

Group Interim Report

as at 30 September 2011

talanx.

Key figures

		1.1.–30.9.2011	1.1.–30.9.2010	+/- %
Talanx Group overall				
Gross written premium	EUR m	17,843	17,255	+3.4
by regions				
Germany	%	38.5	39.7	-1.2 points
Rest of Europe	%	30.6	30.6	0.0 points
North America	%	13.5	15.2	-1.7 points
Australia/Asia	%	8.1	6.4	+1.7 points
Other countries	%	9.3	8.1	+1.2 points
Net premium earned	EUR m	14,114	13,870	+1.8
Underwriting result	EUR m	-1,364	-1,596	+14.5
Net investment income	EUR m	2,352	2,404	-2.2
Operating profit/loss (EBIT)	EUR m	720	758	-5.0
Net profit (after tax)	EUR m	566	473	+19.7
Group net income (after non-controlling interests)	EUR m	329	115	+186.1
Return on equity ¹⁾	%	8.6	3.2 ⁵⁾	+5.4 points
Presentation by segments²⁾				
Industrial Lines				
Gross written premium	EUR m	2,556	2,527	+1.1
Net premium earned	EUR m	1,095	1,084	+1.0
Underwriting result	EUR m	74	-13	n.a.
Net investment income	EUR m	151	172	-12.2
Operating profit/loss (EBIT)	EUR m	168	182	-7.7
Retail Germany				
Gross written premium	EUR m	5,006	5,067	-1.2
Net premium earned	EUR m	3,797	3,823	-0.7
Underwriting result	EUR m	-972	-1,305	+25.5
Net investment income	EUR m	1,149	1,234	-6.9
Operating profit/loss (EBIT)	EUR m	111	-2	n.a.
Retail International				
Gross written premium	EUR m	1,774	1,651	+7.5
Net premium earned	EUR m	1,362	1,319	+3.3
Underwriting result	EUR m	-49	-106	+53.8
Net investment income	EUR m	112	116	-3.7
Operating profit/loss (EBIT)	EUR m	18	-29	+162.1
Non-Life Reinsurance				
Gross written premium	EUR m	5,220	4,826	+8.2
Net premium earned	EUR m	4,391	4,068	+7.9
Underwriting result	EUR m	-224	30	n.a.
Net investment income	EUR m	608	527	+15.4
Operating profit/loss (EBIT)	EUR m	352	669	-47.4
Life/Health Reinsurance				
Gross written premium	EUR m	3,844	3,730	+3.1
Net premium earned	EUR m	3,487	3,405	+2.4
Underwriting result	EUR m	-193	-202	+4.5
Net investment income	EUR m	350	363	-3.6
Operating profit/loss (EBIT)	EUR m	147	213	-31.0
Combined ratio in property/casualty insurance and non-life reinsurance³⁾	%	102.0	100.5	+1.5 points
Combined ratio in property/casualty insurance	%	98.2	102.4	-4.2 points
Combined ratio in non-life reinsurance	%	104.9	99.1	+5.8 points
		30.9.2011	31.12.2010	+/- %
Policyholders' surplus	EUR m	11,019	10,771	+2.3
Equity attributable to shareholders of Talanx AG	EUR m	5,257	4,945 ⁵⁾	+6.3
Non-controlling interests	EUR m	3,134	3,035	+3.3
Hybrid capital	EUR m	2,628	2,791	-5.8
Investments under own management	EUR m	75,256	72,461	+3.9
Total investments	EUR m	86,579	83,422	+3.8
Return on investment ⁴⁾	%	3.8	4.2	-0.4 points
Total assets	EUR m	113,303	111,100	+2.0
Staff	FTEs	17,149	16,874	+1.6

¹⁾ Annualized net profit excluding non-controlling interests relative to average shareholders' equity excluding non-controlling interests

²⁾ Before elimination of internal transactions within the Group across segments

³⁾ Combined ratio adjusted for deposit interest received after elimination of internal transactions within the Group across segments

⁴⁾ Investment income excluding deposit interest received relative to average investments under own management

⁵⁾ Adjusted on the basis of IAS 8

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Deputy Chairman

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

Prof. Dr. Eckhard Rohkamm

Deputy Chairman

Former Chairman of the Board of
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Technologies AG,
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Antonia Aschendorf

(from 1 September 2011)

Attorney,
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Hannover Rückversicherung AG,
E+S Rückversicherung AG,
Hannover

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Employee, HDI-Gerling
Industrie Versicherung AG,
Oberhausen

Otto Müller

Employee,
Hannover Rückversicherung AG,
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Hannover

Bodo Uebber

(until 31 August 2011)
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Stuttgart

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Group management report

Markets and business climate

Overall economic development

The global economy underwent a cooldown in the first three quarters of 2011. Business activity in the United States was flat at the beginning of the year, although it went on to regain some momentum. Within the Eurozone the picture was in some respects a very mixed one. Most strikingly, countries on the Eurozone periphery – which are faced with austerity drives on a massive scale – suffered marked cuts in growth. The German economy also lost some of its energy in the course of the second quarter, generating even less vigorous growth than the Eurozone as a whole at just 0.1%.

The US labor market failed to see any easing as 2011 progressed. Key leading indicators simply caved in; consumer confidence in the US similarly took a considerably darker turn. Within the Eurozone Germany continues to be the bright spot on the labor market; yet in most other Eurozone countries unemployment is high (Spain 21%, Greece 16%, Portugal 12%). Some leading indicators – such as the Ifo Index and the Purchasing Managers Index – were, however, also disappointing of late for the Eurozone.

The Eurozone GDP growth of 0.2% in the second quarter was sobering after the 0.8% recorded in the first quarter. In the United States the figure for the first quarter was revised sharply downwards from 1.9% to 0.4%, while the annualized rate in the second quarter was 1.3%. The United Kingdom fared similarly poorly with growth rates of 0.4% in the first and 0.1% in the second quarter.

The monetary policy pursued by the major central banks has remained expansionary in the course of 2011. Despite the protracted debt crisis the ECB has raised the key rate to 1.5% in two increments, although of late it has seen downside risks for the European economy. Accordingly, it cut the key rate by 25 basis points to 1.25% on 3 November 2011.

In the first two quarters of 2011 the euro profited from the more restrictive monetary policy of the ECB, climbing from around USD 1.34 to the euro to a high of USD 1.48. With the economic prospects for the Eurozone looking gloomier – coupled with the ongoing sovereign debt crisis –, the euro came under increasing pressure in the third quarter and fell against the greenback to a level of USD 1.35 to the euro.

Capital markets

In the first three quarters of 2011 bond markets were primarily dominated by the unresolved debt and credit crisis affecting the so-called GIIPS countries. The situation has become more strained in the last quarter even though the bank stress tests carried out in the middle of July passed off on a broadly positive note. Present circumstances point to a renewed banking crisis: the liquidity supply is principally provided through extended central bank lines. The ECB remains active on the secondary market with its purchasing of government bonds issued by countries on the Eurozone periphery, while a new program to buy up covered bonds has also been approved. The strengthening of trust in the banking sector is increasingly coming into the political focus.

