and these are then used to establish the Value at Risk. Market observations of the recent past are weighted more heavily through the use of a decay factor in order to refine the sensitivity of the VaR model to current volatility changes and hence improve the forecast quality. The time series on the basis of which the risk parameters are calculated are updated weekly. In this context, the market parameters of the oldest week are removed and replaced by those of the current week. The risk model is recalibrated on the basis of the updated market data.

The risk model used is based on a multi-factor model. This multi-factor model is grounded on numerous representative time series, e.g. interest rates, exchange rates and stock indices. All risk-relevant factors can be determined from these time series using main component analysis. The correlations existing between the time series are incorporated into the weighting of the risk factors. In this way allowance is made in the risk assessment for cumulative and diversification effects. The individual elements of the portfolio are analyzed through regression towards these factors. The factor weightings thereby determined create a correlation between the movements in the factors derived from the movements in the representative time series and the movements in the securities. The risks associated with securities are arrived at through simulation of the factor developments. The risk associated with options is arrived at through a comprehensive simulation. Consideration is thus given to the non-linear correlations between option prices and the price movements of the underlying instruments.

Normal market scenarios are used to calculate the Value at Risk. In addition, stress tests are conducted in order to be able to map extreme scenarios. In this context, the loss potentials are simulated on the basis of already occurred or notional extreme events. Actual market developments may diverge from the model assumptions.

The VaR as at year-end 2009 (21 December 2009) amounted to EUR 900 (684) million, a figure equivalent to 1 (1)% of the assets under consideration.

The range of management tools is complemented by stress tests and scenario analyses. In the case of interest-rate-sensitive products and equities, we calculate a possible change in fair value using a historic "worst case" scenario on a daily basis, estimating the potential loss under extreme market conditions. With the aid of scenarios we simulate changes in equity prices, exchange rates and yields on the basis of historical data. Interest rate risks refer to an unfavorable change in the value of financial assets held in the portfolio due to changes in the market interest rate level. Declining market yields lead to increases and rising market yields to decreases in the fair value of fixed-income securities portfolios. Share price risks derive from unfavorable changes in the value of equities and equity or index derivatives due, for example, to downward movements on particular stock indices. We spread these risks through systematic diversification across various sectors and regions. Currency risks are of considerable importance to an internationally operating reinsurance enterprise that writes a significant proportion of its business in foreign currencies.

The following table shows scenarios for the development of investments held by the Group as at the balance sheet date. The amounts shown are gross amounts; in particular, the effects illustrated disregard taxes and the provision for premium refunds. Effects arising on the basis of the surplus participation of policyholders in Life Primary Insurance thus do not form part of the analysis. Making allowance for these effects, the repercussions indicated for the results and shareholders' equity would be considerably reduced.

Scenarios for changes in the fair value of assets held by the Group as at the balance sheet date

Portfolio	Scenario		Recognized in the statement of income 1)	Recognized directly in equity 1)	31.12.2009 Portfolio change based on fair value 2)	31.12.2008 Portfolio change based on fair value 2)
Figures in EUR million						
Equity securities3)	Share prices	+20%	–2	+349	+347	+123
	Share prices	+10%	–5	+175	+170	+60
	Share prices	–10%	+14	–180	–166	–56
	Share prices	–20%	+41	–361	–320	–107
Fixed-income securities	Yield increase	+200 basis points	–36	–1,677	–5,613	–5,491
	Yield increase	+100 basis points	–20	–868	–2,977	–2,950
	Yield decrease	–100 basis points	+9	+915	+2,966	+2,875
	Yield decrease	–200 basis points	+19	+1,888	+6,202	+6,071
Exchange-rate-sensitive investments	Change in exchange rates 4)	+10%	–1,432	–61	–1,493	–1,331
	thereof USD		–875	–36	–911	–858
	thereof GBP		–163	–1	–164	–131
	thereof AUD		–108	—	–108	–80
	thereof other		–286	–24	–310	–262
	Change in exchange rates 4)	–10%	+1,432	+61	+1,493	+1,331
	thereof USD		+875	+36	+911	+858
	thereof GBP		+163	+1	+164	+131
	thereof AUD		+108	—	+108	+80
	thereof other		+286	+24	+310	+262

1) *Amounts shown are gross (before taxes and surplus participation)*
2) *Including financial assets belonging to the categories "loans and receivables" and "held to maturity"*
3) *Including derivative holdings*
4) *Exchange-rate fluctuations of +/- 10% against the euro based on balance sheet values*

The breakdown of our investments by currency was as follows:

Currency	31.12.2009	31.12.2008
%		
EUR	78	79
USD	13	14
GBP	2	2
AUD	2	1
Other	5	4
Total	**100**	**100**

We use short-call and long-put options as well as swaps to partially hedge portfolios, especially against price, exchange and interest rate risks. In the year under review we also used derivative financial instruments to optimize our portfolio in light of risk/return considerations. The contracts are concluded solely with first-class counterparties and compliance with the standards defined in the investment guidelines is strictly controlled in order to avoid risks – especially credit risks – associated with the use of such transactions. By systematically adhering to the principle of matching currency coverage, we are also able to significantly reduce the foreign currency risk within the Group.

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. We pay close attention to the good credit status of counterparties and debtors in order to avoid default risks. 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:

31.12.2009	Measured at cost or amortized cost	Measured at fair value	Total
Figures in EUR million			
Investments in affiliated companies and participating interests	61	—	61
Loans and receivables	31,548	—	31,548
Financial assets held to maturity	2,858	—	2,858
Financial assets available for sale	—	26,002	26,002
Financial assets at fair value through profit or loss	—	919	919
Financial assets – trading	—	180	180
Other invested assets, insofar as they are financial assets	119	4,489	4,608

31.12.2008	Measured at cost or amortized cost	Measured at fair value	Total
Figures in EUR million			
Investments in affiliated companies and participating interests	66	—	66
Loans and receivables	30,123	—	30,123
Financial assets held to maturity	1,378	—	1,378
Financial assets available for sale	—	24,865	24,865
Financial assets at fair value through profit or loss	—	793	793
Financial assets – trading	—	423	423
Other invested assets, insofar as they are financial assets	120	3,737	3,857

Investments are serviced regularly by the debtors. Collateral exists above all with respect to mortgage bonds and asset-backed securities as well as mortgage loans secured by a charge over property.

With the exception of the mortgage loans, the portfolio did not contain any overdue, unadjusted assets as at the balance sheet date since overdue securities are written down immediately. The mortgage loans show arrears totaling EUR 22 (18) million. Since these receivables are adequately secured by charges over property, no value adjustment was taken. Under the contractual provisions, realization is possible only in the event of a failure to properly perform. The reader is referred to Note 29, page 211, with regard to the impaired assets.

The fixed-income investments and loans (excluding other invested assets) are divided into the following debtor groups and corresponding ratings:

31.12.2009	Measured at cost or amortized cost	Measured at fair value	Total
Figures in EUR million			
EU member states	1,193	3,866	5,059
Foreign governments	368	2,763	3,131
Semi-governmental entities[1)]	9,338	5,423	14,761
Corporations	8,351	7,862	16,213
Mortgage bonds/asset-backed securities	13,156	4,129	17,285
Mortgage loans	1,383	—	1,383
Investment fund units	—	745	745
Total	619	336	955

[1)] *In the year under review this includes securities in amounts of EUR 2,674 million (measured at cost or amortized cost) and EUR 3,850 million (measured at fair value) which are guaranteed by the Federal Republic of Germany, other EU states or German federal states.*

31.12.2008	Measured at cost or amortized cost	Measured at fair value	Total
Figures in EUR million			
EU member states	606	3,865	4,471
Foreign governments	359	2,550	2,909
Semi-governmental entities[1]	8,922	4,875	13,797
Corporations	8,360	6,675	15,035
Mortgage bonds/asset-backed securities	10,937	5,358	16,295
Mortgage loans	1,607	—	1,607
Investment fund units	—	690	690
Total	709	323	1,032

[1] *In the year under review this includes securities in amounts of EUR 1,943 million (measured at cost or amortized cost) and EUR 2,815 million (measured at fair value) which are guaranteed by the Federal Republic of Germany, other EU states or German federal states.*

More than 87 (88)% of the mortgage bonds/asset-backed securities were German covered bonds (Pfandbriefe) as at the balance sheet date.

The ratings of the fixed-income investments (excluding other invested assets, policy loans and mortgage loans) were as follows:

Rating	Government bonds		Securities issued by semi-governmental entities[1]		Corporate bonds		Mortgage bonds/ asset-backed securities		Other	
	%	EUR million	%	EUR million	%	EUR million	%	EUR million	%	EUR million
AAA	76	6,239	33	4,881	3	461	80	13,891	22	332
AA	7	545	60	8,852	26	4,180	17	2,976	12	178
A	11	868	6	897	51	8,366	1	159	15	217
BBB	6	525	1	110	18	2,957	1	92	35	527
<BBB	—	13	—	13	1	171	1	155	16	244
None	—	—	—	8	1	78	—	12	—	1
Total	**100**	**8,190**	**100**	**14,761**	**100**	**16,213**	**100**	**17,285**	**100**	**1,499**

[1] *The securities issued by semi-governmental entities include securities in an amount of EUR 6,525 (4,758) which are guaranteed by the Federal Republic of Germany, other EU states or German federal states.*

At the end of the reporting period the issuers of 98 (99)% of our investments in fixed-income securities had an investment grade rating (AAA to BBB), while 92 (94)% were rated A or better. Borrower's note loans and registered debentures are assigned an internal rating upon acquisition that is derived where possible from the issuer's rating.

Loans secured by a charge over property with a total volume of EUR 1,383 (1,607) million were granted to private individuals who do not have a rating. Policy loans, other assets-side financial instruments and equity papers are also unrated.

The other financial instruments on the assets side encompass primarily receivables not connected with investments or the insurance business. They have predominantly short-term maturities. Since the portfolio of accounts receivable is comprised of a relatively large number of debtors, we consider the default risk on these financial instruments to be slight.

Management of concentration risks

A broad mix and spread of individual asset classes is observed in order to minimize the portfolio risk. The concentration risk is limited by the investment guidelines and constantly monitored; overall, it is comparatively slight, even though bank mergers – in particular – result in appreciable increases in concentrations. What is more, the extent to which investments may be made in more heavily risk-exposed assets is restricted.

Management of liquidity risks

The liquidity risk refers to the risk of being unable to convert investments and other assets into cash in order to meet our financial obligations when they become due. Due to illiquidity of the markets, it may not be possible to sell holdings (or to do so only after delays) or to close open positions (or to do so only with price markdowns). We counter the liquidity risk through regular liquidity planning and by matching the durations of investments with financial obligations. A liquid asset structure ensures that at all times the Group is in a position to make the necessary payments. With regard to payment obligations in connection with underwriting business, we are guided inter alia by the expected maturities that reflect the run-off patterns of the reserves.

In order to monitor liquidity risks each category 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 in Risk Controlling and the codes are modified as appropriate. The data is then included in the standardized portfolio reporting to the Chief Financial Officers. Defined minimum and maximum limits for liquidity are observed. Oversteps of risk limits are brought to the attention of the Chief Financial Officers and Portfolio Management without delay.

For a presentation of the investments and the gross provisions as well as the reinsurers' shares thereof (broken down by their expected or contractual maturities), please see the notes on the corresponding balance sheet items.

The following tables show the cash flows of the major net technical provisions (benefit reserve, loss and loss adjustment expense reserve) and the financial liabilities which are relevant to the management of liquidity risks. The technical provisions are broken down into the expected maturities, the liabilities into the contractual maturities:

2009	Carrying amount	3 months to 1 year	1 through 5 years	5 through 10 years	10 through 20 years	More than 20 years	No maturity
Figures in EUR million							
Technical provisions[1]	73,499	11,134	18,599	12,210	11,893	6,932	6,242
Financial liabilities							
Subordinated liabilities	2,003	—	—	638	746	138	481
Notes payable and loans	675	2	673	—	—	—	—
Other liabilities[2]	4,561	54	386	6	2	2	304
thereof: liabilities from derivatives, excluding hedging instruments[3]	30	3	16	6	—	—	5
thereof: negative fair values from hedging instruments[3]	42	8	34	—	—	—	—
Total	80,738	11,190	19,658	12,854	12,641	7,072	7,027

2008	Carrying amount	3 months to 1 year	1 through 5 years	5 through 10 years	10 through 20 years	More than 20 years	No maturity
Figures in EUR million							
Technical provisions[1]	69,612	8,360	15,719	10,343	10,418	8,158	4,141
Financial liabilities							
Subordinated liabilities	2,074	—	—	697	746	152	479
Notes payable and loans	602	15	579	8	—	—	—
Other liabilities[2]	4,901	890	59	1	—	—	93
thereof: liabilities from derivatives, excluding hedging instruments[3]	127	28	5	1	—	—	93
thereof: negative fair values from hedging instruments[3]	35	9	26	—	—	—	—
Total	**77,189**	**9,265**	**16,357**	**11,049**	**11,164**	**8,310**	**4,713**

[1] *Under the technical provisions only the benefit reserves and loss reserves are split according to maturities. The provision for premium refunds encompasses the claims of policyholders under commercial law, to the extent that they have not already been finally allocated and paid to individual policyholders. Essentially, therefore, unambiguous allocation to the individual insurance contracts and maturities is not possible. The unearned premium reserve consists of the portion of gross written premium allocable to subsequent financial year(s) as income for a particular period after the balance sheet date. The unearned premium reserve does not involve future liquidity-affecting cash flows*

[2] *Under the other liabilities the liabilities to policyholders and intermediaries as well as the reinsurance payable are not broken down by maturities, since these liabilities are directly connected with insurance contracts and hence cannot be considered in isolation from them*

[3] *The undiscounted cash flows with respect to such derivatives are not presented for reasons of materiality. Instead, the fair values of the derivative financial instruments are stated*

The funds held under reinsurance treaties represent collateral withheld for technical provisions ceded to reinsurers and retrocessionaires and to this extent do not trigger any cash flows. The changes in funds held under reinsurance treaties are normally determined by changes in the corresponding ceded technical provisions. Such funds held under reinsurance treaties therefore have no contractually fixed maturity; they are liquidated in step with the run-off of the corresponding provisions.

Within the Group financial assets in an amount of EUR 8.4 million were furnished in the year under review as collateral for liabilities or contingent liabilities. The collateral is held principally in light of regulatory requirements.

In addition to the assets made available to cover provisions and liabilities, the Group has at its disposal the following lines of credit that can be drawn upon as required:

The Talanx Group has concluded a firm agreement with a broad consortium of banks regarding an available floating-rate line of credit that may be drawn upon as necessary. At the end of 2008 we had used two tranches amounting to altogether EUR 800 million. A tranche of EUR 250 million was paid back in April 2009. The nominal amount of the line of credit was EUR 1.5 billion as at the balance sheet date.

In order to protect against possible future major losses Hannover Re had taken out a credit line of EUR 500 million in 2004 in the form of an unsecured syndicated loan. The facility had a term of five years and ended in August 2009. It was not used during the term.

In addition, facilities exist with various financial institutions for letters of credit, including two unsecured syndicated guarantee facilities from 2005 and 2006 – each in an equivalent amount of EUR 1.4 billion. Half of the first of these lines matures in January 2010 and the other half in January 2012, while the second line matures in January 2013.

Letter of credit facilities with various terms and a total volume equivalent to EUR 1.1 billion also exist on a bilateral basis with financial institutions. For further information on the furnished letters of credit please see our remarks in the subsection “Contingent liabilities and other financial commitments”.

A long-term unsecured line of credit with a total volume equivalent to at most EUR 523 million was concluded in December 2009. It is intended specifically for US life business.

A number of LOC facilities include standard market clauses that allow the banks rights of cancellation in the event of material changes in the shareholding structure of Hannover Re or trigger a requirement on the part of Hannover Re to furnish collateral upon materialization of major events, for example if its rating is significantly downgraded.