Equity markets came under particular strain in the first quarter as a consequence of the disaster in Fukushima. The continued unresolved sovereign debt crisis within the Eurozone and the ongoing discussion surrounding a possible Greek debt reduction prompted a global stock crash in the third quarter, accompanied by a renewed banking crisis. As at the end of the third quarter the DAX was around 20% lower than the level at the beginning of the year. The EURO STOXX 50 TR similarly shed almost 20% of its value. With a fall of 10% the losses on the US S&P 500 were only half as high.

Insurance markets

Compared to the previous quarter, the business climate in the German insurance industry has become less favorable in some areas. The prevailing mood varies in life insurance and on the property/casualty side: while the current situation in life insurance is assessed more negatively, the business atmosphere in property/casualty insurance – driven by developments in motor insurance as well as in the property lines – is brighter.

No significant implications of the sovereign debt crisis could be observed in German property/casualty insurance in the first nine months. This is principally due to the time lag with which changes in overall economic conditions make themselves felt in the insurance sector. Fierce price competition, on the other hand, continues to be a major driver of the

business development, although early softening tendencies are becoming evident. Thus, for example, it was pleasing to note that in the 2010/2011 turn-of-the-year policy renewals in motor insurance – by far the largest line in property/casualty insurance and the profitability of which had been heavily eroded in recent years – it was possible to push through premium increases again both in new business and for in-force policies. This caused the pace of growth in this line to pick up appreciably.

Intense competition is similarly the hallmark of industrial and commercial property insurance; although further growth potential here is generally limited by the already achieved high level of market penetration, this business was nevertheless able to profit from the recent recovery of the business sector and boosted its premium volume in subsegments such as marine and credit insurance. In business with retail customers demand has been stable over the course of the year to date. In light of the favorable state of the economy, the strain from loss events has tended to increase relative to the previous year.

On the German life insurance market (including occupational retirement provision in the form of "Pensionskassen" and "Pensionsfonds") gross written premium looks set to decline in 2011 by around 6% to 7%. In this context regular premiums can be expected to record a marginal decrease. Business with a single premium payment, on the other hand, is showing a sharp downturn of some 20%; it is thus moving towards normalization after the extraordinarily dynamic growth recorded in prior years. This is therefore also the major factor in the anticipated premium contraction in German life insurance.

The depressed growth in business with long-duration products can be attributed to the fact that demand among customers has already been overshadowed by marked purchasing restraint for quite some time now. This is primarily due to the general uncertainty surrounding the development of the basic economic environment and financial markets going forward – doubts which have existed since the onset of the global financial and economic crisis. Since the crisis first set in this has deterred broad swathes of consumers from entering into financial commitments through long-term contracts. What is more, the growing importance of single-premium

contracts in recent years has gone hand-in-hand with greater volatility in life insurance business, which otherwise tends to be geared more towards long-term asset growth. Against this backdrop, the increase of around 2% in new business with a regular premium payment – the first such rise in a long time – should be assessed positively.

Although the situation on the international non-life reinsurance markets varies across regions and segments, it is driven by stable demand overall for reinsurance protection. Emerging markets continue to post good growth figures. In Europe, demand among ceding companies is being fostered inter alia by the growing need for solvency capital that is becoming apparent under Solvency II. In this context, clients will continue to attach considerable significance to a reinsurer's financial strength. The heavy burden of natural catastrophe losses incurred over the year to date, including the floods in Australia, the earthquake in New Zealand and the tsunami in Japan – together with the devastation triggered by these events – not only led to sometimes appreciable price increases as early as the April and June/July treaty renewals; they are also likely to push up prices for natural catastrophe covers through the necessary recalibration of the corresponding exposures – not just in the impacted regions but also worldwide.

The general environment in international life/health reinsurance remains favorable in the period under review. The aging of the population in established insurance markets such as the United States, Japan, United Kingdom and Germany is promoting greater awareness of the need for provision. This has proven especially beneficial to providers of annuity and health insurance products. Yet in leading emerging markets such as China, India and Brazil demand for individual retirement provision is also rising. Financially oriented reinsurance solutions, i.e. models designed to strengthen the equity base of primary insurers, continue to enjoy sustained demand. Yet at the same time we are faced with regulatory uncertainties and a challenging capital market climate.

Business development of the Talanx Group

	1.1.– 30.9. 2011	1.1.– 30.9. 2010	+/-
Figures in EUR million			
Gross written premium	17,843	17,255	+3%
Net premium earned	14,114	13,870	+2%
Underwriting result	-1,364	-1,596	+15%
Net investment income	2,352	2,404	-2%
Operating profit/loss (EBIT)	720	758	-5%
Combined ratio (net, property and casualty only)	102.0%	100.5%	points

In the third quarter of 2011 the Talanx Group entered into and extended two major strategic partnerships respectively. In August we took another step in our strategy of internationalization by agreeing on a strategic partnership with the Vietnamese company Petro Vietnam Insurance Holdings (PVI Holdings). Our subsidiary HDI-Gerling Industrie Versicherung AG became its partner through the acquisition of a 25% stake in PVI Holdings; the transaction closed in the fourth quarter. The two companies will pool their resources in the relevant insurance areas – *inter alia* also with the support of the Talanx subsidiary Hannover Re. This partnership with the successful and strong insurer PVI Holdings gives us access to the Vietnamese growth market and also secures a solid foundation for cultivating further activities in this highly attractive region. At the same time, we will be able to offer our own locally invested customers an all-round service.

In the asset management sector a cooperation between Talanx Asset Management GmbH and the Austrian asset manager C-Quadrat Investment AG has already been in place since the end of 2010. This strategic partnership was further expanded: Talanx Asset Management expects to award management mandates to C-Quadrat Kapitalanlage AG as early as the fourth quarter of 2011 for fund portfolios in the form of funds of funds with an absolute return investment profile in an amount of some EUR 300 million. Another step in the cooperation is the planned establishment of a joint venture geared specifically to institutional sales partners and hence intended to open up new distribution channels. Business activities are planned to start in 2012.

At the end of October the rating agency Standard & Poor's confirmed the Talanx Primary Group's key financial strength rating of A+, with special mention being made of the Group's capital strength and its leading competitive position in industrial lines and in German bancassurance business.

Premium volume

The Group's gross written premium increased relative to the corresponding period of the previous year by 3% to reach EUR 17.8 (17.3) billion for the first nine months of 2011. Adjusted for exchange rate effects growth would have come in at 4%. With the exception of Retail Germany, all segments recorded premium growth. Non-Life Reinsurance generated the strongest increase (8% before exchange rate effects), followed by Retail International with a gain of 7% excluding exchange rate effects.

Despite the modest increase in the level of retained premium, net premium earned only grew by just under 2% to EUR 14.1 (13.9) billion owing to the rise in unearned premiums – driven in particular by the large share of new business in unit-linked life insurance as well as the pleasing growth in credit life insurance products.

Underwriting result

In the first nine months of the year, the underwriting result improved on the corresponding period of the previous year in all segments except for Non-Life Reinsurance, where a slight plus slipped into sharply negative territory as a consequence of the major losses in the first quarter. It was negative in all the other operational segments apart from Industrial Lines, where a profit was reported – contrasting with a slight deficit booked in the comparable period of the previous year. On the Group level the underwriting result is regularly negative because the participation of policyholders in the investment income generated by our life insurers is recognized here. It improved by EUR 232 million or 15%. These improvements are attributable in part to a lower volume of single premiums, but also to the reduced investment income and hence a smaller allocation to the benefit reserve.

The rise in the combined ratio from 100.5% to 102.0% can be attributed both to the expense ratio (26.6% as against 25.9% in the previous year) and the increase of 0.9 percentage points in the loss ratio. Despite the heavy burden of major losses in Non-Life Reinsurance, the increase was very slight because the ratios in Industrial Lines and in the Retail International segment were significantly lower than in the corresponding period of the previous year.

Investment income

The development of investment income ran contrary to the underwriting result: in a protracted low-interest environment it declined in each of the individual segments by a single-digit or low double-digit percentage amount; only in Non-Life Reinsurance was there a significant rise of 15%. Investment income for the Group as a whole contracted by 2% to EUR 2.4 (2.4) billion.

Operating result (EBIT)

The operating result (EBIT) generated by our segments developed very inconsistently; in both Retail Germany and Retail International it increased (in the previous year both segments had seen a slight decrease). On the other hand, it declined in Industrial Lines and especially in the Reinsurance segments. Their share of the operating profit (EBIT) generated by the operational segments consequently contracted from 88% in the previous year to 64%.

Group EBIT was also adversely impacted by a decline in other income, which includes *inter alia* a decrease in the balance of exchange gains and losses. The operating profit (EBIT) within the Group retreated by 5% from EUR 758 million to EUR 720 million.

The net profit for the period climbed by almost 20% thanks to sharply lower income taxes. Group net income more than doubled owing to reduced non-controlling interests: it stood at EUR 329 (115) million for the first nine months of 2011.

Business development of the segments Industrial Lines

	1.1.– 30.9. 2011	1.1.– 30.9. 2010	+/-
Figures in EUR million			
Gross written premium	2,556	2,527	+1%
Net premium earned	1,095	1,084	+1%
Underwriting result	74	-13	n.a.
Net investment income	151	172	-12%
Operating profit/loss (EBIT)	168	182	-8%
Combined ratio (net)	93.1%	101.2%	-8.1 points

The Industrial Lines division is led by HDI-Gerling Industrie Versicherung AG. As an internationally operating industrial insurer, HDI-Gerling Industrie supports its clients at home and abroad with bespoke solutions optimally tailored to their individual needs. Industrial clients in Germany and abroad benefit from decades of experience. Comprehensive insurance solutions are assembled on the basis of customized coverage concepts. We thereby provide the complete product spectrum needed to protect against entrepreneurial risks.

Premium volume

Gross written premium in the segment amounted to EUR 2.6 (2.5) billion as at the end of the third quarter 2011, corresponding to an increase of 1%.

In the motor line gratifying growth of around EUR 19 million was generated in the German market on the basis of tariff increases in the in-force portfolio and the positive development of new business. Premiums in the fire line also fared well, recording a modest increase of around EUR 12 million relative to the comparable period of the previous year. The industrial liability line saw premium decreases of roughly EUR 40 million relative to the corresponding period of the previous year – which had been notable for significant additional premiums from individual relationships – owing to the termination of some sizeable accounts as well as increased risk assumption by captive insurers. Declines in the marine line were driven by portfolio rehabilitation measures.

Turning to the international arena, business in the various submarkets was stable overall with a positive tendency. In the fire line growth was particularly vigorous in France at around EUR 25 million. Our Belgian company contributed an increase of some EUR 9 million to gross premiums in the segment, largely through a new business relationship. In the Netherlands premiums also developed favorably. The Spanish company held its ground well in a market climate that remains fiercely competitive, booking gross premiums on a par with the previous year's period. The Austrian company also recorded a stable development. As an established niche insurer transacting primarily specialty lines such as professional indemnity and D&O as well as offering crisis management services, the Dutch company Nassau Verzekering Maatschappij N.V., Rotterdam (Nassau) – which was included for the first time in the second quarter of 2011 – delivered gross written premium of EUR 22 million.

Reinsurance premiums increased by around EUR 12 million; in the previous year's period reinstatement premium of EUR 26 million was included, which reduced the net premium earned in the full amount. Unearned premium was 9% higher in the third quarter of 2011 at EUR 229 (211) million; this effect was largely offset by a 14% increase in the ceded share thereof to EUR 102 (90) million, as a result of which net premium earned in the Industrial Lines segment increased slightly to EUR 1,095 (1,084) million.

Underwriting result

The Industrial Lines segment closed the end of the third quarter 2011 with a net underwriting profit of EUR 74 million, contrasting with a deficit of EUR 13 million in the comparable period of the previous year. The net expense ratio amounted to 21.4 (19.8)%, while the loss ratio stood at 71.8 (81.4)% – hence producing – especially on account of the sharply lower loss ratio – a significantly improved combined ratio of 93.1 (101.2)%.

Net claims and claims expenses in the Industrial Lines segment fell by 7% to EUR 761 (815) million. Major claims were incurred most notably in the fire line; the March earthquake and tsunami in Japan produced a net strain of EUR 44 million in the third quarter, principally in the fire line. Along

with other losses the flooding in Australia is worth mentioning, with a total burden in the order of EUR 3 million for net account.

Investment income

Investment income in the segment contracted by around 12% to EUR 151 (172) million; the decline is, however, attributable chiefly to HDI-Gerling Industrie, which booked income of EUR 122 (150) million as at the end of the third quarter 2011. Decisive factors here were impairments on equities as well as – to a modest extent – on Greek government bonds. The other companies in the Industrial Lines segment generated stable investment income; Nassau Verzekering recorded income from investments amounting to a good EUR 3 million.

Operating result (EBIT)

The operating profit (EBIT) in the Industrial Lines stood at EUR 168 (182) million after the third quarter of 2011. Key factors here were the decline in the other income and investment income – driven by exchange rate movements –, which was not entirely offset by the rise in the net underwriting result.

Retail Germany

	1.1.– 30.9. 2011	1.1.– 30.9. 2010	+/-
Figures in EUR million			
Gross written premium	5,006	5,067	-1%
Net premium earned	3,797	3,823	-1%
Underwriting result	-972	-1,305	+25%
Net investment income	1,149	1,234	-7%
Operating profit/loss (EBIT)	111	-2	n.a.
Combined ratio (net, property and casualty only)	101.8%	101.7%	points

The Retail Germany division brings together within the Talanx Group the German business transacted by HDI-Gerling with private and commercial customers as well as all German bancassurance activities.

Premium volume

Gross written premium in this Group segment – including savings elements of premiums from unit-linked life insurance – contracted by around 1% in the period under review to EUR 5.0 (5.1) billion.

While premiums in the life insurance sector fell, property/casualty business continued to show a very pleasing development. This can be attributed in part to high-volume new business and also to premium adjustments. Premium income in the period under review climbed 6% year-on-year to EUR 1,337 (1,263) million. Our most important P/C line, namely motor business, benefited particularly strongly from this trend, booking both higher in-force premiums and growth in policy numbers.