Fair value hierarchy

For the purposes of the disclosure requirements pursuant to IFRS 7.27 B, the financial instruments to be recognized at fair value in the balance sheet are to be assigned to a three-level fair value hierarchy. The purpose of the new standard, inter alia, is to set out the market proximity of the data included in the determination of fair values. The following classes of financial instruments are affected: available-for-sale securities, financial assets at fair value through profit or loss, financial assets held for trading, other financial assets – insofar as they are recognized at fair value – as well as negative fair values from derivative financial instruments (included in the balance sheet item "Other liabilities"). Disclosure of comparative information is not required in the year of initial application, and was therefore not provided.

Breakdown of financial assets measured at fair value

The financial assets recognized at fair value were allocated as follows as at the balance sheet date in accordance with the three levels of the fair value hierarchy:

- Level 1: Quoted prices (unadjusted) in active markets for identical assets and liabilities. This includes first and foremost listed equities, futures and options, investment funds and highly liquid bonds traded on regulated markets. As at the balance sheet date the proportion of financial instruments in the total portfolio of financial assets measured at fair value allocated to level 1 was 50%.
- Level 2: Inputs used for measurement that are based on observable market data and are not included in level 1. This level includes, for example, assets measured on the basis of interest rate curves, such as borrower's note loans and registered debentures. Market prices of bonds of limited liquidity, such as corporate bonds or covered bonds, are also allocated to level 2. Altogether, 46% of the financial instruments recognized at fair value were allocated to this level.
- Level 3: Inputs used for measurement that are not based on observable market data (unobservable inputs). This level includes primarily unlisted equity securities. As at the balance sheet date the Group allocated 4% of the financial assets recognized at fair value to this category.

The following table shows the carrying amounts of the financial assets recognized at fair value broken down according to the three levels of the fair value hierarchy.

Carrying amounts of financial instruments recognized at fair value	**Level 1**	**Level 2**	**Level 3 [1)]**	**Balance at 31.12. of the financial year**
Figures in EUR million				
Assets measured at fair value				
Financial assets available for sale	12,132	13,648	222	26,002
Financial assets at fair value through profit or loss	188	699	32	919
Financial assets – trading	150	30	—	180
Other invested assets, insofar as they are financial assets	3,237	75	1,177	4,489
Total amount of financial assets measured at fair value	**15,707**	**14,452**	**1,431**	**31,590**
Financial liabilities measured at fair value				
Other liabilities (negative fair values from derivative financial instruments)	2	70	—	72
Total amount of financial liabilities measured at fair value	**2**	**70**	**—**	**72**

[1)] *Categorization in level 3 has no quality implications; no conclusions may be drawn as to the quality of the issuers.*

Measurement principles

The fair values of financial assets are determined on the basis of current, publically quoted, unadjusted market prices. In the case of securities for which no current market price is available, a valuation price is normally determined using models of financial mathematics on the basis of current and observable market data. Such models are used principally for the measurement of unlisted securities.

Valuation models

Valuation models are used within the Group to establish the fair value of financial assets if listed prices on active markets are not available.

Financial instrument	Pricing method	Parameter	Pricing model
Fixed-income securities			
Unlisted plain vanilla bonds	Theoretical price	Interest rate curve	Present-value method
Unlisted structured bonds	Theoretical price	Interest rate curve, volatility surfaces	Hull-White, Black-Karasinski, LIBOR market model etc.
Unlisted bond funds	Theoretical price	Audited Net Asset Values (NAV)	Net Asset Value method
ABS/MBS for which no market prices are available	Theoretical price	Prepayment speed, incurred losses, default probabilities, recovery rates	Future cash flow method, liquidation method
CDOs/CLOs, profit participation certificates	Theoretical price	Risk premiums, default rates, recovery rates, redemptions	Present-value method
Equities			
Unlisted equities	Theoretical price	Acquisition cost, cash flows, EBIT multiples, as applicable book value	Net Asset Value method
Other invested assets			
Private equity	Theoretical price	Acquisition cost, cash flows, EBIT multiples, market prices	Net Asset Value method
Derivative financial instruments			
Plain vanilla interest rate swaps	Theoretical price	Interest rate curve	Present-value method
Currency forwards	Theoretical price	Interest-rate curves, spot and forward rates	Interest parity model
OTC stock options, OTC stock index options	Theoretical price	Listing of the underlying share, implicit volatilities, money-market interest rate, dividend yield	Black-Scholes
Insurance derivatives	Theoretical price	Market values of the cat. bonds, interest rate curve	Present-value method

The value determined on the basis of valuation models at time of acquisition can, however, diverge from the actual cost of acquisition. The resulting measurement difference constitutes a theoretical “day-one profit/loss”. As at the balance sheet date this produced only an insignificant loss.

Analysis of financial assets for which significant inputs are not based on observable market data (level 3)

The following table provides a reconciliation of the financial assets included in level 3 at the beginning of the reporting period with the values as at 31 December of the financial year.

Development of financial assets recognized at fair value in level 3	Financial assets available for sale	Financial assets at fair value through profit or loss	Other invested assets (measured at fair value)	Total amount of financial assets
Figures in EUR million				
Balance at 01.12.2009	**204**	**41**	**1,219**	**1,464**
Income and expenses				
recognized in the statement of income	–7	4	–105	–108
recognized directly in equity	41	—	–26	15
Transfers to level 3	—	—	—	—
Transfers from level 3	—	—	—	—
Additions	15	—	128	143
Disposals	31	13	32	76
Currency exchange rate differences	—	—	–7	–7
Balance at 31.12.2009	**222**	**32**	**1,177**	**1,431**

The income and expenses for the period recognized in the consolidated statement of income including the gains and losses on assets and liabilities held in the portfolio at the end of the reporting period that were included in level 3 are shown in the following table:

Presentation of effects on profit or loss of the financial assets recognized at fair value in level 3	Financial assets available for sale	Financial assets at fair value through profit or loss	Other invested assets (measured at fair value)	Total amount of financial assets
Figures in EUR million				
Gains and losses in the 2009 financial year				
Income from investments	4	6	11	21
Expenses for investments	–12	–2	–115	–129
Thereof attributable to financial assets included in the portfolio at 31.12.2009				
Income from investments	4	6	11	21
Expenses for investments	–8	–2	–110	–120

If models are used to measure financial assets included in level 3 under which the adoption of reasonable alternative inputs leads to a material change in fair value, IFRS 7.27 B (e) requires disclosure of the effects of these alternative assumptions. Of the financial assets included in level 3 with fair values of altogether EUR 1.4 billion as at the balance sheet date, the Group measures financial assets with a volume of EUR 1.3 billion using the Net Asset Value method, in respect of which alternative inputs within the meaning of the standard cannot reasonably be established. For the remaining financial assets included in level 3 with a volume of EUR 101 million, the effects of alternative inputs and assumptions are immaterial.

Notes on the consolidated balance sheet – assets

(1) Goodwill

Figures in EUR million	2009	2008
Gross book value at 31.12. of the previous year	**677**	**689**
Currency translation at 01.01. of the year under review	20	–22
Gross book value after currency translation at 01.01. of the year under review	697	667
Change in consolidated group	15	1
Additions	28	12
Disposals	—	—
Currency exchange rate differences	1	–3
Gross book value at 31.12. of the year under review	**741**	**677**
Accumulated depreciation and accumulated impairment losses at 31.12. of the previous year	56	52
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	56	52
Impairments	92	4
Accumulated deprecation and accumulated impairment losses at 31.12. of the year under review	**148**	**56**
Balance at 31.12. of the previous year	621	637
Balance at 31.12. of the year under review	**593**	**621**

The recognized goodwill derived mainly from the acquisition of HDI Seguros de Automóveis e Bens S.A. in 2005, the purchase of the former Gerling Group by Talanx AG in 2006, the increase of the interests held by the Group in PB Versicherungen to 100% in 2007 and the purchase of 100% stakes in BHW Lebensversicherung AG and BHW Pensionskasse AG (both also 2007).

The decrease in goodwill was attributable to impairments taken in the year under review (EUR 92 million) arising chiefly in connection with impairment tests. With regard to the assumptions used in the impairment test, the reader is referred to the remarks in the following subsection "Impairment test". An amount of EUR 1 million derived from write-downs relating to the subsequent capitalization of income tax loss carry-forwards from the acquisition of the Gerling Group (Property/Casualty Primary Insurance segment). This amount written off is opposed by income in the same amount from the recognition of deferred tax assets.

Of the total additions of EUR 43 million, an amount of EUR 28 million concerns payment of a subsequent purchase price for expansion of a sales agreement in the Life Primary Insurance segment (EUR 28 million) and an amount of EUR 15 million relates to the acquisition of HDI Seguros, S.A. de C.V., Mexico, in the Property/Casualty Primary Insurance segment (change in the consolidated group; see here our remarks in the subsection "Business combinations in the reporting period").

The goodwill is divided as follows between the reporting segments:

Figures in EUR million	Property/ Casualty Primary Insurance	Life Primary Insurance	Non-Life Reinsurance	Corporate Operations	Total
Balance at 31.12.2007	**212**	**415**	**7**	**3**	**637**
Currency translation at 01.01.2008	–22	—	—	—	–22
Balance after currency translation at 01.01.2008	190	415	7	3	615
Change in consolidated group	—	1	—	—	1
Additions	12	—	—	—	12
Impairments	4	—	—	—	4
Currency exchange rate differences	–3	—	—	—	–3
Balance at 31.12.2008	**195**	**416**	**7**	**3**	**621**
Currency translation at 01.01.2009	20	—	—	—	20
Balance after currency translation at 01.01.2009	215	416	7	3	641
Change in consolidated group	15	—	—	—	15
Additions	—	28	—	—	28
Impairments	43	46	—	3	92
Currency exchange rate differences	1	—	—	—	1
Balance at 31.12.2009	**188**	**398**	**7**	**—**	**593**

Impairment test

Goodwill is allocated to cash-generating units (CGUs) pursuant to IFRS 3 in conjunction with IAS 36. In order to establish whether an impairment expense needs to be recognized, the carrying value of the CGU including its allocated goodwill is compared with its recoverable amount.

The Property/Casualty Primary Insurance segment was allocated goodwill of EUR 188 million as at the balance sheet date; this derives pro rata from the Gerling acquisition in 2006 and the acquisition of interests in several foreign insurance companies. The recoverable amount of the segment, which constitutes the CGU, is determined on the basis of the value in use 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. In the detailed planning phase, which spans five years, each individual reporting year is planned. The assumptions used in the planning are arrived at on the basis of past experience and external information regarding the development of the markets. Special effects, where applicable, are eliminated from the planning. In the calculation the fifth planning period assumes the function of a result that is presumed to be sustainably recoverable; from the sixth year of planning onwards this is presumed to be constant.

The value in use is arrived at by discounting the planned future cash flows using a weighted capitalization rate that makes pro rata allowance for the companies in this segment. The capitalization rate is determined using the Capital Asset Pricing Model (CAPM). Starting out from a risk-free basic interest rate, it reflects the country risk and enterprise-specific risks by means of appropriate loadings. Consideration is given to both the home country of the subsidiaries and the prevailing interest rate level in that country as well as any currency risks. The capitalization rates applied to the companies in the segment are in a range of 8.50% to 15.00% before taxes, corresponding to interest rates of 12.40 to 18.30% after taxes. The weighted capitalization rate of the segment amounts to 12.85% before taxes. In the year under review an impairment expense of EUR 42 million was identified and recognized in income.

The Life Primary Insurance segment is divided into two 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. This CGU was allocated goodwill of EUR 45 million at the beginning of the reporting period, which arose through the acquisition of the Gerling Group.
- the bancassurance group, composed of the PB, PBV and TARGO insurers as well as the Neue Leben Group. This CGU was allocated goodwill of altogether EUR 398 million as at the balance sheet date, deriving inter alia from the acquisition of the former BHW Lebensversicherung AG (now PB Lebensversicherung AG) in 2007.

The CGUs in the Life Primary Insurance segment are tested for impairment using a step-by step method. The European Embedded Value (EEV) 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. 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 EEVs. The use of the multiplier makes it possible to incorporate into the calculation current empirical values that have been confirmed by the market – empirical values that reflect the relationship between the embedded value and the fair value (market price) of a comparable group of life insurance enterprises.

In the context of the impairment test, the goodwill allocated to the CGU "HDI-Gerling Leben Serviceholding AG group" was entirely written off in 2009. Further impairments of EUR 1 million were attributable to the CGU "bancassurance group".

For the reinsurance segments of Non-Life Reinsurance and Life/Health Reinsurance, which together correspond largely 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 CGU) may be used. Each of these two segments constitutes a separate CGU; goodwill of EUR 7 million is allocated to the Non-Life Reinsurance segment. No impairment expense needed to be recognized as at the balance sheet date.

Further impairments in an amount of EUR 3 million relating to AmpegaGerling Investment GmbH were attributable to the Corporate Operations segment.

(2) Other intangible assets

	Insurance-related intangible assets	Software		Other	2009	2008
		Purchased	Created			
Figures in EUR million						
Gross book value at 31.12. of the previous year	**2,729**	**300**	**93**	**40**	**3,162**	**3,139**
Currency translation at 01.01. of the year under review	—	—	—	—	—	—
Gross book value after currency translation at 01.01. of the year under review	2,729	300	93	40	3,162	3,139
Change in consolidated group	1	2	1	—	4	–3
Additions	104	58	19	12	193	121
Disposals	50	5	4	9	68	90
Reclassification	—	2	—	–2	—	–1
Other changes	—	—	1	—	1	
Currency exchange rate differences	–2	—	—	2	—	–4
Gross book value at 31.12. of the year under review	**2,782**	**357**	**110**	**43**	**3,292**	**3,162**
Accumulated depreciation and accumulated impairment losses at 31.12. of the previous year	590	200	41	14	845	633
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	590	200	41	14	845	633
Change in consolidated group	—	1	—	—	1	–3
Additions	—	3	—	—	3	22
Disposals	31	—	2	—	33	3
Depreciation/amortization						
Scheduled	173	53	17	2	245	168
Unscheduled	74	3	1	—	78	30
Reclassification	—	1	—	1	2	—
Other changes	—	1	—	—	1	—
Currency exchange rate differences	—	–1	—	–1	–2	–2
Accumulated depreciation and accumulated impairment losses at 31.12. of the year under review	**806**	**261**	**57**	**16**	**1,140**	**845**
Balance at 31.12. of the previous year	2,139	100	52	26	2,317	2,505
Balance at 31.12. of the year under review	**1,976**	**96**	**53**	**27**	**2,152**	**2,317**

The “insurance-related intangible assets” derived principally from the insurance portfolios of the former Gerling Group acquired in 2006 (carrying value 2009: EUR 1.3 billion) and the portfolios of BHW Lebensversicherung AG (carrying value 2009: EUR 309 million) and PB Lebensversicherung AG (carrying value 2009: EUR 66 million) purchased in 2007 as well as from Neue Leben Lebensversicherung AG (carrying value 2009: EUR 145 million).

The addition of EUR 104 million recognized in the gross book value of the year under review relates to the present value of future profits (PVFP) carried in connection with the acquisition of the ING life reinsurance portfolio. The period of amortization is 30 years. The acquisition of HDI Seguros, S.A. de C.V., gave rise to an insurance-related intangible asset of EUR 1 million. For further details please see our remarks in the section "Business combinations in the reporting period" as well as the subsection "Summary of major accounting policies".

Particularly due to impairments and amortization, the insurance-related intangible assets decreased by EUR 163 million in the reporting period to EUR 1,976 million. Insofar as PVFPs are involved in the case of life insurance enterprises, these are capitalized and amortized across the period of the contracts. The PVFP shown for gross account is composed of a shareholders' portion – on which deferred taxes are established – and a policyholders' portion.

The PVFP shows the profit shares of future years contained in an acquired insurance portfolio which are components of the purchase price of the portfolio in question and accrue exclusively to the shareholder (before taxes). Only the amortization of the shareholders' portion results in a charge to future earnings. The PVFP in favor of policyholders is recognized by life insurance companies that oblige their policyholders to participate in all results. It is capitalized in order to spread the charge to Group shareholders' equity from establishment of provisions for premium refunds under IFRS upon acquisition of an insurance portfolio equally across future periods in step with the amortization.