Reflecting the market trend, declining single premiums in life insurance led to gross written premium – including savings elements of premiums from unit-linked life insurance – of EUR 3,670 (3,804) million. PBV Lebensversicherung AG – which was merged into PB Lebensversicherung AG on 4 October 2011 with retroactive effect from 1 January 2011 – nevertheless significantly enlarged its single premium business against the trend and boosted its premium income by 11%. Neue Leben Lebensversicherung AG increased its income from regular premium payments in individual life business; driven by growth in credit life insurance, TARGO Lebensversicherung AG also posted a positive development in this area. In the case of HDI-Gerling Lebensversicherung AG, the high number of maturities relative to new business shaped the premium development and – with single premiums holding stable – led to a drop in premium income.

The level of retained premium climbed from 90.5% to 93.2%. This can be attributed to a reduced proportion of reinsurance cessions in life insurance business – resulting from the commutation of quota share reinsurance treaties in the previous year. After elimination of the savings elements of premiums for our unit-linked products and allowing for the change in unearned premiums, net premium earned came in at EUR 3,797 (3,823) million.

Measured by the Annual Premium Equivalent (APE), the growth in new business booked by our companies operating in the segment was satisfactory overall. At EUR 505 million, it surpassed the level of the previous year and – in view of the forecast decline in single-premium business – exceeded expectations. HDI-Gerling Firmen und Privat Versicherung AG was notable for an increase of 29% to EUR 93 million on account of its success in co-insurance business. Despite the expected drop in single-premium business, TARGO Lebensversicherung AG and PBV Lebensversicherung AG reported favorable developments.

Underwriting result

The underwriting result for the segment improved markedly by 25% to –EUR 972 (–1,305) million. This development was crucially influenced by life insurance products: their share improved year-on-year by 26% to EUR 954 (1,288) million. The improvement in the life insurers' underwriting performance in the period under review was primarily driven by the development of investment income, the decline of which resulted in reduced policyholder participations. The claims and claims expenses (net) associated with life insurance products thus fell – in part, however, also as a consequence of the drop in single premiums – by 8% to EUR 3,250 (3,516) million. In addition, a decrease in the amortization of PVFPs from acquired life insurance portfolios also played a key part in easing the strain on profitability.

The development of the underwriting result from our property/casualty insurance products was shaped principally by higher amortizations of deferred acquisition costs. Acquisition costs and administrative expenses (net) thus climbed to –EUR 363 (–310) million. The positive premium development combined with a virtually unchanged loss ratio had a favorable effect on profitability. What is more, the profits from the run-off of reserves constituted for prior years were substantially boosted. Altogether, the underwriting result in this area slipped to –EUR 20 (–16) million.

Investment income

The investment income booked in the segment fell notably by 7% to EUR 1.1 (1.2) billion. With an unchanged share of 93%, the bulk of this amount is attributable to life insurance products. Of the total investment income, around EUR 1,064 (1,138) million was therefore to be credited pro rata to the holders of life insurance policies. Ordinary income profited heavily from the substantial single-premium business of the previous year. All in all, though, the dominant factor is the development of extraordinary income, which contracted in the period under review to EUR 5 million after EUR 141 million in the corresponding period of the previous year. In this regard, the performance of the comparable period had been driven by disposal gains from special funds. In the period under review, by contrast, it was necessary *inter alia* to take losses on disposals in connection with the sale of equities.

Operating result (EBIT)

The operating profit (EBIT) generated by the segment stood at EUR 111 (–2) million, although it should be borne in mind that the comparable period had been impacted by adjustments in the context of the division's reorientation. The increase stemmed primarily from the improved underwriting result, which – allowing for offsetting of the significant drop in investment income – was also assisted by reduced amortization on the PVFPs from acquired portfolios.

Retail International

	1.1.– 30.9. 2011	1.1.– 30.9. 2010	+/-
Figures in EUR million			
Gross written premium	1,774	1,651	+7%
Net premium earned	1,362	1,319	+3%
Underwriting result	–49	–106	+54%
Net investment income	112	116	–4%
Operating profit/loss (EBIT)	18	–29	n.a.
Combined ratio (net, property and casualty only)	99.7%	104.5%	–4.8 points

The Group segment of Retail International brings together the activities of the companies transacting retail business in property/casualty insurance, life insurance and bancassurance in international markets. The segment is led by Talanx International AG.

In this division we offer private and commercial customers outside Germany comprehensive insurance protection. By drawing upon local, industry-specific know-how and our presence through an extended distribution network we are able to identify our customers' particular requirements and provide customized solutions.

Market development

Brazil, Poland and Italy continue to rank among the highest-volume markets in this segment. On the Brazilian market we are particularly active in motor insurance, which promises further growth in keeping with the favorable economic trend. Poland's economic output has already shown softer, but nevertheless positive growth since 2009, which also promises further growth for the insurance market. In addition to motor insurance, we transact other lines in Poland such as casualty and general property insurance as well as life insurance. On the Italian market we conduct operations both in the life insurance market and in property/casualty insurance – predominantly motor insurance. The company there noted the first indications of rate increases beginning to take hold in motor insurance after several years of fierce competitive and pricing pressure.

Premium volume

Gross written premium in the segment increased by around 7% relative to the corresponding period of the previous year to reach altogether EUR 1.8 (1.7) billion.

New additions in the second quarter were a company in Argentina for property/casualty and life insurance products and a company in Uruguay for property/casualty products. The company in Uruguay contributed a premium volume of almost EUR 4 million in the third quarter, while the Argentinian company generated premium of altogether EUR 25 million.

The Russian property/casualty company OOO HDI Strakhovannie, which commenced operational business in the year under review, is included with a premium volume of EUR 218,000.

The growth recorded in the area of property/casualty insurance products was to some extent distorted by exchange rate effects. Exchange rates for the Brazilian, Turkish and Mexican currencies fluctuated particularly sharply. The strong market position of the Brazilian company HDI Seguros S.A. delivered premium growth – translated into EUR – of 26%. The premium volume booked by the Turkish company HDI Sigorta A.Ş. grew particularly vigorously; converted into EUR, however, the increase was just 15%.

The life insurance premiums booked by HDI Assicurazioni S.p.A., Rome, contracted relative to the comparable period because a crucial effect in the previous year – a tax amnesty on account of which considerable amounts were available for investment and in which life insurance policies were also able to participate as an attractive investment alternative – ceased to apply in 2011. The company nevertheless booked an increase in traditional life insurance business. In property/casualty business the company generated growth of around 16% based on higher average premiums and the materialization of numerous new contracts, especially in the motor liability sector. It thus surpassed the average growth of the property/casualty market as a whole.

Thanks to a cooperation with the Polish BRE Bank, our life insurance company HDI-Gerling Zycie TU S.A. boosted its premium volume in EUR by 103% – most notably in the area of unit-linked life insurance. The Russian OOO Strakhovaya Kompaniya "CiV Life" also booked an increase of 42% in its premium volume in EUR. The premium growth booked by the Turkish company CiV Hayat Sigorta A.Ş. was particularly vigorous in the local currency at 30%; translated into EUR it increased by 14% relative to the corresponding period of the previous year, although the sale of single-premium products declined in favor of regular premiums in the areas of credit life insurance for credit card holders and personal accident insurance. These two companies thus rank among the fastest growing in their respective markets.

The Aspecta companies in Luxembourg and Liechtenstein largely ceased writing new business with effect from 1 January 2011, as a consequence of which the premium volume contracted by almost 29% relative to the previous year in Luxembourg and by 10% in Liechtenstein in the local currency.