The breakdown of the PVFPs for the life insurance companies is shown in the table below:

PVFPs for life insurance companies	31.12.2009	31.12.2008
Figures in EUR million		
Shareholders' portion	858	944
Policyholders' portion [1]	1,016	1,093
Balance	**1,874**	**2,037**

[1] *A provision for deferred premium refunds is established for the policyholders' portion.*

Of the impairments/amortization on insurance-related intangible assets totaling EUR 247 million, an amount of EUR 75 million was attributable to the shareholders' portion and EUR 70 million to the policyholders' portion in the Life Primary Insurance segment. The shareholders' portion is recognized together with the amortization on acquired insurance portfolios in the Group segment of Property/Casualty Primary Insurance (EUR 99 million, thereof impairments of EUR 74 million) as well as the amortization in the Life/Health Reinsurance segment (EUR 3 million) in the statement of income under the item "Amortization of insurance-related intangible assets and goodwill impairments".

(3) Investment property

	2009	2008
Figures in EUR million		
Gross book value at 31.12. of the previous year	**898**	**927**
Currency translation at 01.01. of the year under review	–	–
Gross book value after currency translation at 01.01. of the year under review	898	927
Additions	164	43
Disposals	23	26
Disposal groups pursuant to IFRS 5	34	–35
Reclassification	1	–11
Other changes	–8	–
Currency exchange rate differences	–4	–
Gross book value at 31.12. of the year under review	**1,062**	**898**
Accumulated depreciation and accumulated impairment losses at 31.12. of the previous year	314	311
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	314	311
Disposals	3	–
Depreciation		
Scheduled	9	8
Unscheduled	8	3
Disposal groups pursuant to IFRS 5	5	–8
Reclassification	3	–
Accumulated depreciation and accumulated impairment losses at 31.12. of the year under review	**336**	**314**
Balance at 31.12. of the previous year	584	616
Balance at 31.12. of the year under review	**726**	**584**

The additions relate principally to the Life/Health Reinsurance segment (EUR 148 million) and are attributable to the sharply increased investment activities of Hannover Re Real Estate Holding, Inc. A further EUR 14 million was due to the Property/Casualty Primary Insurance segment.

The changes in the area of disposal groups pursuant to IFRS 5 relate to investment property classified as "held for sale" (cf. here our remarks in the subsection "Disposal groups" on page 144).

The fair value of investment property amounted to EUR 790 (622) million as at the balance sheet date. The fair values were determined largely internally within the Group using discounted cash flow methods and in individual cases on the basis of external expert opinions.

Of the total investment property, EUR 415 (428) million was allocated to special cover funds.

(4) Investments in affiliated companies and participating interests

Figures in EUR million	2009	2008
Affiliated companies	13	12
Participating interests	48	54
Balance at 31.12. of the year under review	**61**	**66**

(5) Investments in associated companies

Figures in EUR million	2009	2008
Balance at 31.12. of the previous year	**135**	**178**
Change in consolidated group	—	—
Additions	4	—
Disposals	—	33
Adjustment recognized in income	–6	–7
Adjustment recognized outside income	—	–3
Currency exchange rate differences	1	—
Balance at 31.12. of the year under review	**134**	**135**

The goodwill of all associated companies valued at equity amounted to EUR 20 (20) million as at year-end. Of the associated companies, only Apulia Prontoprestito S.p.A., Rome, is publically listed. The market price of our interest was EUR 11 million as at the balance sheet date.

For further information on our associated companies please see the section "Consolidation", page 131.

(6) Loans and receivables

	Cost or amortized cost		Unrealized gains/losses		Fair value	
	31.12.2009	**31.12.2008**	**31.12.2009**	**31.12.2008**	**31.12.2009**	**31.12.2008**
Figures in EUR million						
Mortgage loans	1,383	1,607	3	–19	1,386	1,588
Loans and prepayments on insurance policies	201	211	—	—	201	211
Loans and receivables due from governmental or semi-governmental entities[1)]	9,454	8,995	262	245	9,716	9,240
Corporate securities	7,930	8,119	104	147	8,034	8,266
Mortgage bonds, asset-backed securities	12,163	10,693	312	401	12,475	11,094
Participation rights	417	498	–14	–19	403	479
Total	**31,548**	**30,123**	**667**	**755**	**32,215**	**30,878**

[1)] *The loans and receivables due from governmental or semi-governmental entities include securities of EUR 2,310 (1,751) million which are guaranteed by the Federal Republic of Germany, other EU states or German federal states.*

The item "Mortgage bonds, asset-backed securities" includes German covered bonds (Pfandbriefe) with a carrying amount of EUR 11,869 (10,451) million (98%).

Changes	**2009**	**2008**
Figures in EUR million		
Balance at 31.12. of the previous year	**30,123**	**29,243**
Adjusted on the basis of IAS 8	36	—
Change in consolidated group	—	—
Additions	3,922	2,508
Disposals	2,575	1,738
Amortization	64	59
Value adjustments	31	—
Write-ups	—	17
Changes in accrued interest	19	—
Other changes	3	24
Currency exchange rate differences	–13	10
Balance at 31.12. of the year under review	**31,548**	**30,123**

Contractual maturity	Cost or amortized cost 31.12.2009	Cost or amortized cost 31.12.2008	Fair value 31.12.2009	Fair value 31.12.2008
Figures in EUR million				
Due in one year	2,049	2,147	2,063	2,146
Due after one through two years	1,146	1,770	1,181	1,792
Due after two through three years	1,352	1,163	1,415	1,188
Due after three through four years	1,501	1,319	1,557	1,364
Due after four through five years	2,740	1,404	2,805	1,441
Due after five through ten years	11,344	12,146	11,666	12,333
Due after ten years	11,416	10,174	11,528	10,614
Total	**31,548**	**30,123**	**32,215**	**30,878**

Rating structure of loans and receivables	Cost or amortized cost 31.12.2009	Cost or amortized cost 31.12.2008
Figures in EUR million		
AAA	12,297	8,982
AA	11,513	12,022
A	4,699	6,604
BBB or lower	3,039	2,515
Total	**31,548**	**30,123**

The rating categories are based on the classifications of leading international rating agencies.

The rating category of BBB or lower includes unrated loans and receivables of EUR 1.5 billion. They consist principally of mortgage loans and policy loans.

(7) Financial assets held to maturity

	Cost or amortized cost		Unrealized gains/losses		Fair value	
	31.12.2009	31.12.2008	31.12.2009	31.12.2008	31.12.2009	31.12.2008
Figures in EUR million						
Government debt securities of EU member states	378	92	—	4	378	96
US Treasury Notes	355	345	35	64	390	409
Other foreign government debt securities	14	14	1	1	15	15
Debt securities issued by semi-governmental entities[1)]	698	441	28	21	726	462
Corporate securities	421	241	21	–13	442	228
Mortgage bonds, asset-backed securities	992	245	46	—	1,038	245
Total	**2,858**	**1,378**	**131**	**77**	**2,989**	**1,455**

[1)] *The debt securities issued by semi-governmental entities include securities of EUR 364 (192) million which are guaranteed by the Federal Republic of Germany, other EU states or German federal states*

The item "Mortgage bonds, asset-backed securities" includes German covered bonds (Pfandbriefe) with a carrying amount of EUR 360 (121) million.

Changes	**2009**	**2008**
Figures in EUR million		
Balance at 31.12. of the previous year	**1,378**	**1,477**
Change in consolidated group	4	2
Additions	62	9
Disposals	68	124
Amortization	5	6
Value adjustments	1	—
Changes in accrued interest	30	–7
Other changes[1)]	1,480	–4
Currency exchange rate differences	–32	19
Balance at 31.12. of the year under review	**2,858**	**1,378**

[1)] *The other changes include reclassifications in the year under review from the category of "Financial assets available for sale" to the category of "Financial assets held to maturity"*

In accordance with IAS 39.9 the Group reclassified fixed-income securities with fair values of altogether EUR 1.5 billion from the category "financial assets available for sale" to the category "financial assets held to maturity". The securities gave rise to cumulative unrealized losses of EUR 10 million, which as a consequence of reclassification are amortized in the statement of income across the maturities of the instruments. These securities are permanently available to the relevant Group companies in light of cash flow projections. The ability to hold them to maturity enables the Group companies to reduce balance sheet volatility.

Contractual maturity	Cost or amortized cost 31.12.2009	Cost or amortized cost 31.12.2008	Fair value 31.12.2009	Fair value 31.12.2008
Figures in EUR million				
Due in one year	108	12	119	10
Due after one through two years	281	31	291	31
Due after two through three years	470	198	492	207
Due after three through four years	367	262	383	274
Due after four through five years	300	144	318	146
Due after five through ten years	1,287	695	1,344	750
Due after ten years	45	36	42	37
Total	**2,858**	**1,378**	**2,989**	**1,455**

Rating structure of financial assets held to maturity	Cost or amortized cost 31.12.2009	Cost or amortized cost 31.12.2008
Figures in EUR million		
AAA	1,776	726
AA	582	345
A	368	230
BBB or lower	132	77
Total	**2,858**	**1,378**

The rating categories are based on the classifications of leading international rating agencies.

The rating category of BBB or lower includes unrated fixed-income securities of EUR 8 million.

(8) Financial assets available for sale

	Cost or amortized cost		Unrealized gains/losses		Fair value	
	31.12.2009	**31.12.2008**	**31.12.2009**	**31.12.2008**	**31.12.2009**	**31.12.2008**
Figures in EUR million						
Fixed-income securities						
Government debt securities of EU member states	3,771	3,772	68	84	3,839	3,856
US Treasury Notes	2,020	1,856	15	137	2,035	1,993
Other foreign government debt securities	612	512	3	21	615	533
Debt securities issued by semi-governmental entities[1)]	5,214	4,621	111	158	5,325	4,779
Corporate securities	7,357	6,660	194	–327	7,551	6,333
Investment funds	716	742	14	–72	730	670
Mortgage bonds/asset-backed securities[2)]	3,811	5,254	91	–93	3,902	5,161
Participation rights[3)]	227	319	2	–36	229	283
Total fixed-income securities	**23,728**	**23,736**	**498**	**–128**	**24,226**	**23,608**
Variable-yield securities						
Equities	743	818	299	–31	1,042	787
Investment funds	656	460	42	–22	698	438
Participation rights[3)]	35	32	1	—	36	32
Total variable-yield securities	**1,434**	**1,310**	**342**	**–53**	**1,776**	**1,257**
Total securities	**25,162**	**25,046**	**840**	**–181**	**26,002**	**24,865**

[1)] *The debt securities issued by semi-governmental entities include securities of* EUR *3,850 (2,815) million which are guaranteed by the Federal Republic of Germany, other EU states or German federal states*

[2)] *In the previous year the mortgage bonds/asset-backed securities were recognized in the item "Other securities"*

[3)] *In the previous year the participation rights were recognized in the item "Other securities"*

The item “Mortgage bonds/asset-backed securities” includes German covered bonds (Pfandbriefe) with a carrying amount of EUR 2,796 (3,562) million (73%).

Changes	2009	2008
Figures in EUR million		
Balance at 31.12. of the previous year	**24.865**	**25.877**
Change in consolidated group	130	4
Additions	17.147	20.141
Disposals	15.554	19.103
Amortization	26	32
Value adjustments	181	1.362
Allocations	9	—
Changes in accrued interest	–40	59
Change in unrealized gains/losses	1.018	–292
Other changes[1]	–1.634	–255
Currency exchange rate differences	216	–236
Balance at 31.12. of the year under review[2]	**26.002**	**24.865**

[1] *The other changes in the year under review include reclassifications from the category “financial assets available for sale” to the category “financial assets held to maturity”*

[2] *Fair value*

	Fair value		Cost or amortized cost	
Contractual maturity of fixed-income securities	31.12.2009	31.12.2008	31.12.2009	31.12.2008
Figures in EUR million				
Due in one year	3,711	4,314	3,663	4,455
Due after one through two years	3,108	2,898	3,044	2,874
Due after two through three years	3,003	2,770	2,924	2,759
Due after three through four years	3,286	2,094	3,155	2,094
Due after four through five years	3,291	3,233	3,209	3,169
Due after five through ten years	5,814	6,594	5,726	6,625
Due after ten years	2,013	1,705	2,007	1,760
Total	**24,226**	**23,608**	**23,728**	**23,736**

	Fair value	
Rating structure of fixed-income securities	31.12.2009	31.12.2008
Figures in EUR million		
AAA	11,562	13,221
AA	4,550	3,852
A	5,224	4,361
BBB or lower	2,890	2,174
Total	**24,226**	**23,608**

The rating categories are based on the classifications of leading international rating agencies.

The rating category of BBB or lower includes unrated fixed-income securities of EUR 10 million.

(9) Financial assets at fair value through profit or loss

	Fair value	
	31.12.2009	**31.12.2008**
Figures in EUR million		
Fixed-income securities		
Government debt securities of EU member states	26	8
Other foreign government debt securities	59	25
Debt securities issued by semi-governmental entities	95	96
Corporate securities	305	341
Participation rights[1)]	107	40
Mortgage bonds/asset-backed securities	227	196
Investment funds	15	20
Total fixed-income securities	**834**	**726**
Variable-yield securities		
Investment funds	18	15
Other securities	9	7
Total variable-yield securities	**27**	**22**
Derivatives	**58**	**45**
Total securities	**919**	**793**

[1)] *In the previous year the participation rights were recognized in the item "Other securities"*

The item "Mortgage bonds/asset-backed securities" includes German covered bonds (Pfandbriefe) with a carrying amount of EUR 126 (127) million.

Changes	**2009**	**2008**
Figures in EUR million		
Balance at 31.12. of the previous year	**793**	**865**
Change in consolidated group	—	3
Additions	198	408
Disposals	200	476
Amortization	12	16
Changes in accrued interest	—	4
Change in unrealized gains/losses	74	–87
Other changes	10	78
Currency exchange rate differences	32	–18
Balance at 31.12. of the year under review	**919**	**793**

Contractual maturity of fixed-income securities	Fair value 31.12.2009	Fair value 31.12.2008
Figures in EUR million		
Due in one year	127	101
Due after one through two years	336	30
Due after two through three years	40	270
Due after three through four years	49	15
Due after four through five years	43	75
Due after five through ten years	26	97
Due after ten years	213	138
Total	**834**	**726**

Rating structure of fixed-income securities	Fair value 31.12.2009	Fair value 31.12.2008
Figures in EUR million		
AAA	256	124
AA	87	170
A	212	232
BBB or lower	279	200
Total	**834**	**726**

The rating categories are based on the classifications of leading international rating agencies.

The rating category of BBB or lower includes unrated fixed-income securities of EUR 4 million.

Analysis of the fair value changes in the portfolio of fixed-income securities at fair value through profit or loss indicated that an amount of –EUR 5 million was due to changes in the ratings of callable bonds. We additionally use an internal rating method to back up this analysis. Our internal rating system is based on the corresponding credit ratings of securities assigned by the agencies Standard & Poor's and Moody's and in each case reflects the lowest of the available ratings.

(10) Financial assets – trading

	Fair value 31.12.2009	Fair value 31.12.2008
Figures in EUR million		
Fixed-income securities		
Government debt securities of EU member states	2	2
Other foreign government debt securities	53	—
Debt securities issued by semi-governmental entities	3	—
Corporate securities	6	—
Total fixed-income securities	**64**	**2**
Variable-yield securities		
Investment funds	62	42
Total variable-yield securities	**62**	**42**
Derivatives	**54**	**379**
Total securities	**180**	**423**

The recognized derivatives refer primarily to derivative financial instruments used to hedge interest rate, exchange and other market price risks (see also Note “(12) Derivative financial instruments and hedge accounting”).

Changes	**2009**	**2008**
Figures in EUR million		
Balance at 31.12. of the previous year	**423**	**18**
Change in consolidated group	55	—
Additions	298	515
Disposals	525	280
Changes in accrued interest	1	1
Change in unrealized gains/losses	–71	135
Other changes	–4	34
Currency exchange rate differences	3	—
Balance at 31.12. of the year under review	**180**	**423**

Contractual maturity of fixed-income securities	Fair value 31.12.2009	Fair value 31.12.2008
Figures in EUR million		
Due in one year	64	2
Total	**64**	**2**

Rating structure of fixed-income securities	Fair value 31.12.2009	Fair value 31.12.2008
Figures in EUR million		
A	3	2
BBB or lower	61	—
Total	**64**	**2**

The rating categories are based on the classifications of leading international rating agencies.