Underwriting result

The underwriting result generated by the segment improved on the corresponding period of the previous year to reach –EUR 49 (–106) million. The combined ratio of the international property/casualty insurance companies stood at 99.7 (104.5)%, i.e. roughly 5 percentage points lower than in the previous year's period. This was due inter alia to the favorable development at HDI Assicurazioni S.p.A., Rome.

The underwriting result reported by the Brazilian company HDI Seguros S.A. includes inflation-related adjustments for claims heard before the courts, as a consequence of which both the technical expenses and the loss ratio increased. The fall in the average premium in motor insurance also adversely impacted the loss ratio.

The Polish company HDI Asekuracja TU S.A. moved back into underwriting profitability in the third quarter of 2011 thanks to the absence of major loss events; in the previous year the company's result had been hard hit by flood and winter damage.

The Turkish HDI Sigorta A.Ş. boosted its operational business relative to the comparable period and also sharply reduced its loss ratio. The underwriting result was nevertheless again impacted by negative effects, since a change in the law led to retroactive payments in motor business.

Investment income

The investment income reported by the segment in the period under review totaled EUR 112 million, a decline of 4% relative to the corresponding period of the previous year. The decrease stemmed principally from extraordinary income, whereas ordinary income improved on the previous year by 18% on the back of larger portfolios.

The deterioration in extraordinary income was driven first and foremost by the Italian company HDI Assicurazioni S.p.A., which booked write-downs on investments of almost EUR 13 million in the third quarter.

The Polish company HDI Asekuracja TU S.A. was also adversely impacted by movements on capital markets, taking write-downs on investments of almost EUR 2 million.

Operating result (EBIT)

Thanks to favorable developments in the segment's underwriting results, the period under review in 2011 closed with an operating profit (EBIT) of EUR 18 (−29) million.

Non-Life Reinsurance

	1.1.– 30.9. 2011	1.1.– 30.9. 2010	+/–
Figures in EUR million			
Gross written premium	5,220	4,826	+8%
Net premium earned	4,391	4,068	+8%
Underwriting result	−224	30	n.a.
Net investment income	608	527	+15%
Operating profit/loss (EBIT)	352	669	−47%
Combined ratio (net)	104.9%	99.1%	+5.8 points

The Reinsurance division within the Talanx Group is operated almost exclusively by the Hannover Re Group, one of the leading reinsurance groups in the world. The reinsurer offers its clients in the Group segment of Non-Life Reinsurance a comprehensive product range in treaty and facultative reinsurance and is also one of the foremost providers of structured reinsurance solutions.

Business developed broadly to our satisfaction in non-life reinsurance. The situation on the international reinsurance markets is favorable on the whole. Owing to the massive scale of the natural disasters in the first quarter, the treaty renewals during the year saw the anticipated sharp surges in rates, especially under programs that had suffered losses. In Australia and New Zealand, where the bulk of treaties are traditionally renewed as at 1 July, appreciably rate increases and improved conditions were booked on the back of the heavy losses attributable to natural disasters. The 1 June/1 July

renewals in our target market of North America passed off favorably, albeit not without qualifications. In US catastrophe business, for example, rate increases of 5% to 15% were obtained. Casualty covers, on the other hand, failed to see any significant trend reversal towards market hardening, although prices have now bottomed out.

Premium volume

The gross premium for the Non-Life Reinsurance division increased by 8% as at 30 September 2011 relative to the corresponding period of the previous year to stand at EUR 5.2 (EUR 4.8) billion. At constant exchange rates, especially against the US dollar, growth would have been as much as 11%. The level of retained premium remained virtually unchanged. Net premium earned climbed 8% to EUR 4.4 (4.1) billion.

Underwriting result

The third quarter passed off relatively moderately in terms of major losses; at EUR 118 million the strain was below the expected level of EUR 165 million. The largest single loss for our account was Hurricane "Irene", with a net burden of EUR 20 million. In view of the exceptionally heavy major loss incidence in the first quarter, however, the net burden of catastrophe losses and major claims as at 30 September 2011 totaled EUR 743 million – a figure still well in excess of the corresponding period of the previous year (EUR 554 million). The combined ratio stood at 104.9 (99.1)%. The net underwriting result came in at −EUR 224 (30) million.

Operating result (EBIT)

The operating profit (EBIT) in Non-Life Reinsurance fell to EUR 352 (669) million as at 30 September 2011 on account of the heavy burden of major losses in the first quarter as well as the negative performance of inflation swaps in the third quarter.

Life/Health Reinsurance

	1.1.– 30.9. 2011	1.1.– 30.9. 2010	+/-
Figures in EUR million			
Gross written premium	3,844	3,730	+3%
Net premium earned	3,487	3,405	+2%
Underwriting result	–193	–202	+4%
Net investment income	350	363	–4%
Operating profit/loss (EBIT)	147	213	–31%

The Group segment of Life/Health Reinsurance brings together our reinsurance activities in the life, annuity and health lines under the Hannover Life Re brand name. The Hannover Re Group also writes the accident line in this segment, to the extent that it is transacted by life insurers.

The international life and health reinsurance markets continue to offer us attractive business opportunities. The demographic trend in mature insurance markets such as the United States, United Kingdom, Germany, France and Australia is generating heightened awareness overall of the need for provision. Yet in leading emerging markets such as China, India and Brazil demand for individual protection against biometric risks is also rising.

We support our clients with tailored reinsurance solutions for their management of capital, liquidity and risk. We are thoroughly satisfied with the development of our business in the United Kingdom, above all in the area of longevity risks. The reinsurance of enhanced annuities taken out with a single premium payment continues to account for a large share of UK annuity business. In the current financial year we have continued to expand our assumption of blocks of existing pension obligations from pension funds and primary insurers.

Premium volume

In most markets the business development was – as anticipated – pleasing. Gross written premium in Life/Health Reinsurance climbed 3% to EUR 3.8 (3.7) billion as at 30 September 2011. Net premium earned increased by 2% to EUR 3.5 (3.4) billion.

Operating result (EBIT)

The development of the result in Life/Health Reinsurance did not entirely live up to our expectations. The further widening of credit spreads on bond markets resulted in an additional strain of around EUR 70 million on deposits held by US clients for Hannover Re's account. What is more, we incurred adverse currency effects of –EUR 12 million in the first nine months, contrasting with a positive effect of EUR 32 million in the corresponding period of the previous year. The operating profit (EBIT) of EUR 147 (213) million generated despite the aforementioned negative effects is a testament to the good quality and excellent diversification of our book of life/health reinsurance.

Corporate Operations

	1.1.– 30.9. 2011	1.1.– 30.9. 2010	+/-
Figures in EUR million			
Investment income	–27	–34	+21%
Other income/expenses	–32	–205	+84%
Operating profit/loss (EBIT)	–59	–239	+75%

Along with Talanx AG, the companies belonging to the Corporate Operations segment consist of the internal service companies Talanx Service AG and Talanx Systeme AG as well as Talanx Investments (including AmpegaGerling) and Talanx Reinsurance Broker.

Investment specialists in the segment

Talanx Asset Management GmbH – in cooperation with the subsidiary AmpegaGerling Investment GmbH – is chiefly responsible for handling the management and administration of Group companies' securities portfolios and performs associated services such as investment bookkeeping and reporting. The company had assets under management of EUR 72.6 billion as at the end of the third quarter 2011, compared with a volume of EUR 67.2 billion at year-end 2010.