(11) Other invested assets

The other invested assets of altogether EUR 4.6 (3.9) billion are composed principally of the following items:

- participating interests in partnerships
- loans to affiliated companies
- short-term investments

The participating interests in partnerships consist principally of participating interests in private equity firms and are allocated to the "available for sale" category. The fair value of the participating interests in partnerships was EUR 695 (860) million. The amortized cost of these participations amounted to EUR 578 million (EUR 713 million); in addition, unrealized gains of EUR 126 million (EUR 173 million) and unrealized losses of EUR 9 million (EUR 26 million) from these investments were recognized directly in equity.

The loans to affiliated companies were measured largely at amortized cost. The carrying amount as at the balance sheet date was EUR 117 (117) million.

The short-term investments recognized consist predominantly of overnight money, time deposits and money market securities with a maturity of up to one year in an amount of EUR 3,000 (2,189) million, which were measured at fair value. They also include units in real estate funds amounting to EUR 474 (422) million, which were similarly measured at fair value. The real estate funds and the short-term investments are categorized within the Group as "available for sale".

(12) Derivative financial instruments and hedge accounting

Derivatives

We use derivative financial instruments to hedge against interest rate, exchange and other market price risks and to a limited extent also to optimize returns or realize intentions to buy/sell. In this context, the applicable regulatory requirements and the standards set out in the Group's internal investment guidelines are strictly observed and first-class counterparties are always selected.

In addition, embedded derivatives in structured products and insurance contracts are – where required under the standards of IAS 39 "Financial Instruments: Recognition and Measurement" and IFRS 4 "Insurance Contracts" – separated from the underlying contracts and recognized separately at fair value.

In the context of initial measurement derivative financial instruments are recognized at the fair value attributable to them on the date of contract materialization. Subsequent measurement is then also made at the fair value applicable on the relevant balance sheet date. Regarding the valuation models used, please see the section entitled "Fair value hierarchy".

The method of recognizing gains and losses is dependent upon whether or not the derivative financial instrument is used as a hedging instrument within the meaning of hedge accounting pursuant to IAS 39. In this connection the Group designated specific derivatives as cash flow hedges with respect to certain balance sheet liabilities (see separate subsection of this Note). If derivatives are not hedging instruments, the fluctuations in value are recognized in the statement of income within investment income.

The recognition of derivative financial instruments in the balance sheet is broken down in the following table:

Balance sheet recognition of derivative financial instruments	Hedging instrument as per IAS 39	31.12.2009	31.12.2008
Figures in EUR million			
Balance sheet items (positive fair values)			
Financial assets at fair value through profit or loss	No	58	45
Financial assets – trading	No	54	379
Balance sheet items (negative fair values)			
	No	–30	–127
Other liabilities	Yes	–42	–35
Total (net)		**40**	**262**

In the financial year just-ended the derivative financial instruments – excluding derivatives used as hedging instruments within the meaning of hedge accounting – produced an unrealized gain of EUR 14 million; the profit realized on the positions closed in 2009 amounted to EUR 19 million.

The fair values of our open derivative positions including the relevant nominal values as at the balance sheet date are shown below differentiated according to risk types and maturities. Positive and negative fair values are netted in the table. Open positions from derivatives therefore existed in an amount of EUR 40 (262) million at the balance sheet date, corresponding to 0.04 (0.3)% of the balance sheet total.

Maturities of derivative financial instruments	Due in one year	Due after one through five years	Due after five through ten years	Due after ten years	Other	31.12.2009	31.12.2008
Figures in EUR million							
Interest rate transactions							
Fair values	—	–40	—	–2	17	–25	18
Nominal values	—	771	5	14	375	1,165	801
Foreign exchange transactions							
Fair values	—	–9	–6	—	—	–15	–24
Nominal values	86	41	41	—	—	168	49
Equity and index transactions							
Fair values	20	—	—	—	5	25	305
Nominal values	469	—	—	—	5	474	209
Derivatives in connection with insurance contracts[1]							
Fair values	—	—	—	—	55	55	–47
Other risks							
Fair values	—	—	—	—	—	—	10
Nominal values	—	—	3	—	—	3	10
Total risks							
Fair values	20	–49	–6	–2	77	40	262
Nominal values	555	812	49	14	380	1,810	1,069

[1] *The financial instruments relate exclusively to derivatives in connection with reinsurance business which under IFRS 4 are to be separated from the underlying insurance contract and recognized separately at fair value. In view of the characteristics of these derivatives, a maturity disclosure/presentation of nominal values is not reasonably possible and has therefore been omitted*

Hedge accounting

The Group uses interest rate swaps in the context of cash flow hedges in order to hedge cash flows relating to certain floating-rate commitments (underlyings) against the associated interest rate risk. The plain vanilla interest rate swaps serve to protect against adverse effects in the net profit or loss for the period in the event of rising interest rates. The interest payments received from the swaps (variable rates) are opposed by interest payments in the same amount in connection with the liabilities; in addition, the Group undertakes to make fixed interest payments to the swap partners. The selection of highly rated counterparties ensures that we avoid entering into a significant credit risk. The floating rate tracks the three-month EURIBOR.

On closing of the transaction the Group documents the hedge relationship between the hedging instrument and the underlying, the purpose of its risk management and the underlying strategy. In addition, at the outset of the hedge relationship and on an ongoing basis thereafter, it documents its assessment of the extent to which the derivatives used in the hedge relationship are effective in offsetting the cash flow of the underlying. Proof of the effectiveness of the cash flow hedges has been furnished.

The effective part of the hedging instruments measured at fair value is recognized directly in equity in the cash flow hedge reserve after allowance for deferred taxes. The ineffective part of such changes in value, on the other hand, is booked directly in the statement of income in the investment income. The underlying continues to be measured at amortized cost in accordance with allocation to the category pursuant to IAS 39.9 "Financial Instruments: Recognition and Measurement".

The following table presents a reconciliation of the cash flow hedge reserve (before taxes):

Changes in the cash flow hedge reserve	2009	2008
Figures in EUR million		
Balance at 31.12. of the previous year	–26	–
Allocations	–7	–26
Balance at 31.12. of the year under review (before taxes)	**–33**	**–26**

The negative balance of the cash flow hedge reserve increased in the year under review by –EUR 7 (–26) million (before taxes) and –EUR 5 (–18) million (after taxes).

An amount of EUR 0.2 (–0.8) million was recognized in income in the year under review owing to the ineffectiveness of cash flow hedges.

The fair value (dirty value) of the hedging instruments amounted to –EUR 42 (–35) million as at the balance sheet date; it is recognized under the balance sheet item "Other liabilities". The decrease of EUR 7 million in fair values is attributable to movements in capital market interest rates. The fair value of the underlying corresponds to the carrying amount and stands at EUR 550 (550) million.

The expected cash flows from the hedged transactions and their respective contribution to profit or loss are as follows:

Cash flows of the hedged transaction	< 1 year	> 1 year and < 5 years	Expected total amount	31.12.2009 [1]	31.12.2008 [1]
Figures in EUR million					
Cash flow of the underlyings	–8	–18	–26	–10	–28
Cash flow of the hedging instruments	–19	–24	–43	–16	2
Profit/loss	**–27**	**–42**	**–69**	**–26**	**–26**

[1] *Cash flow of the period in question*

The net gains or losses on derivatives used for hedging amounted to –EUR 16 (1) million in the year under review and relate to the current interest payments (–EUR 16 (2) million) and the changes in value recognized in income on grounds of ineffectiveness (EUR 0.2 (–0.8) million).

(13) Accounts receivable on insurance business

	31.12.2009	31.12.2008
Figures in EUR million		
Accounts receivable on direct written insurance business	1,428	1,427
thereof:		
From policyholders	815	818
From insurance intermediaries	613	609
Accounts receivable on reinsurance business	2,914	3,011
Total	**4,342**	**4,438**

(14) Deferred acquisition costs

	2009			2008		
	Gross business	Re-insurance recover-ables	Net business	Gross business	Re-insurance recover-ables	Net business
Figures in EUR million						
Balance at 31.12. of the previous year	**4,137**	**628**	**3,509**	**3,858**	**579**	**3,278**
Change in consolidated group	—	—	—	—	–19	–19
Portfolio entries/withdrawals	—	1	–1	11	—	11
Newly capitalized acquisition costs	273	–195	468	791	105	686
Amortized acquisition costs	561	78	483	418	49	369
Currency adjustments	50	–1	51	–104	–7	–97
Other changes	—	—	—	–1	19	19
Balance at 31.12. of the year under review	**3,899**	**355**	**3,544**	**4,137**	**628**	**3,509**

(15) Other assets

	31.12.2009	31.12.2008
Figures in EUR million		
Own-use real estate	612	572
Tax refund claims	216	370
Plant and equipment	148	122
Interest and rent due	12	22
Sundry assets	667	650
Total	**1,655**	**1,736**

Development of own-use real estate	**2009**	**2008**
Figures in EUR million		
Gross book value at 31.12. of the previous year	**757**	**754**
Currency translation at 01.01. of the year under review	—	—
Gross book value after currency translation at 01.01. of the year under review	757	754
Change in consolidated group	1	–49
Additions	62	58
Disposals	1	1
Reclassification	2	11
Disposal group pursuant to IFRS 5	—	–14
Currency exchange rate differences	1	–2
Gross book value at 31.12. of the year under review	**822**	**757**
Accumulated depreciation and accumulated impairment losses at 31.12. of the previous year	**185**	**177**
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	185	177
Change in consolidated group	—	–18
Additions	15	—
Depreciation		
Scheduled	11	19
Unscheduled	2	—
Reclassification	–3	7
Accumulated depreciation and accumulated impairment losses at 31.12. of the year under review	**210**	**185**
Balance at 31.12. of the previous year	572	577
Balance at 31.12. of the year under review	**612**	**572**

The fair value of the own-use real estate amounted to EUR 691 (628) million as at the balance sheet date. These fair values were calculated largely using the discounted cash flow method. The methods used to determine the book values are set out in the subsection entitled "Summary of major accounting policies" from page 113 onwards.

An amount of EUR 253 (259) million was allocated from the own-use real estate to special cover funds. The expenditures capitalized for buildings under construction amounted to EUR 42 (—) million. Contractual commitments for the acquisition of property, plant and equipment totaled EUR — (2) million as at the balance sheet date.

Development of plant and equipment	2009	2008
Figures in EUR million		
Gross book value at 31.12. of the previous year	**343**	**335**
Currency translation at 01.01. of the year under review	—	—
Gross book value after currency translation at 01.01. of the year under review	343	335
Change in consolidated group	15	–2
Additions	71	100
Disposals	24	70
Reclassification	—	–1
Other changes	2	–10
Currency exchange rate differences	4	–9
Gross book value at 31.12. of the year under review	**411**	**343**
Accumulated depreciation and accumulated impairment losses at 31.12. of the previous year	**221**	**219**
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	221	219
Change in consolidated group	2	–1
Additions	1	—
Disposals	—	40
Depreciation		
Scheduled	34	60
Unscheduled	1	—
Reclassification	—	–1
Other changes	2	–10
Currency exchange rate differences	2	–6
Accumulated depreciation and accumulated impairment losses at 31.12. of the year under review	**263**	**221**
Balance at 31.12. of the previous year	122	116
Balance at 31.12. of the year under review	**148**	**122**

Other assets	31.12.2009	31.12.2008
Figures in EUR million		
Trade accounts receivable	93	117
Receivables relating to investments	170	130
Receivables from non-group lead business	84	51
Other tangible assets	11	60
Claims under insurance for pension commitments	50	43
Prepaid insurance benefits	116	37
Surrender values	28	29
Other claims for recovery	—	16
Prepaid expenses	18	30
Receivables from the disposal of property, plant and equipment	—	7
Sundry assets	97	130
Total	**667**	**650**

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:

	2009	2008
Figures in EUR million		
Transfer of gains/losses from the fair value measurement of the available-for-sale portfolio to the result for the reporting period	–101	–547

Minority interests	2009	2008 [1]
Figures in EUR million		
Unrealized gains and losses from investments	169	74
Minority interest in net profit	406	–68
Other shareholder's equity	2,003	2,086
Total	**2,578**	**2,092**

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

Changes in shareholders' equity and minority interests

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 Group shareholders' equity.

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

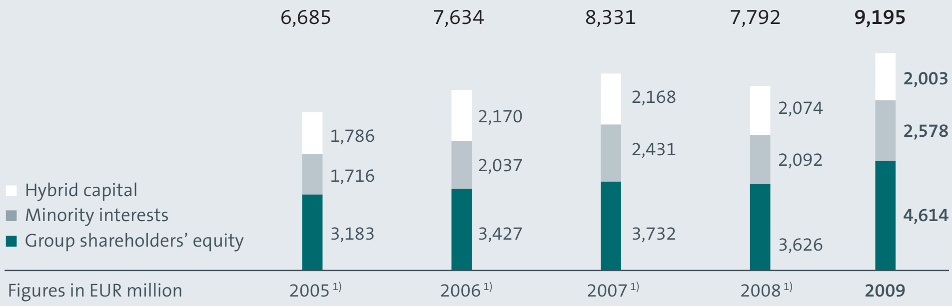
The preservation and consistent strengthening of its equity base is a key strategic objective for the Talanx Group. As part of its approach to capital management the Talanx Group considers the policyholders' surplus over and above the shareholders' equity reported in the balance sheet.

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 9.2 (7.8) 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 indicator 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 governance and capital management is described in our remarks on capital and performance management in the correspondingly titled subsection of the management report.

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), various 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	
		31.12.2009	**31.12.2008**
Figures in EUR million			
Hannover Finance Inc.[2]	floating rate, 1999/2029, (a;A)[1]	–	14
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 was repaid in full and cancelled by the issuer in 2009.			
Hannover Finance (Luxembourg) S.A.	EUR 750 million, floating rate, 2004/2024, (a;A)[1]	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, (a–;A)[1]	481	479
Part of the volume of the subordinated debt was offered to the holders of the debt issued in 2001 by way of exchange. The debt may be called by the issuer on 01.06.2015 at the earliest.			
Hannover Finance (Luxembourg) S.A.	EUR 138 million, 6.25%, 2001/2031, (a;A)[1]	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, (bbb+; A)[1]	269	273
The subordinated Eurobond issue may be called by the issuer in 2014 at the earliest.			
HDI-Gerling Lebensversicherung AG[3]	EUR 100 million, 6.75%, 2005/ no final maturity (—; A–)[1]	105	116
The subordinated debt is listed on the Luxembourg Stock Exchange. It may be called by the issuer in 2015 at the earliest.			
Talanx Finanz[4]	EUR 265 million, 4.5%, 2005/2025, (bbb–; BBB)[1]	264	308
The subordinated debt was originally issued in an amount of EUR 350 million. It is listed on the Luxembourg Stock Exchange.			
Total		**2,003**	**2,074**

[1] Debt rating A.M. Best; debt rating S&P

[2] In the first half of 2009 the issuer bought back portions of the debt in a nominal amount of USD 20 million. The debt was thus repaid in full and cancelled in the year under review.

[3] In the year under review Group companies purchased portions of the debt in a nominal amount of EUR 10 million; the remaining volume was reduced accordingly.

[4] In the year under review Group companies purchased portions of the debt in a nominal amount of EUR 10 million; the remaining volume was reduced accordingly. In addition, portions of the debt amounting to EUR 75 million were repaid; of this amount, EUR 35 million was attributable to repurchases in 2009

The decrease in subordinated debt resulted primarily from the repurchase of partial amounts of individual issues by Group companies.

2009	Cost or amortized cost	Unrealized gains or losses	Accrued interest	Fair value
Figures in EUR million				
Debts measured at cost or amortized cost	2,003	–132	58	1,929

2008	Cost or amortized cost	Unrealized gains or losses	Accrued interest	Fair value
Figures in EUR million				
Debts measured at cost or amortized cost	2,074	–625	70	1,519

The fair value of the extended subordinated loans is normally 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 of EUR 104 (109) million from subordinated liabilities in the year under review consisted of ordinary expenses in an amount of EUR 102 (113) million and expenses from amortization totaling EUR 2 million (previous year: income from amortization totaling EUR 4 million).

Of the total subordinated liabilities, an amount of EUR 638 million has a maturity of 5–10 years, EUR 746 million has a maturity of 10–20 years, EUR 138 million has a maturity of more than 20 years and EUR 481 million has no fixed maturity. A detailed presentation of the maturities is provided in the section entitled “Nature of risks associated with insurance contracts and financial instruments” (subsection “Management of liquidity risks”).

(18) Unearned premium reserve

	2009			2008		
	Gross	Retro	Net	Gross	Retro	Net
Figures in EUR million						
Balance at 31.12. of the previous year	**4,894**	**409**	**4,485**	**4,755**	**537**	**4,218**
Change in the consolidated group	69	24	45	11	3	8
Portfolio entries/withdrawals	–54	2	–56	35	—	35
Allocations	1,361	38	1,323	1,237	79	1,158
Releases	1,294	62	1,232	1,067	193	874
Other changes	–1	—	–1	–1	—	–1
Currency exchange rate differences	51	3	48	–76	–17	–59
Balance at 31.12. of the year under review	**5,026**	**414**	**4,612**	**4,894**	**409**	**4,485**

(19) Benefit reserve

	2009			2008		
	Gross	Retro	Net	Gross	Retro	Net
Figures in EUR million						
Balance at 31.12. of the previous year	**36,386**	**929**	**35,457**	**35,987**	**1,103**	**34,884**
Change in the consolidated group	985	—	985	—	—	—
Portfolio entries/withdrawals	385	–98	483	–278	–140	–138
Allocations	3,863	78	3,785	1,290	–22	1,312
Releases	1,918	108	1,810	57	1	56
Other changes	—	—	—	–4	—	–4
Currency exchange rate differences	53	–2	55	–552	–11	–541
Balance at 31.12. of the year under review	**39,754**	**799**	**38,955**	**36,386**	**929**	**35,457**

	2009			2008		
Durations of the reserves	Gross	Retro	Net	Gross	Retro	Net
Figures in EUR million						
Less than one year	2,933	46	2,887	2,086	53	2,033
Between one and five years	8,085	193	7,892	7,379	199	7,180
Between five and ten years	7,990	166	7,824	7,302	182	7,120
Between ten and twenty years	9,230	204	9,026	8,354	225	8,129
After more than twenty years	5,630	92	5,538	7,454	152	7,302
Deposits	5,886	98	5,788	3,811	118	3,693
Total	**39,754**	**799**	**38,955**	**36,386**	**929**	**35,457**

(20) Loss and loss adjustment expense reserve (loss reserve)

	2009			2008		
	Gross	Retro	Net	Gross	Retro	Net
Figures in EUR million						
Balance at 31.12. of the previous year	**27,161**	**5,479**	**21,682**	**26,651**	**5,671**	**20,980**
Change in consolidated group	13	2	**11**	10	16	–6
Portfolio entries/withdrawals	–25	–1	–24	101	1	100
Plus incurred claims and claims expenses (net)						
Year under review	9,671	1,192	8,479	11,108	1,826	9,282
Previous years	1,369	–216	1,585	922	–21	943
Total	11,040	976	10,064	12,030	1,805	10,225
Less claims and claims expenses paid (net)						
Year under review	4,984	421	4,563	5,607	879	4,728
Previous years	5,954	1,291	4,663	5,992	1,166	4,826
Total	10,938	1,712	9,226	11,599	2,045	9,554
Other changes	–3	22	–25	—	–29	29
Currency exchange rate differences	8	–20	28	–32	60	–92
Balance at 31.12. of the year under review	**27,256**	**4,746**	**22,510**	**27,161**	**5,479**	**21,682**

The run-off triangles establish the correlation between the loss occurrence year and the loss run-off year. In line with previous years, we show the constituted loss reserves not by occurrence years but by the run-off of the reserve reported in the balance sheet. For the sake of improved understanding, we split the disclosure into the two Group segments of Property/Casualty Primary Insurance and Non-Life Reinsurance, with only the corresponding net loss reserves being shown. The disclosure is supplemented by a corresponding reconciliation with the Group figures for each segmental balance sheet.

The following two tables set out the net loss reserves for the years 1999 to 2009 split into the Group segments of Non-Life Reinsurance and Property/Casualty Primary Insurance. The tables show 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.

Net loss reserve and its run-off in the Property/Casualty Primary Insurance segment

The chart shows the run-off of the net loss reserves established as at each balance sheet date in the Property/Casualty Primary Insurance segment, this reserve comprising the provisions constituted in each case for the current and preceding occurrence years. The run-off of the reserves for individual occurrence years is not shown.

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Figures in EUR million											
Loss and loss adjustment expense reserve	3,789	3,942	3,912	3,903	4,217	4,879	5,818	6,095	6,242	6,042	6,110
Cumulative payments for the year in question and previous years											
One year later	979	1,031	802	872	632	740	1,150	991	1,486	1,008	
Two years later	1,478	1,344	1,206	1,237	1,030	1,269	1,696	1,800	1,908		
Three years later	1,655	1,596	1,449	1,528	1,409	1,667	2,255	2,030			
Four years later	1,857	1,755	1,677	1,831	1,730	2,115	2,401				
Five years later	2,007	1,904	1,907	2,091	2,083	2,219					
Six years later	2,127	2,100	2,131	2,366	2,121						
Seven years later	2,282	2,278	2,363	2,347							
Eight years later	2,390	2,462	2,343								
Nine years later	2,519	2,465									
Ten years later	2,528										
Loss and loss adjustment expense reserve (net) for the year in question and previous years plus payments made to date on the original reserve											
One year later	3,587	3,696	3,426	3,824	3,863	4,493	5,077	5,205	5,659	5,356	
Two years later	3,400	3,337	3,276	3,628	3,806	4,387	5,011	5,161	4,976		
Three years later	3,214	3,198	3,334	3,671	3,895	4,381	5,089	4,760			
Four years later	3,096	3,234	3,319	3,802	3,941	4,536	4,760				
Five years later	3,139	3,196	3,505	3,842	4,065	4,302					
Six years later	3,135	3,321	3,507	3,912	3,904						
Seven years later	3,234	3,501	3,614	3,807							
Eight years later	3,299	3,492	3,538								
Nine years later	3,274	3,434									
Ten years later	3,292										
Run-off result of the loss reserve	**497**	**508**	**375**	**96**	**312**	**577**	**1,058**	**1,334**	**1,266**	**685**	
Of which currency exchange rate differences	**–18**	**51**	**121**	**140**	**75**	**–39**	**–61**	**–22**	**146**	**12**	
Run-off result excluding currency exchange rate differences	**515**	**457**	**254**	**–44**	**237**	**616**	**1,119**	**1,356**	**1,120**	**673**	
As percentage of original loss reserve	**14**	**12**	**6**	**–1**	**6**	**13**	**19**	**22**	**18**	**11**	
Reconciliation with segmental balance sheet:											
Consolidation											–
Other changes											22
Segment value for Property/Casualty Primary Insurance											**6,132**

Net loss reserve and its run-off in the Non-Life Reinsurance segment

The run-off triangles show the run-off of the net loss reserve established as at each balance sheet date in the Non-Life Reinsurance segment, 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 in this regard, but rather the run-off of the reserve constituted annually in the balance sheet as at the balance sheet date.

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Figures in EUR million											
Loss and loss adjustment expense reserve	7,012	8,482	12,183	12,863	13,462	13,121	14,296	13,280	12,718	13,354	13,780
Cumulative payments for the year in question and previous years											
One year later	1,583	2,108	2,242	2,118	3,623	4,496	3,051	2,665	2,476	2,928	
Two years later	2,498	3,112	3,775	5,024	7,322	6,611	5,072	4,390	4,250		
Three years later	3,226	4,174	6,032	7,765	8,780	7,590	6,205	5,696			
Four years later	3,898	5,745	8,589	8,910	9,519	8,356	7,306				
Five years later	5,120	7,581	9,400	9,467	10,102	9,137					
Six years later	6,146	8,114	9,786	9,897	10,734						
Seven years later	6,510	8,405	10,122	10,457							
Eight years later	6,785	8,611	10,533								
Nine years later	6,915	8,891									
Ten years later	7,073										
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	7,526	9,422	11,604	11,743	13,636	14,433	13,074	12,366	12,171	13,265	
Two years later	7,751	8,878	10,477	11,845	14,237	13,533	12,366	11,869	11,926		
Three years later	7,312	8,186	10,744	12,373	13,597	13,061	11,977	11,645			
Four years later	6,769	8,354	11,544	11,731	13,307	12,771	11,773				
Five years later	6,821	9,102	11,051	11,666	13,122	12,618					
Six years later	7,368	8,756	11,164	11,686	13,054						
Seven years later	7,142	8,864	11,219	11,707							
Eight years later	7,212	8,936	11,262								
Nine years later	7,268	8,933									
Ten years later	7,258										
Run-off result of the loss reserve	**10**	**–7**	**–45**	**22**	**90**	**84**	**52**	**19**	**23**	**–156**	
Of which currency exchange rate differences	**1**	**4**	**13**	**3**	**–6**	**–8**	**–1**	**–2**	**–8**	**9**	
Run-off result excluding currency exchange rate differences	**9**	**–11**	**–58**	**19**	**96**	**92**	**53**	**21**	**31**	**–165**	
As percentage of original loss reserve	**—**	**—**	**–1**	**—**	**1**	**1**	**—**	**—**	**—**	**–1**	
Reconciliation with the segmental balance sheet:											
Cumulative specific value adjustment for reinsurance recoverables on unpaid claims											24
Other changes											2
Segment value for Non-Life Reinsurance											**13,806**

The carrying amount of the **reinsurance recoverables** on unpaid claims of EUR 4.7 (5.5) billion includes cumulative specific value adjustments of EUR 24 (47) million. The total amount of the net reserves was EUR 22.5 (21.7) billion. The following breakdown of the durations refers to this amount.

	2009			2008		
Durations of the reserve	**Gross**	**Retro**	**Net**	**Gross**	**Retro**	**Net**
One year or less						
Between one and five years	8,201	1,439	6,762	8,429	2,102	6,327
Between five and ten years	10,514	2,069	8,445	10,640	2,101	8,539
Between ten and twenty years	4,220	775	3,445	3,890	667	3,223
More than twenty years	2,663	318	2,345	2,648	359	2,289
Deposits	1,302	73	1,229	972	116	856
Total	356	72	284	582	134	448
Gesamt	**27,256**	**4,746**	**22,510**	**27,161**	**5,479**	**21,682**

(21) Provision for premium refunds

	2009			2008		
	Gross	**Retro**	**Net**	**Gross**	**Retro**	**Net**
Figures in EUR million						
Balance at 31.12. of the previous year	**973**	**1**	**972**	**1,403**	**2**	**1,401**
IAS 8	21	–	21			
Change in the consolidated group	2	–	2	–2	–	–2
Portfolio entries/withdrawals	–	–	–	–89	–	–89
Allocations	420	–	420	51	–	51
Disposals						
Life insurance policies	163	–	163	256	–	256
Liability/personal accident policies with a premium refund	8	–	8	15	–1	14
Other changes	–3	–	–3	–118	–	–118
Currency exchange rate differences	–	–	–	–1	–	–1
Balance at 31.12. of the year under review	**1,242**	**1**	**1,241**	**973**	**1**	**972**

(22) Provision for pensions and other post-employment benefit obligations

The Group companies 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 pension commitments are measured on the basis of the following assumptions:

	2009	2008
Measurement parameters/assumptions weighted in %		
Discount rate	5.31	6.24
Projected long-term yield on plan assets	6.08	6.36

	2009				2008			
Measurement parameters/assumptions	Germany	USA	UK	Other	Germany	USA	UK	Other
Figures in %								
Rate of compensation increase	3	—	4.75	2.5–5.2	3	—	4.9	2.5–4.5
Indexation	2.25	2	3.25	2.0–3.0	2.25	3	3.4	2.0–3.5

The change in the projected benefit obligation of the pension commitments for the various defined benefit plans of the Group was as follows:

Change in the projected benefit obligation	**2009**	**2008**
Figures in EUR million		
Projected benefit obligation at 01.01. of the year under review	1,246	1,359
Current service cost	14	20
Interest cost	76	69
Deferred compensation	2	1
Actuarial gain/loss	113	–132
Currency translation	42	–8
Benefits paid during the year	–66	–61
Past service cost	–	1
Business combinations, divestitures and other activities	–1	–4
Plan curtailments	–2	1
Projected benefit obligation at 31.12. of the year under review	**1,424**	**1,246**

The funded status of the defined benefit obligation is shown in the following table:

Change in the projected benefit obligation	**2009**	**2008**
Figures in EUR million		
Projected benefit obligation from unfunded plans	1,366	1,181
Projected benefit obligation from wholly or partially funded plans	58	65
Projected benefit obligation at 31.12. of the year under review	**1,424**	**1,246**
Fair value of plan assets	–70	–57
Funded status	**1,354**	**1,189**

The fair value of the plan assets developed as follows:

Change in plan assets	**2009**	**2008**
Figures in EUR million		
Fair value at 01.01. of the year under review	57	72
Expected return on plan assets	2	4
Actuarial gain/loss	6	–14
Currency translation	3	–9
Employer contributions	4	4
Benefits paid during the year	–2	–1
Business combinations, divestitures and other activities	–	1
Fair value at 31.12. of the year under review	**70**	**57**

The structure of the asset portfolio underlying the plan assets was as follows:

Portfolio structure of plan assets	2009	2008
as % of plan assets		
Fixed-income securities	54	53
Equities	19	21
Other	27	26
Total	**100**	**100**

The fair value of plan assets as at the balance sheet date included amounts totaling EUR 1 (1) million for own financial instruments.

The actual return on the plan assets amounted to EUR 5 (–7) 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	2009	2008
Figures in EUR million		
Defined benefit obligations at 31.12. of the year under review	1,424	1,246
Fair value of plan assets at 31.12. of the year under review	–70	–57
Funded status at 31.12. of the year under review	**1,354**	**1,189**
Unrealized actuarial gain/loss	–56	83
Net provisions for pensions at 31.12. of the year under review	**1,298**	**1,272**

The recognized provision for pensions developed as follows in the year under review:

Change in the provisions for pensions	2009	2008
Figures in EUR million		
Net provisions for pensions at 01.01. of the year under review	1,272	1,251
Currency translation	—	1
Change in consolidated group	—	–3
Net periodic pension cost	92	87
Deferred compensation	—	1
Amounts paid during the year	–3	–4
Benefits paid during the year	–66	–61
Reclassification and other movements	3	—
Disposal groups pursuant to IFRS 5	—	—
Net provisions for pensions at 31.12. of the year under review	**1,298**	**1,272**

The components of the net periodic pension cost for defined benefit plans recognized in the statement of income were as follows:

Net periodic pension cost	2009	2008
Figures in EUR million		
Current service cost for the year under review	13	20
Interest cost	76	69
Expected return on plan assets	–2	–4
Recognized actuarial gain/loss	7	—
Past service cost	—	2
Effect of plan curtailments	–2	—
Net periodic pension cost for the year under review	**92**	**87**

For the 2010 financial year the Group anticipates employer contributions of EUR 3 (6) million, which will be paid into the defined benefit plans shown here.

The net periodic pension cost was recognized in the consolidated statement of income in amounts of EUR 14 (11) million under acquisition costs and administrative expenses, EUR 77 (75) million under other expenses and EUR 1 (1) 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 (3) million, of which only a minimal amount was attributable to commitments to employees in key positions.