AmpegaGerling Investment GmbH manages financial portfolios for institutional clients and administers public and special funds. The emphasis is on portfolio management and the administration of investments for clients outside the Group. The sales situation for the investment sector is heavily overshadowed in the current year by the spreading crisis on financial markets, which has been further exacerbated by the unresolved debt crises in the United States and Europe. Concerns about the security of their invested money prompted investors to pull capital out of investment funds and deterred them from putting new cash into such products. As a consequence, statistics compiled by the BVI Bundesverband Investment and Asset Management indicate that the industry has recorded net outflows of EUR 5.7 billion from securities funds since the beginning of the year. In this challenging situation AmpegaGerling Investment GmbH held its ground comparatively well, generating net sales of EUR 84 million in business with external clients in the period under review. In the third quarter the company recorded a net outflow of EUR 24 million owing to the deteriorating sales environment as a consequence of the financial crisis. Despite the positive cash inflow, the total assets of the public funds under management by AmpegaGerling Investment GmbH at the end of the third quarter were lower than the year-end level at EUR 3.2 (2010: 3.5) billion. This was attributable to sharply softening prices on international equity markets.

The total volume of assets under management fell to EUR 12.7 (14.7) billion, a contraction of 14% relative to the level at the beginning of the year. Of this total volume, more than half – specifically EUR 7.1 (8.0) billion – was administered on behalf of Group companies through special funds and direct investment mandates. The remaining portion was attributable to institutional third-party clients in an amount of EUR 2.5 (3.4) billion and retail business in an amount of EUR 3.1 (3.3) billion. The latter is offered both through the Group's own sales channels and products such as unit-linked life insurance as well as through external asset managers and banks.

Assets of EUR 1.2 (1.2) billion were attributable to Talanx Immobilien Management GmbH as at 30 September 2011.

All in all, the volume of assets under management by all Talanx investment companies grew from EUR 83.1 billion at the beginning of the year to EUR 86.5 billion at the end of the quarter, of which EUR 79.2 billion was apportionable to Group companies and EUR 7.3 billion to business with third-party clients.

Talanx Reinsurance Broker

With the renaming of Protection Reinsurance Intermediaries AG as Talanx Reinsurance Broker AG effective 1 September, the restructuring of the Talanx companies is complete. Talanx Reinsurance Broker serves as the professional reinsurance advisor and broker for composite reinsurance cessions of all primary insurers belonging to the Talanx Group. The operating profit (EBIT) generated by Talanx Reinsurance Broker AG in this segment totaled EUR 5 (6) million for the first three quarters of 2011.

The operating result (EBIT) of Talanx Asset Management GmbH amounted to EUR 26 million, while at Talanx Immobilien Management GmbH it totaled –EUR 2 million, at AmpegaGerling Investment GmbH EUR 5 million and at Talanx AG –EUR 93 million, since as a holding company the latter performs the financing function for the Group.

The two service companies Talanx Service AG and Talanx Systeme AG have now commenced trading; they do not, however, deliver a profit contribution because they operate – as agreed – on an at-cost basis.

Assets and financial position

Assets

The balance sheet structure of the Talanx Group is shaped by its character as a diversified insurer and its activities as a large, globally operating insurance group. The dominant item on the assets side is the investments, which – excluding funds held by ceding companies (EUR 11.3 billion) – accounted for 66% of total assets. They serve first and foremost as security for the provisions constituted in insurance business, which

– excluding provisions in the area of life insurance insofar as the investment risk is borne by policyholders – totaled EUR 82.4 billion. Over and above this, the most important sources of funding are the shareholders' equity (7% of the balance sheet total) and the issued subordinated debt (2% of the balance sheet total).

Amount and composition of assets

The assets of the Group are described on the basis of the following overview, which is based on the assets shown in the consolidated balance sheet.

Analysis of the asset structure

Asset structure over a multi-year period	30.9.2011		2010 ¹⁾		2009 ¹⁾		2008	
	EUR million	%	EUR million	%	EUR million	%	EUR million	%
Intangible assets	2,210	2	2,172	2	2,480	2	2,938	3
Investments	86,579	76	83,422	75	76,385	75	69,466	74
Investments for the account and risk of holders of life insurance policies	5,924	5	6,414	6	4,975	5	3,371	4
Reinsurance recoverables on technical provisions	6,462	6	5,523	5	5,962	6	6,989	7
Accounts receivable on insurance business	4,594	4	5,011	5	4,342	4	4,438	5
Deferred acquisition costs	3,998	4	3,715	3	3,544	4	3,509	4
Cash	1,367	1	1,265	1	1,685	2	1,408	1
Deferred tax assets	287	<1	268	<1	235	<1	295	<1
Other assets	1,736	1	1,781	2	1,655	2	1,736	2
Non-current assets and assets of disposal groups classified as held for sale	146	<1	1,529	1	35	<1	43	<1
Total assets	113,303	100	111,100	100	101,298	100	94,193	100

¹⁾ Adjusted on the basis of IAS 8

The appreciable increase of EUR 2.2 billion in our total assets to EUR 113.3 billion can be attributed first and foremost to the significant growth in our investments (+EUR 3,157 million) as well as the marked rise in reinsurance recoverables on technical provisions (+EUR 939 million). The decrease in the investments for the account and risk of holders of life insurance policies (–EUR 490 million) as well as in the accounts receivable on insurance business (–EUR 417 million) had offsetting effects. More detailed explanations of the investments are provided below under "Notes on the individual items of the consolidated balance sheet".

In addition to the sale of the participating interest in HDI-Gerling Rechtsschutz Versicherung AG, Hannover, by HDI-Gerling Firmen- und Privatversicherung AG, Hannover, and the sale of the participating interest in HDI-Gerling Rechtsschutz Schadenregulierungs-GmbH, Hannover, by Talanx Deutschland AG, Hannover (both in the Group segment Retail Germany), the sale of a real estate portfolio of HDI-Gerling Lebensversicherung AG, Cologne, (Group segment Retail Germany) and of HDI-Gerling Industrie Versicherung AG, Hannover, are recognized under the item "Non-current assets and assets of disposal groups classified

as held for sale". The sale of the operational companies of the Hannover Re subgroup Clarendon Insurance Group, Inc., Wilmington, in the Group segment Non-Life Reinsurance was closed in the period under review. All transactions are discussed in chapter VI of the Notes entitled "Non-current assets held for sale and disposal groups".

Movements in investments

Breakdown of the investment portfolio	30.9.2011	2010	2009	2008	2007
Figures in EUR million					
Funds held by ceding companies	11,323	10,961	9,349	7,242	8,055
Assets under own management	75,256	72,461	67,036	62,224	61,572
Total	86,579	83,422	76,385	69,466	69,627

In the course of the 2011 financial year the total investment portfolio grew by EUR 3.2 billion to reach EUR 86.6 billion. In the third quarter alone the improvement amounted to EUR 2.9 billion. These increases can be attributed largely to reinvested ordinary income.

Having listed at USD 1.34 to the euro at the beginning of the year, the US dollar depreciated significantly against the euro in the course of the year to reach USD 1.45 to the euro. As at 30 September 2011, however, an upturn in value can be observed. The exchange rate of USD 1.35 to the euro is back to the level at the beginning of the year.