(23) Provisions for taxes

The provisions for taxes can be broken down as follows:

	31.12.2009	31.12.2008
Figures in EUR million		
Provision for income tax	639	494
Other tax provisions	132	125
Total	**771**	**619**

(24) Sundry provisions

The sundry provisions, which are measured by the likely amounts used, developed as follows:

Figures in EUR million	Restructuring/ Integration	Assumption of third-party pension commitments in return for payment	Bonuses and incentives	Early retirement/ partial retirement arrangements	Other personnel expenses	Other	Total
Balance at 01.01.2008	**86**	**76**	**65**	**58**	**45**	**252**	**582**
Change in consolidated group	—	—	—	–1	–1	–2	–4
Additions	—	—	36	13	24	119	192
Utilization	37	1	42	6	16	89	191
Release	2	—	4	4	4	37	51
Change in fair value of plan assets	—	—	—	–6	—	—	–6
Other changes	—	—	—	—	—	6	6
Currency exchange rate differences	—	—	—	—	–1	–2	–3
Balance at 31.12.2008	**47**	**75**	**55**	**54**	**47**	**247**	**525**
Change in consolidated group	—	—	—	—	—	—	—
Additions	1	—	49	17	54	170	291
Utilization	30	—	42	3	28	103	206
Release	—	—	2	1	1	20	24
Change in fair value of plan assets	—	—	—	–9	—	—	–9
Other changes	—	—	—	—	—	—	—
Currency exchange rate differences	—	—	—	—	–1	–1	–2
Balance at 31.12.2009	**18**	**75**	**60**	**58**	**71**	**293**	**575**

(25) Notes payable and loans

In this item the Group reports loan liabilities of EUR 675 (602) million, chiefly in connection with the financing of acquired interests or other investment activities.

The rise of EUR 73 million in the liabilities to EUR 675 million in the year under review is attributable solely to the Non-Life Reinsurance segment and results from increased borrowing requirements as a consequence of the investment activities of Hannover Re Real Estate Holdings, Inc.

In addition, loans of EUR 559 million are apportionable to the Corporate Operations segment and are connected above all with the financing of interests acquired in 2007 (purchase of all shares of BHW Lebensversicherung AG and BHW Pensionskasse AG as well as increase in the interests held in the PB insurers to 100%). Talanx AG took out a floating-rate bank liability in an amount of EUR 550 million in order to finance these acquisitions. The Group uses derivative financial instruments to hedge the interest rate risk (for further information see Note 12 subsection "Hedge accounting", page 188).

The net result from loan liabilities is EUR 14 (32) million and consisted solely of interest expenditures.

The carrying amount of this item corresponds to the amortized cost. Cash outflows occur annually until final maturity in the amount of the interest payments. The total amount does not include any liabilities with a maturity of more than five years (see also the subsection "Management of liquidity risks" in the section "Nature of risks associated with insurance contracts and financial instruments").

(26) Other liabilities

Figures in EUR million	31.12.2009	31.12.2008
Liabilities under direct written insurance business	2,237	2,155
thereof to policyholders	1,659	1,651
thereof to insurance intermediaries	578	504
Reinsurance payable	1,570	1,703
Liabilities due to banks	57	329
Trade accounts payable	39	43
Liabilities relating to investments	206	172
Liabilities under non-group lead business	35	16
Liabilities from derivatives	72	162
thereof negative fair values from derivative hedging instruments	42	35
Deferred income	27	31
Interest	11	12
Liabilities due to social insurance institutions	11	10
Other liabilities	296	268
Total	**4,561**	**4,901**

The liabilities due to banks are attributable almost entirely to Talanx AG and have a maturity of less than a year. A loan of nominally EUR 250 million taken up in 2008 was repaid in April 2009.

Explanatory remarks on the maturities of the financial instruments included in the other liabilities are provided in the section "Nature of risks associated with insurance contracts and financial instruments". Detailed information on liabilities from derivatives is provided in Note 12, page 187.

(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.

	31.12.2009	31.12.2008
Figures in EUR million		
Deferred tax assets		
Loss and loss adjustment expense reserves	251	255
Technical provisions	265	298
Loss carry-forwards	271	263
Benefit reserves	214	273
Provisions	132	144
Accounts receivable on insurance business	20	18
Investments	54	112
Contract deposits	7	4
Premium refunds	14	1
Other invested assets	14	7
Value adjustment	–267	–258
Other	304	366
Total	**1,279**	**1,483**
Deferred tax liabilities		
Equalization reserve	1,060	999
Deferred acquisition costs[1)]	511	563
Contract deposits	17	4
Accounts receivable on insurance business	172	206
Present value of future profits (PVFP)	285	329
Benefit reserves	52	39
Technical provisions	95	128
Investments	190	121
Loss and loss adjustment expense reserves	59	39
Other invested assets	23	61
Debt consolidation	12	3
Premium refund	—	5
Provisions	16	5
Other	64	63
Total	**2,556**	**2,565**
Deferred tax liabilities (net)	**1,277**	**1,082**

[1)] The deferred taxes on deferred acquisition costs are shown for net, i.e. after allowance for the shares of reinsurers. The previous year (gross amounts shown) was adjusted accordingly.

The deferred tax assets and deferred tax liabilities were recognized as follows:

	31.12.2009	31.12.2008
Figures in EUR million		
Deferred tax assets	235	295
Deferred tax liabilities	1,512	1,377
Deferred tax liabilities (net)	**1,277**	**1,082**

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.

2009 [1]	Property/ Casualty Primary Insurance	Life Primary Insurance	Non-Life Reinsurance	Life/Health Reinsurance	Total
Figures in EUR million					
Gross written premium including premium from unit-linked life and annuity insurance	5,838	5,647	5,281	4,157	**20,923**
Savings elements of premium from unit-linked life and annuity insurance	—	979	—	—	**979**
Ceded written premium	1,590	193	332	415	**2,530**
Change in gross unearned premium	–20	175	–193	–29	**–67**
Change in ceded unearned premium	–38	79	–20	3	**24**
Net premium earned	4,266	4,571	4,776	3,710	**17,323**

2008 [1]	Property/ Casualty Primary Insurance	Life Primary Insurance	Non-Life Reinsurance	Life/Health Reinsurance	Total
Figures in EUR million					
Gross written premium including premium from unit-linked life and annuity insurance	5,879	5,691	4,634	2,801	**19,005**
Savings elements of premium from unit-linked life and annuity insurance	—	1,081	—	—	**1,081**
Ceded written premium	1,620	220	536	335	**2,711**
Change in gross unearned premium	15	–64	–121	–14	**–184**
Change in ceded unearned premium	66	–12	62	–2	**114**
Net premium earned	4,208	4,338	3,915	2,454	**14,915**

[1] *Presentation after elimination of intra-Group relations*

(29) Investment income

2009 [1]	Property/ Casualty Primary Insurance	Life Primary Insurance	Non-Life Rein-surance	Life/ Health Rein-surance	Corporate Operations	Total
Figures in EUR million						
Real estate	6	54	5	—	—	65
Dividends	14	32	3	—	8	57
Ordinary investment income on fixed-income securities	363	1,218	609	162	7	2,359
Interest income on funds withheld and contract deposits	2	2	46	397	—	447
Other income	57	67	7	2	—	133
Ordinary investment income	**442**	**1,373**	**670**	**561**	**15**	**3,061**
Profit or loss on investments in associated companies	—	—	–6	—	—	–6
Income from write-ups	—	—	21	—	—	21
Realized gains on investments	125	203	154	30	8	520
Unrealized gains on investments	9	32	18	114	—	173
Investment income	**576**	**1,608**	**857**	**705**	**23**	**3,769**
Realized losses on investments	79	136	59	10	—	284
Unrealized losses on investments	3	87	25	6	—	121
Total	**82**	**223**	**84**	**16**	**—**	**405**
Impairments/depreciation on investment property						
Scheduled	2	7	—	—	—	9
Unscheduled	—	7	1	—	—	8
Impairments on equity securities	9	95	3	—	5	112
Impairments on fixed-income securities	8	47	46	—	—	101
Impairments on other investments	9	27	87	—	—	123
Expenses for the administration of investments	4	11	8	2	80	105
Other expenses	8	14	17	1	—	40
Other investment expenses/impairments	**40**	**208**	**162**	**3**	**85**	**498**
Investment expenses	**122**	**431**	**246**	**19**	**85**	**903**
Net investment income	**454**	**1,177**	**611**	**686**	**–62**	**2,866**

[1] *Presentation after elimination of intra-Group relations*

2008 1)	Property/ Casualty Primary Insurance	Life Primary Insurance	Non-Life Rein-surance	Life/ Health Rein-surance	Corporate Operations	Total
Figures in EUR million						
Real estate	6	59	2	—	—	67
Dividends	25	49	43	—	2	119
Ordinary investment income on fixed-income securities	418	1,231	565	150	17	2,381
Interest income on funds withheld and contract deposits	3	2	26	299	—	330
Other income	64	62	40	4	—	170
Ordinary investment income	**516**	**1,403**	**676**	**453**	**19**	**3,067**
Profit or loss on investments in associated companies	—	—	3	—	—	3
Income from write-ups	—	17	—	—	—	17
Realized gains on investments	259	397	368	11	—	1,035
Unrealized gains on investments	110	82	31	2	—	225
Investment income	**885**	**1,899**	**1,078**	**466**	**19**	**4,347**
Realized losses on investments	172	221	478	15	—	886
Unrealized losses on investments 2)	40	67	75	80	1	263
Total	**212**	**288**	**553**	**95**	**1**	**1,149**
Impairments/depreciation on investment property						
Scheduled	2	6	—	—	—	8
Unscheduled 2)	—	3	—	—	—	3
Impairments on equity securities	260	498	356	—	58	1,172
Impairments on fixed-income securities	50	44	86	11	—	191
Impairments on other investments	5	22	25	—	—	52
Expenses for the administration of investments	7	14	4	1	89	115
Other expenses	9	24	14	—	—	47
Other investment expenses/impairments	**333**	**611**	**485**	**12**	**147**	**1,588**
Investment expenses	**545**	**899**	**1,038**	**107**	**148**	**2,737**
Net investment income	**340**	**1,000**	**40**	**359**	**–129**	**1,610**

1) *Presentation after elimination of intra-Group relations*

2) *In 2008 an amount of EUR 40 million allocable to the impairments on equity securities was erroneously recognized in the unrealized losses in the Life Primary Insurance segment. In addition, reclassifications were made with respect to the unscheduled impairments/depreciation (EUR 11 million) between investment property and other investments. The figures were adjusted.*

Of the unscheduled impairments totaling EUR 344 million (EUR 1,418 million), an amount of EUR 123 million was attributable to other investments, including EUR 93 million on alternative investments. This includes impairments taken on private equity amounting to EUR 54 million. The impairments on fixed-income securities of EUR 101 (191) million were taken predominantly on structured assets. A further EUR 112 (1,172) million in impairment losses were recognized on equity holdings. This contrasted with write-ups of EUR 21 million on investments that had been written down in previous periods; of this total volume, EUR 11 million was attributable to alternative assets and EUR 10 million to fixed-income securities.

Net gains and losses on investments

The net gains and losses on investments shown in the following table are based largely on the classes established by the Group (see here "Classes of financial instruments" in the section "Nature of risks associated with insurance contracts and financial instruments", page 145).

Making allowance for interest income on funds withheld and contract deposits (EUR 447 (330) million) as well as expenses for the administration of investment (EUR 105 (115) million) and other expenses (EUR 40 (47) million), the total net investment income as at the balance sheet date amounted to EUR 2,866 (1,610) million.

2009	Ordinary investment income	Amortization	Gains on disposal	Losses on disposal	Impairments	Appreciation	Unrealized gains/ losses	Total [2]	Net exchange profit or loss
Figures in EUR million									
Investments in affiliated companies and participating interests	4	—	1	—	1	—	—	4	—
Loans and receivables	1,203	64	22	21	31	—	—	1,237	–10
Financial assets held to maturity	100	4	1	3	1	—	—	101	–31
Financial assets available for sale									
Fixed-income securities	961	26	233	82	69	9	—	1,078	–18
Variable-yield securities	52	—	130	75	112	—	—	–5	–4
Financial assets at fair value through profit or loss									
Fixed-income securities	36	12	6	1	—	—	30	83	—
Variable-yield securities	—	—	—	1	—	—	7	6	—
Derivatives	1	—	—	1	—	—	37	37	—
Financial assets – trading									
Fixed-income securities	—	—	—	—	—	—	—	—	—
Variable-yield securities	1	—	2	3	—	—	1	1	—
Derivatives	—	—	106	86	—	—	–72	–52	—
Other invested assets, insofar as they are financial assets	108	2	2	—	122	12	—	2	32
Other [1]	35	—	17	11	18	—	49	72	–3
Total	**2,501**	**108**	**520**	**284**	**354**	**21**	**52**	**2,564**	**–34**

[1] *For the purposes of reconciliation to the consolidated statement of income, the "Other" item combines the gains and losses on investment property, associated companies and derivative financial instruments – insofar as the fair values are negative; derivatives held for hedging purposes within the scope of hedge accounting (see Note 12) are not included in the list.*

[2] *Excluding interest income from funds withheld and contract deposits, expenses for the administration of investment and other expenses*

2008	Ordinary investment income	Amortization	Gains on disposal	Losses on disposal	Impairments	Appreciation	Unrealized gains/losses	Total [2]	Net exchange profit or loss
Figures in EUR million									
Investments in affiliated companies and participating interests	5	—	29	4	—	—	—	30	—
Loans and receivables	1,201	59	6	3	1	17	—	1,279	11
Financial assets held to maturity	60	6	—	—	—	—	—	66	1
Financial assets available for sale									
Fixed-income securities	940	31	162	87	191	—	—	855	50
Variable-yield securities	113	—	273	618	1,171	—	—	–1,403	–10
Financial assets at fair value through profit or loss									
Fixed-income securities	29	15	5	7	—	—	–96	–54	1
Variable-yield securities	—	—	16	3	—	—	–17	–4	—
Derivatives	2	—	92	6	—	—	26	114	—
Financial assets – trading									
Fixed-income securities	—	—	—	—	—	—	—	—	—
Variable-yield securities	—	—	—	—	—	—	–3	–3	—
Derivatives	—	—	427	147	—	—	137	417	—
Other invested assets, insofar as they are financial assets	227	6	—	5	51	—	—	177	–73
Other [1]	45	—	25	6	11	—	–85	–32	—
Total	**2,622**	**117**	**1,035**	**886**	**1,425**	**17**	**–38**	**1,442**	**–20**

[1] *For the purposes of reconciliation to the consolidated statement of income, the "Other" item combines the gains and losses on investment property, associated companies and derivative financial instruments – insofar as the fair values are negative; derivatives held for hedging purposes within the scope of hedge accounting (see Note 12) are not included in the list.*

[2] *Excluding interest income from funds withheld and contract deposits, expenses for the administration of investment and other expenses*

The interest income on investments was as follows in the year under review:

Interest income on investments	**2009**	**2008**
Figures in EUR million		
Loans and receivables	1,267	1,260
Financial assets – held to maturity	104	66
Financial assets – available for sale	987	971
Financial assets – at fair value through profit or loss	48	44
Financial assets – trading	—	—
Other	55	106
Total	**2,461**	**2,447**

(30) Claims and claims expenses

2009 [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	3,901	2,877	3,441	2,422	12,641
Change in loss and loss adjustment expense reserve	–322	26	–31	439	112
Change in benefit reserve	152	1,236	—	579	1,967
Expenses for premium refunds	14	335	—	—	349
Total	**3,745**	**4,474**	**3,410**	**3,440**	**15,069**
Reinsurers' share					
Claims and claims expenses paid	1,186	139	331	164	1,820
Change in loss and loss adjustment expense reserve	–422	3	–365	46	–738
Change in benefit reserve	–1	–46	—	18	–29
Expenses for premium refunds	2	—	—	—	2
Total	**765**	**96**	**–34**	**228**	**1,055**
Net					
Claims and claims expenses paid	2,715	2,738	3,110	2,258	10,821
Change in loss and loss adjustment expense reserve	100	23	334	393	850
Change in benefit reserve	153	1,282	—	561	1,996
Expenses for premium refunds	12	335	—	—	347
Total	**2,980**	**4,378**	**3,444**	**3,212**	**14,014**

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

2008[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	4,019	2,938	3,052	1,590	11,599
Change in loss and loss adjustment expense reserve	173	29	27	179	408
Change in benefit reserve	–32	818	—	446	1,232
Expenses for premium refunds	3	365	—	—	368
Total	**4,163**	**4,150**	**3,079**	**2,215**	**13,607**
Reinsurers' share					
Claims and claims expenses paid	949	154	781	162	2,046
Change in loss and loss adjustment expense reserve	203	–2	–454	11	–242
Change in benefit reserve	—	–56	—	33	–23
Expenses for premium refunds	—	—	—	—	—
Total	**1,152**	**96**	**327**	**206**	**1,781**
Net					
Claims and claims expenses paid	3,070	2,784	2,271	1,428	9,553
Change in loss and loss adjustment expense reserve	–30	31	481	168	650
Change in benefit reserve	–32	874	—	413	1,255
Expenses for premium refunds	3	365	—	—	368
Total	**3,011**	**4,054**	**2,752**	**2,009**	**11,826**

[1] *Presentation after elimination of intra-Group relations*

(31) Acquisition costs and administrative expenses

2009 [1]	Property/ Casualty Primary Insurance	Life Primary Insurance	Non-Life Reinsurance	Life/Health Reinsurance	Total
Figures in EUR million					
Gross					
Payments	862	832	1,108	777	3,579
Change in deferred acquisition costs	28	248	–36	–26	214
Total acquisition costs	**890**	**1,080**	**1,072**	**751**	**3,793**
Administrative expenses	**496**	**218**	**152**	**95**	**961**
Total acquisition costs and administrative expenses	**1,386**	**1,298**	**1,224**	**846**	**4,754**
Reinsurers' share					
Payments	268	83	37	43	431
Change in deferred acquisition costs	7	203	–3	72	279
Total acquisition costs	**275**	**286**	**34**	**115**	**710**
Net					
Payments	594	749	1,071	734	3,148
Change in deferred acquisition costs	21	45	–33	–98	–65
Total acquisition costs	**615**	**794**	**1,038**	**636**	**3,083**
Administrative expenses	**496**	**218**	**152**	**95**	**961**
Total acquisition costs and administrative expenses	**1,111**	**1,012**	**1,190**	**731**	**4,044**

[1] *Presentation after elimination of intra-Group relations*

2008[1]	Property/ Casualty Primary Insurance	Life Primary Insurance	Non-Life Reinsurance	Life/Health Reinsurance	Total
Figures in EUR million					
Gross					
Payments	840	983	950	808	3,581
Change in deferred acquisition costs	–5	–121	–36	–204	–366
Total acquisition costs	**835**	**862**	**914**	**604**	**3,215**
Administrative expenses	**451**	**220**	**148**	**68**	**887**
Total acquisition costs and administrative expenses	**1,286**	**1,082**	**1,062**	**672**	**4,102**
Reinsurers' share					
Payments	268	82	84	171	605
Change in deferred acquisition costs	4	11	3	–78	–60
Total acquisition costs	**272**	**93**	**87**	**93**	**545**
Net					
Payments	572	901	866	637	2,976
Change in deferred acquisition costs	–9	–132	–39	–126	–306
Total acquisition costs	**563**	**769**	**827**	**511**	**2,670**
Administrative expenses	**451**	**220**	**148**	**68**	**887**
Total acquisition costs and administrative expenses	**1,014**	**989**	**975**	**579**	**3,557**

[1] *Presentation after elimination of intra-Group relations*

(32) Other income/expenses

	2009	2008 [1]
Figures in EUR million		
Other income		
Other technical income	43	36
Exchange gains	206	151
Income from the recognition of negative goodwill	93	—
Income from services	151	120
Reversals of impairments on receivables	107	123
Income from contracts recognized in accordance with the deposit accounting method	40	26
Profits from the disposal of own-use real estate	1	9
Income from the release of other non-technical provisions	24	51
Interest income	36	59
Commission income	47	84
Rental income	32	41
Income from reimbursement of a purchase price	—	16
Income from the settlement of surety insurances	—	25
Income from the repurchase of own securities	30	24
Sundry income	197	233
Total	**1,007**	**998**
Other expenses		
Other technical expenses	220	111
Exchange losses	97	233
Other interest expenses	360	291
Depreciation and impairments	153	251
Expenses for the company as a whole	177	254
Expenses for services	167	120
Other taxes	20	17
Losses from the disposal of own-use real estate	—	1
Sundry expenses	140	129
Total	**1,334**	**1,407**
Other income/expenses	**–327**	**–409**

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

The balance of other technical income and expenses amounts to –EUR 177 (–75) million.

(33) Amortization of insurance-related intangible assets and goodwill impairments

The amortization of insurance-related intangible assets and goodwill impairments totaling EUR 269 (121) million include impairments/amortization on capitalized intangible assets in an amount of EUR 177 million as well as goodwill impairments (EUR 92 million).

For further information please see our remarks in the Notes "(1) Goodwill", page 170, and "(2) Other intangible assets", page 173.

(34) Financing costs

The financing costs of EUR 130 (156) million include all interest expenses for other capital borrowed for financing purposes. The interest expenses result principally from subordinated liabilities.

(35) 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 subsection entitled "Summary of major accounting policies". Deferred taxes are established on retained earnings of major affiliated companies in cases where a distribution is concretely planned.

The actual and deferred taxes on income can be broken down as follows:

Income tax	**2009**	**2008**
Figures in EUR million		
Actual tax for the year under review	370	299
Actual tax for other periods	24	–99
Deferred taxes due to temporary differences	77	145
Deferred taxes from loss carry-forwards	1	–3
Change in deferred taxes due to changes in tax rates	1	–1
Recognized tax expenditure	**473**	**341**

Domestic/foreign breakdown of recognized tax expenditure/income	**2009**	**2008**
Figures in EUR million		
Current taxes	394	200
Germany	306	124
Outside Germany	88	76
Deferred taxes	79	141
Germany	102	147
Outside Germany	–23	–6
Total	**473**	**341**

Contrary to a very clear opinion expressed by tax attorneys, the revenue authority is of the view that not inconsiderable investment income generated by the Group's reinsurance subsidiaries domiciled in Ireland is subject to additional taxation at the parent companies in Germany on the basis of the provisions of the Foreign Transactions Tax Act. Insofar as tax assessments to this effect have already been received, appeals have been filed – also with respect to the amounts already recognized as a tax expense. Our opinion has been confirmed in full by the court of the first instance.

The actual and deferred taxes recognized directly in equity in the financial year – resulting from items directly charged or credited to equity – amounted to –EUR 94 (–32) million.

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	**2009**	**2008** [1]
Figures in EUR million		
Profit before income taxes	1,405	456
Expected tax rate	31.6%	31.6%
Expected expense for income taxes	444	144
Change in deferred rates of taxation	1	–1
Taxation differences affecting foreign subsidiaries	–115	–51
Non-deductible expenses	142	222
Tax-exempt income	–65	–7
Value adjustment	10	–11
Tax expense not attributable to the reporting period	45	20
Other	11	25
Recognized expense for income taxes	**473**	**341**

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

The calculation of the expected expense for income taxes is based on the German income tax rate of 31.6%. This tax rate is made up of corporate income tax including the German reunification charge and a mixed trade tax rate.

The tax ratio, i.e. the ratio of the recognized tax expense to the pre-tax profit, stood at 33.7 (74.8)%. The tax rate corresponds to the average income tax load borne by all Group companies. The high tax ratio of the previous year was connected principally with the adverse trend on capital markets, since impairments/losses on our equity holdings – especially in the Non-Life Reinsurance segment – are not deductible under German tax law.

Availability of capitalized loss carry-forwards

No deferred taxes were established on loss carry-forwards of EUR 748 (624) million and deductible temporary differences of EUR 87 (97) million because their realization is not sufficiently certain. In addition, tax credits of EUR 22 (20) 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	6–10 years	> 10 years	Unlimited	Total
Loss carry-forwards	30	—	224	494	748
Tax credits	—	—	—	87	87
Total	—	—	—	22	22
Gesamt	**30**	**—**	**224**	**603**	**857**

Loss carry-forwards not recognized in previous years reduced the deferred expense for taxes by EUR 2 (11) million and the actual expense for taxes by EUR – (37) million in the year under review. The devaluation of deferred tax claims recognized in previous years led to a deferred tax expense of EUR 2 (11) million in the 2009 financial year.

Other information

Staff

The average number of staff employed throughout the year can be broken down as follows:

	2009	2008
Primary insurance companies	14,935	14,694
Reinsurance companies	1,986	1,790
Companies in the Corporate Operations segment	431	410
Total excluding apprentices and student trainees	**17,352**	**16,894**
Apprentices and student trainees	453	489
Total	**17,805**	**17,383**

Expenditures on personnel	**2009**	**2008**
Figures in EUR thousand		
Wages and salaries		
Expenditures on insurance business	819	791
Expenditures on the administration of investments	52	50
	871	**841**
Social security contributions and expenditure on provisions and assistance		
Social security contributions	141	133
Expenditures for pension provision	59	46
Expenditures for assistance	12	11
	212	**190**
Total	**1,083**	**1,031**

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 Versicherungsverein auf Gegenseitigkeit (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 AG 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 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.

On 4 November 2009 the Supervisory Board of Hannover Re decided to extend the waiting period applicable to members of the Executive Board from two to four years for stock appreciation rights granted from the 2010 allocation onwards; on 23 November 2009 the Executive Board of Hannover Re decided to extend the waiting period accordingly for the other members of the Group's senior management. Upon expiry of this waiting period a maximum 60% of the stock appreciation rights awarded for an allocation year may be exercised. The waiting period for each additional 20% of the stock appreciation rights awarded for this allocation year to a member of the managerial staff is one year.

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 20 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, 2006 and 2007 gave rise to the following commitments in the 2009 financial year. No allocations were made for 2001, 2005 or 2008.

Stock appreciation rights of Hannover Re	Allocation year 2007	2006	2004	2003	2002	2000
Award date	28.03.2008	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	10 years
Waiting period	2 years	2 years	2 years	2 years	2 years	2 years
Basic price (in EUR)	34.97	30.89	27.49	24.00	23.74	25.50
Participants in year of issue	110	106	109	110	113	95
Number of rights granted	926,565	817,788	211,171	904,234	710,429	1,138,005
Fair value at 31.12.2009 (in EUR)	5.76	6.50	10.96	8.63	8.79	5.49
Maximum value (in EUR)	10.79	10.32	24.62	8.99	8.79	5.49
Number of rights existing at 31.12.2009	908,637	789,773	156,454	55,897	10,047	1,503
Provisions at 31.12.2009 (in EUR million)	3.72	4.45	1.71	0.48	0.09	0.01
Amounts paid out in the 2009 financial year (in EUR million)	—	—	0.01	0.64	0.05	0.04
Expense in the 2009 financial year (in EUR million)	2.93	2.82	1.03	0.63	0.05	0.03

In the 2009 financial year the waiting period expired for 100% of the stock appreciation rights awarded in 2000, 2002 and 2003, 80% of those awarded in 2004 and 40% of those awarded in 2006. 6,525 stock appreciation rights from the 2000 allocation year, 560 stock appreciation rights from the 2002 allocation year, 79,262 stock appreciation rights from the 2003 allocation year and 1,500 stock appreciation rights from the 2004 allocation year were exercised. The total amount paid out stood at EUR 0.7 million.

The stock appreciation rights of Hannover Re have developed as follows:

Development of the stock appreciation rights of Hannover Re Number of options	Allocation year					
	2007	**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**
Granted in 2008	926,565	—	—	—	—	—
Exercised in 2008	—	—	1,699	121,117	93,747	—
Lapsed in 2008	—	3,103	1,443	2,162	944	—
Number of options at 31.12.2008	**926,565**	**805,931**	**161,146**	**135,159**	**10,607**	**8,028**
Granted in 2009	—	—	—	—	—	—
Exercised in 2009	—	—	1,500	79,262	560	6,525
Lapsed in 2009	17,928	16,158	3,192	—	—	—
Number of options at 31.12.2009	**908,637**	**789,773**	**156,454**	**55,897**	**10,047**	**1,503**
Exercisable at 31.12.2009	—	315,877	123,432	55,897	10,047	1,503

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 32.63 as at 21 December 2009, expected volatility of 32.97% (historical volatility on a five-year basis), a dividend yield of 6.13% and risk-free interest rates of 0.70% for the 2000 allocation year, 1.59% for the 2002 allocation year, 1.96% for the 2003 allocation year, 2.29% for the 2004 allocation year, 2.83% for the 2006 allocation year and 3.06% for the 2007 allocation year.

The average fair value of each stock appreciation right was EUR 5.49 for the 2000 allocation year, EUR 8.79 for the 2002 allocation year, EUR 8.63 for the 2003 allocation year, EUR 10.96 for the 2004 allocation year, EUR 6.50 for the 2006 allocation year and EUR 5.76 for the 2007 allocation year.

On this basis the aggregate provisions amounted to EUR 10.5 million (EUR 3.7 million). The expense for the 2009 financial year totalled altogether EUR 7.5 million.

Lawsuits

As a consequence of the merger with Gerling Konzern Allgemeine Versicherungs-AG, HDI-Gerling Industrie Versicherung AG – as the acquirer – became party to anti-trust administrative proceedings. In March 2005 the Federal Cartel Office had imposed a fine of EUR 19 million on Gerling Konzern Allgemeine Versicherungs-AG – along with other German insurers – on account of alleged cartel agreements in the German industrial insurance market. In January 2010 the Dusseldorf Higher Regional Court (OLG) cleared HDI-Gerling Industrie Versicherung AG of the cartel accusations because liability as the legal successor to Gerling Konzern Allgemeine Versicherungs-AG was out of the question. The chief public prosecutor's office in Dusseldorf than appealed the ruling, as a result of which the matter is now before the Federal Court of Justice awaiting a decision.

In the context of the acquisition of Lion Insurance Company, Trenton/USA, by Hannover Finance, Inc., Wilmington/USA – a subsidiary of Hannover Re –, a legal dispute exists with the former owners of Lion Insurance Company regarding the release of a trust account in an amount of around USD 13 million that serves as security for liabilities of the former owners in connection with a particular business segment.

With regard to the ongoing proceedings with the revenue authority relating to investment income generated by the reinsurance subsidiaries of some Group companies domiciled in Ireland, the reader is referred to our explanatory remarks in the Notes (Note "(35) Income taxes", page 220) and to the corresponding subsection in the risk report.

With the exception of the aforementioned proceedings, no significant court cases were pending during the year under review or as at the balance sheet date – with the exception of proceedings within the scope of ordinary insurance and reinsurance business activities.

Contingent liabilities and other financial commitments

Effective 31 March 2009 Hannover Re repaid in full a subordinated debt issued in the 1999 financial year by Hannover Finance, Inc., Wilmington/USA. The guarantee given by Hannover Re to secure the debt was thus also terminated.

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 (for further information on the subordinated debts please see the note "(17) Subordinated liabilities", page 195).

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 2,341 million (EUR 2,352 million). The securities held in the master trust are shown as available for-sale investments. In addition, Hannover Re extended further collateral to its cedants in an amount of EUR 310 million (EUR 269 million) in the form of so-called "single trust funds".

As part of its business activities Hannover Re holds collateral available outside the United States in various blocked custody accounts and trust accounts, the total amount of which in relation to the major companies of the Hannover Re Group was EUR 1,588 (1,389) million as at the balance sheet date.

HDI-Gerling Industrie Versicherung AG has blocked holdings of EUR 36 (47) 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 351 (319) 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.

As security for technical liabilities, various financial institutions have furnished sureties for us in the form of letters of credit. The total amount as at the balance sheet date was EUR 2,868 million. The standard market contractual clauses contained in some of the underlying letter of credit facilities regarding compliance with stipulated conditions are explained in the subsection "Management of liquidity risks" of the section "Nature of risks associated with insurance contracts and financial instruments", page 163.

For liabilities in connection with participating interests in real estate companies and real estate transactions Hannover Re Real Estate Holdings has furnished the usual collateral under such transactions to various banks, the amount of which totaled EUR 174 (86) million as at the balance sheet date.

At some Group companies potential financial obligations relating to investments existed at the end of the financial year in the amount of altogether EUR 425 million in connection with structured securities through issuers' rights to take delivery. The potential amounts that could be drawn upon totaled EUR 257 million for 2010, EUR 158 million for 2011 and EUR 10 million for 2012.