Interest rates in the third quarter fell appreciably relative to the start of the year. In the category of five-year government bonds a decline of some 80 basis points could be observed as at 30 September 2011, while the decrease on ten-year government bonds was as much as 105 basis points. The main category of funds for reinvestment is the asset category "Financial assets available for sale", which is recognized at fair value.

Altogether, fixed-income securities accounted for 77% of the total investment portfolio. Reinvestments were guided by the existing investment structure in this asset class. In the period under review an amount of EUR 2.2 billion was available from ordinary income for reinvestment.

The current equity allocation is around 1%; equity holdings have been progressively reduced in the course of the year. Having soared to a temporary high in April, the stock market had slumped by the end of the quarter and is well short of the level at the beginning of the year.

Cash deriving from cash inflows from underwriting business that have still to be invested led to an increase in short-term assets (+1%). In compliance with all legal requirements and internal Group guidelines, the diversification of the investment portfolio as at 30 September 2011 is similar to that at year-end 2010.

Breakdown of the investment portfolio	30.9.2011	2010	2009
%			
Fixed-income securities	77	76	75
Equities and other variable-yield securities	1	2	2
Funds held by ceding companies	13	13	12
Real estate	2	2	2
Other	7	7	9
Total	100	100	100

The composition of the assets under own management recognized in the balance sheet is shown below.

Breakdown of the assets under own management by asset classes	30.9.2011		2010		+/-	
	EUR million	%	EUR million	%	EUR million	%
Investment property	857	1	860	1	-3	<0
Investments in affiliated companies and participating interests	79	<1	74	<1	+5	+7
Investments in associated companies	151	<1	144	<1	+7	+5
Loans and receivables						
Loans incl. mortgage loans	1,335	2	1,439	2	-104	-7
Loans and receivables due from governmental or semi-governmental entities as well as fixed-income securities	31,791	42	30,904	43	+887	+3
Financial assets held to maturity	2,862	4	2,999	4	-137	-5
Financial assets available for sale						
Fixed-income securities	30,797	41	28,330	39	+2,467	+9
Variable-yield securities	1,417	2	2,305	3	-888	-39
Financial assets at fair value through profit or loss						
Financial assets classified at fair value through profit or loss						
Fixed-income securities	753	1	974	1	-221	-23
Variable-yield securities	18	<1	15	<1	+3	+20
Financial assets – trading						
Fixed-income securities	34	<1	69	<1	-35	-51
Variable-yield securities	89	<1	83	<1	+6	+7
Derivatives ¹⁾	48	<1	80	<1	-32	-40
Other invested assets	5,025	7	4,185	6	+840	+20
Total investments under own management	75,256	100	72,461	100	+2,795	+4

¹⁾ Derivatives only with positive fair values and excluding hedging instruments used in the context of hedge accounting

Fixed-income securities

A sharp decline in interest rates could be observed across all durations in the course of the year. The spreads for financials widened on account of growing uncertainties, increasing refinancing difficulties faced by banks and sustained negative rating pressure. Spreads for corporates have decreased slightly to date.

Compared to Germany, the current picture as regards the performance of government bonds in countries on the Eurozone periphery is very mixed: bonds from Spain and Italy have increasingly been affected by contagion effects. Portuguese and Irish government bonds also recorded losses depending on duration, as a consequence of which we are currently not expanding our existing investment exposure. In light of risk considerations we sold the Greek government bonds in our portfolio with the exception of a small residual

holding. We took write-downs to fair value (average rate 46%) of altogether EUR 8 million on this holding. The investment exposure (government bonds and debt securities issued by semi-governmental entities) of the Talanx Group to countries on the Eurozone periphery – the so-called GIIPS states – amounts to EUR 1.3 billion at fair values. In this context, Italy accounts for EUR 604 million (thereof HDI Assicurazioni EUR 379 million), Spain EUR 413 million, Ireland 233 million, Portugal 46 million and Greece 6 million.

As far as the struggling Belgian Dexia Bank is concerned, we have an asset holding of EUR 1,271 million measured at fair values; of this amount, EUR 1,150 million is attributable to German covered bonds (Pfandbriefe). Write-downs did not, however, have to be taken on this portfolio because the governments of France, Belgium and Luxembourg announced

a restructuring plan on 10 October 2011 that provides, inter alia, for the furnishing of government guarantees. Based on the information currently available, we consider a default to be unlikely.

The bulk of the Talanx Group's asset portfolio under own management is comprised of investments in fixed-income securities and loans. Total holdings of this asset class grew by EUR 2.9 billion in the course of the year.

The "Fixed-income securities available for sale", which have a volatile impact on shareholders' equity, remained relatively stable at EUR 30.8 billion and 46% of the total holding of this asset class. The valuation reserves – i.e. the balance of unrealized gains and losses – climbed from EUR 307 million to EUR 617 million owing to the sharp reduction in the interest rate level relative to year-end 2010. Along with the category of "Financial assets available for sale", the Talanx Group is fundamentally standing by its strategy of making new investments principally in the category of "Loans and receivables" so as to reduce balance sheet volatility. Assets under the item "Loans and receivables" grew by EUR 783 million to EUR 33.1 billion (49% of the total portfolio). The reserves here surged sharply to EUR 2.4 billion, after EUR 842 million as at year-end 2010.

Government bonds with a good rating or instruments of similarly sound issuers continue to be the focus of investments in fixed-income securities. In the course of the financial year the downgrade of US treasuries led to a reduction in the proportion of AAA-rated holdings. This was, however, partly compensated for through purchases of AAA-rated fixed-income securities. At the end of September 2011 they amounted to EUR 27.6 billion, corresponding to a share of 41% of the total volume of fixed-income securities and loans.

Investments in corporate bonds grew slightly to EUR 19.2 billion, accounting for 28% of fixed-income securities. A further 31% is attributable to covered bonds, with a total volume of EUR 21.1 billion. These holdings consist almost exclusively of German mortgage-backed and public covered bonds (Pfandbriefe).

The duration (average capital commitment) of the total portfolio of fixed-income securities held within the Talanx Group stood at around 6.28 years as at 30 September 2011.

With an eye to matching currency coverage, investments in US dollars continue to account for the largest share (11%) of the foreign currency portfolio within the Talanx Group. The total proportion held in foreign currencies as at the end of the third quarter 2011 remained virtually unchanged.

Rating of fixed-income securities	30.9. 2011	2010	2009	2008
%				
AAA	41	45	45	42
AA	28	27	29	31
A	20	19	18	21
BBB or less	11	9	8	6

The Talanx Group continues to pursue a conservative investment policy. 89% of instruments in the asset class of fixed-income securities have at least an A rating.

Equities and equity funds

There has been a clear dichotomy in movements on equity markets over the course of 2011. Having started the year at 6,914 points, the DAX soared to a high of 7,515 points by the end of April. After moving sideways for three months, stock markets fell sharply in August. As at the end of the period under review the DAX stood at 5,502 points, a decline of 20% relative to the beginning of the year. The performance of the EURO STOXX 50 was similar, although the decline here was as much as 22% – driven by the relatively high representation of banks in the index.