In addition, other financial commitments existed as at 31 December 2009 for investment volumes taken up but not yet paid out in an amount of EUR 49 million. Building loans to policyholders that had been awarded but not yet disbursed totaled EUR 7 million.

Commitments for contractually agreed future services in connection with IT outsourcing contracts amounted to altogether EUR 102 (177) million as at 31 December 2009.

Contractual obligations in an amount of EUR 13 million existed on the basis of various service agreements that had been concluded.

As guarantor institutions for Gerling Versorgungskasse VVaG, various Group companies are liable pro rata for any deficits that may be incurred by Gerling Versorgungskasse.

The Group's life insurance companies are members of the Security Fund for Life Insurers pursuant to §§124 et seq. 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 Lebensversicherung 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 336 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

Leases under which Group companies are the lessee

Outstanding commitments from contractual relationships existed in an amount of EUR 446 million as at the balance sheet date.

Future rental and leasing commitments	2010	2011	2012	2013	2014	Subsequent years
Figures in EUR million						
Payments	43	37	31	30	29	276

Operating leasing contracts produced expenditures of EUR 22 (27) million in the year under review. Multi-year lease contracts existed above all with respect to subsidiaries of Hannover Re in Africa and the United States. Further commitments refer to multi-year lease contracts entered into by primary insurance companies in Germany.

Leases under which Group companies are the lessor

The total amount of rental income due under non-cancellable contracts in subsequent years is EUR 147 million.

Future rental income	2010	2011	2012	2013	2014	Subsequent years
Figures in EUR million						
Payments to be received	20	20	19	19	20	49

Rental income in the year under review totaled EUR 21 million. It resulted principally from the renting out of properties by a US-based real estate company in the Non-Life Reinsurance segment.

Remuneration of the management boards of the parent company

Total remuneration of EUR 8,399 (10,629) thousand was paid to the Board of Management.

The total remuneration paid to the Supervisory Board amounted to EUR 918 (888) thousand.

Former members of the Board of Management and their surviving dependants received total remuneration of EUR 399 (244) thousand. An amount of EUR 6,678 (2,964) thousand was set aside to cover projected benefit obligations due to former members of the Board of Management and their surviving dependants.

No advances or loans were extended to members of the management boards in the year under review.

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:

	2009	**2008**
Figures in EUR million		
Salaries and other remuneration due in the short term	9,317	11,517
Expenses for retirement provision	3,088	1,705
Granting of equities and other equity-based remuneration	—	117
Total	**12,405**	**13,339**

Fee paid to the auditor

The appointed auditor of the Talanx Group's consolidated financial statement is KPMG AG Wirtschaftsprüfungsgesellschaft.

The fees expensed by KPMG AG and its affiliated companies* in the 2009 financial year within the meaning of § 318 German Commercial Code (HGB) amounted to EUR 13.7 (9.7) million. The amount includes a fee of EUR 8.1 (7.4) million for the auditing of the financial statement, EUR 1.0 (0.4) million for other appraisals and valuations, EUR 0.9 (0.4) million for tax consultancy services and EUR 3.7 (1.5) 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 4 November 2009 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. The present and all previous Declarations of Conformity of the company are published on Hannover Re's website (http://www.hannover-re.com/about/corporate/declaration/index.html).

Events after the balance sheet date

Catastrophe losses and major claims

The earthquakes in Haiti in the middle of January 2010 and in Chile at the end of February 2010 – measuring 7.0 and 8.8 respectively on the Richter scale – caused losses running into the billions. Based on early estimates, the Talanx Group has incurred net loss expenditure in the order of EUR 210 million.

** As at 31 December 2008 KPMG AG and its affiliated companies encompassed KPMG companies in Germany, the United Kingdom, Spain and Switzerland. Further KPMG companies were added in Belgium (effective 1 April 2009) and in the Netherlands, Luxembourg and Turkey (effective 1 October 2009). Fees relating to 2008 were adjusted accordingly.*

According to initial estimates, an explosion at a power plant under construction in the United States on 7 February 2010 will result in loss expenditure of approximately EUR 10 million for our subsidiary Hannover Re.

The insured losses caused by winter storm "Xynthia", which swept across Europe at the end of February 2010, are estimated to be in excess of EUR 1.5 billion. We are impacted by this catastrophe loss through our insurance and reinsurance activities; based on the information currently available, we anticipate a net loss burden of around EUR 60 million.

The causes of the collapse of the Cologne City Archive are currently still under investigation. Companies belonging to the Talanx Group are involved in liability covers existing for potentially responsible parties.

Other events

On 19 January 2010 our subsidiary Proactiv Holding AG and RheinLand Versicherungsgruppe signed a cooperation agreement regarding the joint development of credit life business in Europe. The two contracting parties are together establishing the agency company "Credit Life International Services", a joint venture based in Neuss in which each partner holds a 50% interest. Both partners will concentrate their expertise and resources in this new company and they will operate on the European level as credit life providers under the umbrella brand "Credit Life International".

In a press release dated 27 January 2010 our subsidiary Hannover Re announced that it had increased the "K6" transaction launched in the year under review with effect from 1 January 2010 by the maximum targeted amount of EUR 106 million to a total volume of EUR 230 million. The new tranches were taken up by both new and existing investors.

In March 2010 Hannover Re concluded a USD 500 million long-term letter of credit facility with Deutsche Bank. The facility will enable Hannover Re to make the most of further attractive growth opportunities in the US reinsurance market.

Negotiations are currently taking place regarding the sale of our subsidiary Euro International Reinsurance S.A., Luxembourg, which is allocated to the Non-Life Reinsurance segment. The sale has been targeted for 2010. Disclosure of the relevant assets and liabilities as a disposal group was not provided because the conditions of IFRS 5 had not been fully satisfied as at the balance sheet date.

Hannover, 8 April 2010

Board of Management

Haas	Dr. Hinsch	Kox	Dr. Noth
Dr. Querner	Dr. Roß	Wallin	

Auditors' report

We have audited the consolidated financial statements prepared by Talanx Aktiengesellschaft, Hannover, comprising the consolidated balance sheet, consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in shareholders' equity, cash flow statement, segment report and notes to the consolidated financial statements, together with the group management report for the business year from 1 January to 31 December 2009. 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 § 315 a 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 § 315 a 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, 23 April 2010

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Wirtschaftsprüfungsgesellschaft

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Glossary. A–D

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).

Actuary
Mathematician who deals with questions relating to insurance, investments and retirement provision.

Administrative expenses
Costs of current administration connected with the production of insurance coverage.

Asset management
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. The linkage between insurer and bank often takes the form of a capital participation or a long-term strategic cooperation between the two partners.

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.

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.

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.

Catastrophe bond (also: cat bond)
Instrument used to transfer catastrophe risks of a (re)insurer to the capital market.

Cedant (also: ceding company)
Primary insurer or reinsurer that passes on (cedes) shares of its insured risks to a reinsurer in exchange for a premium.

Claims equalization reserve
> equalization reserve

Combined ratio
Sum total of > loss ratio and > expense ratio
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.

Compliance
Statutory regulations and undertaking-specific rules governing the responsible and lawful actions of an undertaking and its employees.

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.

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
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.

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.

E–N

Earned premiums
Proportion of written premiums attributable to the insurance protection in the financial year.

EBIT
Earnings before interest and tax. > operating profit

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
Provision constituted to offset significant fluctuations in the loss experience of individual lines over a number of years.

Expense ratio
Ratio of acquisition costs and administrative expenses (net) to net premium 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
Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

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.

Hybrid capital
Capital in the form of subordinated debt and surplus debenture that exhibits a hybrid character of equity and debt.

Impairment
Unscheduled write-down taken if the present value of the estimated future cash flows of an asset falls below the carrying amount.

Insurance-linked securities
Financial instruments used to securitize risks under which the payment of interest and/or nominal value is dependent upon the occurrence and magnitude of an insured event.

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.

Letter of credit – LoC
Bank guarantee. In the United States, for example, a common way of furnishing collateral in reinsurance business.

Life/health insurance
Lines of business concerned with the insurance of persons, i.e. life, annuity, health and personal accident.

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 (net) including other technical income (net), but excluding any consolidation differences – including amortization of the shareholders' portion of the PVFP – to net premium earned. > PVFP

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
Incidence rate of disease relative to a given population group.

Mortality
Proportion of the total population dying within a given time interval.

Net
In insurance: used primarily to mean after deduction of reinsurance.

Non-proportional reinsurance
Reinsurance treaty under which the reinsurer assumes the loss expenditure in excess of a particular amount.

O–R

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.

OTC
Over the counter. In the case of securities: not traded on a stock exchange.

Personal lines
> Life/health insurance

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
a) All risks assumed by a primary insurer or reinsurer as a totality or in a defined segment.
b) Group of investments categorized according to specific criteria.

Premiums
Agreed compensation for the risks accepted by the insurer.

Present value of future profits
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: all lines in which the insured event does not trigger payment of an agreed fixed amount, but rather the incurred loss is reimbursed.

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.

PVFP
> Present value of future profits

Quota share reinsurance
Form of reinsurance under which the percentage share of the written risk is contractually agreed. The administrative expenditure for the reinsurer is very low.

Rate
Percentage (normally applied to the subject premium) of a reinsured portfolio, which under a > non-proportional reinsurance treaty produces the reinsurance premium payable to the reinsurer.

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
a) In general: business with private customers
b) AmpegaGerling: business involving investment funds that are designed essentially 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. carries for > net.

Retrocession
Ceding by a reinsurer of its risks or shares in its risks to other reinsurers.

Retrocessionaire
> Cedant, insofar as the ceded business involves reinsurance.

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.

Index of key terms

S–V

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.

Solvency II
Project of the European Commission to reform and harmonize European insurance regulations.

Specialty lines
a) In general: specialty insurance for niche business such as non-standard motor covers, fine arts insurance etc.
b) Hannover Re: segment of the non-life reinsurance business group, encompassing marine and aviation business, credit/surety, structured products, ILS (insurance-linked securities), the London Market and direct business.

Stress test
Form of scenario analysis used to be able to make quantitative statements about the loss potential of portfolios in the event of extreme market fluctuations.

Surplus participation
Legally required, annually determined participation of policyholders in the surpluses generated by life insurers.

Swap
Agreement between two counterparties to swap payments at contractually defined conditions and times. Virtually any type of cash flow can be exchanged. This makes it possible to systematically hedge financial risks associated with a portfolio or to add new risks to a portfolio in order to optimize returns.

Swaption
Option contract which enables the buyer to enter into an interest rate swap (> 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: balance of net premium earned and other technical income (net) as well as claims expenditure (net), acquisition costs and administrative expenses (net) and other technical expenses (net), including amortization of the shareholders' portion of the PVFP but excluding any consolidation differences. > PVFP

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.

Value at Risk
Potential losses that with a certain probability will not be exceeded in a given period.

Volatility
Measure of variability with respect to stock/bond prices, exchange rates and interest rates, and also insurance lines that can have a sharply fluctuating claims experience.

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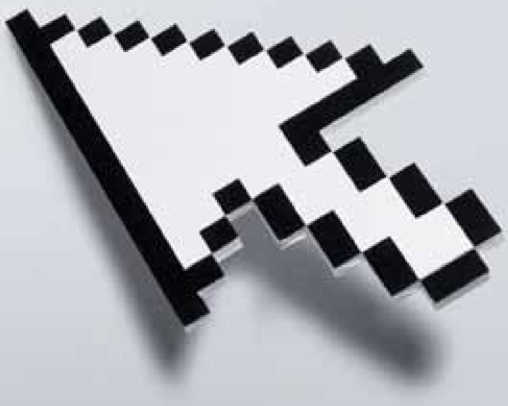

Our worldwide network

America

BM Bermuda.
Hannover Life Re Bermuda, Hamilton
Hannover Re Bermuda, Hamilton

BR Brazil.
Hannover Re (Representative Office), Rio de Janeiro
HDI Seguros, São Paulo

CA Canada.
Hannover Re (Branch), Toronto

CL Chile.
HDI Seguros, Santiago

CO Colombia.
Hannover Re (Representative Office), Bogotá

MX Mexico.
Hannover Services (México), Mexico-City
HDI-Gerling de México Seguros, Mexico-City
HDI Seguros, León

US USA.
Clarendon Insurance Group, New York
Hannover Life Re America, Orlando
Hannover Re Services USA, Itasca/Chicago
HDI-Gerling America Insurance Company, Chicago

Europa

AT Austria.
Aspecta Lebensversicherung, Vienna
HDI-Gerling Financial Services, Vienna
HDI Versicherung, Vienna

BE Belgium.
HDI-Gerling Assurances/Verzekeringen, Brussels

BG Bulgaria.
HDI Zahstrahovane, Sofia

CH Switzerland.
HDI-Gerling Industrie (Branch), Zurich

CZ Czech Republic.
HDI Versicherung (Branch), Prague

DE Germany.
AmpegaGerling, Cologne
Aspecta, Cologne
E+S Rück, Hannover
Hannover Re, Hannover
HDI Direkt, Hannover
HDI-Gerling Life Group, Cologne
HDI-Gerling Property & Casualty Group, Hannover
Neue Leben, Hamburg
PB Versicherungen, Hilden
Proactiv, Hilden
Protection Re, Hannover
Talanx, Hannover
Targo Versicherungen, Hilden

ES Spain.
HDI Seguros, Madrid/Barcelona
HR Hannover Re, Madrid

FR France.
Hannover Re (Branch), Paris
HDI-Gerling Industrie (Branch), Paris

GR Greece.
HDI-Gerling Industrie (Branch), Athens

HU Hungary.
HDI Versicherung (Branch), Budapest
Magyar Posta Biztosító, Budapest
Magyar Posta Életbiztosító, Budapest

IE Ireland.
Hannover Life Re (Ireland), Dublin
Hannover Re (Ireland), Dublin
HDI Reinsurance, Dublin

*Subject to regulatory approval

IT **Italy.**
Aspecta Assurance International, Milan
Hannover Re Services Italy, Milan
HDI Assicurazioni, Rom
HDI-Gerling Industrie (Branch), Milan

LI **Liechtenstein.**
Aspecta Assurance International, Vaduz

LU **Luxembourg.**
Aspecta Assurance International, Luxembourg
Euro International Re, Luxembourg
Hannover Finance, Luxembourg
Talanx Finanz, Luxembourg

NL **Netherlands.**
HDI-Gerling Verzekeringen, Rotterdam

NO **Norway.**
HDI-Gerling Industrie (Branch), Oslo

PL **Poland.**
HDI Asekuracja, Warsaw
HDI-Gerling Polska, Warsaw
HDI-Gerling Życie, Warsaw

SE **Sweden.**
Hannover Re (Branch), Stockholm
International Insurance Company of Hannover (Niederlassung), Stockholm

SK **Slovakia.**
HDI Versicherung (Branch), Bratislava

TR **Turkey.**
CiV Hayat Sigorta, Istanbul
HDI Sigorta, Istanbul

UA **Ukraine.**
HDI Strakhuvannya, Kiew

UK **United Kingdom.**
Hannover Life Re UK, Virginia Water
Hannover Services UK, Virginia Water
HDI-Gerling Industrie (Branch), London
International Insurance Company of Hannover, Bracknell/London

Africa

ZA **South Africa.**
Compass Insurance Company, Johannesburg
Hannover Life Re Africa, Johannesburg
Hannover Re Africa, Johannesburg
HDI-Gerling Insurance South Africa, Johannesburg

Australia

AU **Australia.**
Hannover Life Re Australasia, Sydney
Hannover Re (Branch), Sydney
HDI-Gerling Australia Insurance Company, Sydney
HDI-Gerling Industrie (Branch), Sydney

Asia/Pazific

BH **Bahrain.**
Hannover ReTakaful, Manama
Hannover Re (Branch), Manama

CN **China.**
Hannover Re (Hong Kong Branch)
Hannover Re (Shanghai Branch)
Hannover Re (Representative Office), Shanghai
HDI-Gerling Industrie (Branch), Hong Kong

IN **India.**
Hannover Re Consulting Services, Mumbai
Magma HDI General Insurance, Kolkata*

JP **Japan.**
Hannover Re Services Japan, Tokyo
HDI-Gerling Industrie (Branch), Tokyo

KR **Korea.**
Hannover Re (Branch), Seoul

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