Overall, the portfolio of equities and equity funds contracted from EUR 2.0 billion as at 31 December 2010 to EUR 1.0 billion as at the balance sheet date. With an equity allocation of 1% (gross), the equity exposure of the Talanx Group therefore remains on a low level.

The net balance of unrealized gains and losses on holdings within the Group (excluding other invested assets) amounted to +EUR 167 million as at the end of September 2011 (2010: +EUR 308 million).

Real estate including shares in real estate funds

Investment property amounted to EUR 857 million as at the balance sheet date. An additional amount of EUR 564 million is held in real estate funds, which are recognized under the "Financial assets available for sale" category. Scheduled depreciation of EUR 12 million was taken on investment property in the period under review, along with impairments of EUR 14 million. These write-downs contrasted with write-ups of EUR 13 million.

The real estate allocation, which also includes investments in real estate funds, was unchanged at 2%. Own-use real estate is recognized under the item "Other assets" and is not included in the calculation of this ratio.

Investment income

Development of net investment income	30.9. 2011	30.9. 2010 ¹⁾	+/-
Figures in EUR million			
Ordinary investment income	2,190	2,075	+115
thereof current income from interest	2,037	1,953	+84
thereof profit/loss from shares in associated companies	4	1	+3
Realized net gains on investments	201	324	-123
Write-ups/write-downs on investments	-104	-66	-38
Unrealized net gains/losses on investments	-67	-39	-28
Other investment expenses	93	87	+6
Income from investments under own management	2,127	2,207	-80
Interest income on funds withheld and contract deposits	225	197	+28
Net investment income	2,352	2,404	-52

¹⁾ Expenses for the management of non-Group investments were recognized under the "Other expenses" in the year under review. The previous year was adjusted accordingly

Income from investments under own management fell short of the previous year's level by EUR 80 million. In this context, the lower realized net gains in the Retail Germany and Non-Life Reinsurance segments as well as the deterioration in net unrealized losses eroded ordinary income more heavily than in the previous year. Of the decline in net unrealized losses, an amount of EUR 2 (40) million can be attributed to Retail Germany and is due to changes in the fair values

of fixed-income securities measured at fair value through profit or loss. The unrealized net loss in the reinsurance segments improved by EUR 24 million to -EUR 70 (-94) million. This was crucially driven by the inflation swaps taken out by Hannover Re in 2010 to hedge part of the inflation risks associated with the loss reserves in the technical account; they produced unrealized losses of EUR 11 (89) million, which were recognized in income. An opposing effect derived from technical derivatives in the Life/Health Reinsurance segment, which gave rise to unrealized losses of EUR 70 million. In addition, write-downs taken on our equity positions increased to EUR 82 (37) million, of which EUR 61 million was incurred in Industrial Lines and Retail Germany. The rise of EUR 115 million in ordinary income can be attributed in particular to the enlarged total portfolio of fixed-income assets, with the average coupon remaining virtually identical. This increase did not suffice to offset the declines in net realized and unrealized gains/losses described above.

The net investment income is shown below broken down into Group segments.

Breakdown of net investment income by Group segments ¹⁾	30.9. 2011	30.9. 2010	30.9. 2009
Figures in EUR million			
Industrial Lines	146	169	157
Retail Germany	1,163	1,256	941
Retail International	115	119	93
Non-Life Reinsurance	608	527	419
Life/Health Reinsurance	346	366	431
Corporate Operations	-26	-33	-39
Total	2,352	2,404	2,002

¹⁾ Presentation after elimination of intra-Group relations

Off-balance sheet financing instruments

The Talanx Group enters into various commitments. Of material significance to the assessment of its assets in this context are letters of credit and trust accounts put up as security for technical liabilities (EUR 6,103 million), guarantee payments under issued subordinated bonds (EUR 1,968 million), blocked custody accounts and other trust accounts (EUR 2,092 million), outstanding contribution commitments as well as collateral furnished under existing capital participations and tender rights (EUR 845 million). All other commitments are described in the section of the Notes entitled "Other information – Contingent liabilities and other financial commitments".

Financial position

The capital structure and composition of the liabilities of the Talanx Group are shaped by its primary insurance and reinsurance business. The technical provisions, which in accordance with the requirements of regulators are to be covered by assets, account for the largest share. In addition, the Group finances itself most notably through shareholders' equity as well as through subordinated debt and liabilities, which also represent our most important sources of funds.

The financial position of the Group is illustrated by the following overview, which we have based on the liabilities shown in the consolidated balance sheet.

Analysis of the capital structure

Capital structure over a multi-year period	30.9.2011		2010 ¹⁾		2009 ¹⁾		2008	
	EUR million	%	EUR million	%	EUR million	%	EUR million	%
Shareholders' equity	8,391	7	7,980	7	7,153	7	5,718	6
Subordinated liabilities	2,628	2	2,791	3	2,003	2	2,074	2
Technical provisions – gross	82,398	73	77,510	70	73,263	72	69,612	74
Technical provisions in the area of life insurance insofar as the investment risk is borne by policyholders	5,924	5	6,414	6	4,975	5	3,371	4
Other provisions	2,323	2	2,751	2	2,644	3	2,416	3
Liabilities	9,969	9	10,829	10	9,750	10	9,625	10
Provisions for deferred taxes	1,550	1	1,444	1	1,510	1	1,377	1
Debts of disposal groups classified as held for sale	120	<1	1,381	1	—	—	—	—
Total liabilities	113,303	100	111,100	100	101,298	100	94,193	100

¹⁾ Adjusted on the basis of IAS 8

Currency effects

Currency-related interdependencies inevitably exist between the assets and financial position in view of the international orientation of the insurers brought together in the Talanx Group.

In principle, however, the internationally operating insurers normally receive payments and reimburse claims in their respective national currency. This means that assets to cover liabilities are also held in foreign currencies (matching cur-

rency coverage). For the purposes of the consolidated financial statement the relevant national currencies are presented in the Notes under "Summary of major accounting policies – Currency translation".

Development of major items

In the period just-ended the shareholders' equity increased by a substantial EUR 411 million – or 5% – to EUR 8,391 (7,980) million. The Group's share amounted to EUR 5,257 (4,945) million.

Effective 6 April 2011 the conditional capital increase of up to EUR 26 million divided into up to 26,000 registered no-par shares that was approved at the General Meeting on 15 November 2010 came into force. This had no implications for the balance sheet in the period under review; for further explanation please see our remarks under item 6 of the Notes "Shareholders' equity".

Particularly due to the cancellation and repayment of guaranteed subordinated debt of Hannover Finance (Luxembourg) S.A., the portfolio of subordinated liabilities contracted by 6% relative to the comparable period to stand at EUR 2.6 billion. The features of the bonds are described in the remarks on item 7 of the Notes "Subordinated liabilities".

In addition, a line of credit is available to Talanx AG with a volume of nominally EUR 1.5 billion, of which – as in the previous period – an amount of EUR 550 million was utilized. The available floating-rate loan has a term ending at the latest on 31 July 2012. In addition, effective 13 July 2011 Talanx AG concluded a contract regarding a syndicated floating-rate line of credit with a volume of EUR 500 million and a term of five years. This is intended to be used for short- and medium-term corporate financing. This is follow-up financing, which under the terms of the contract only comes into effect if the existing line of credit has expired or was cancelled or if it expires upon disbursement of the new line of credit.

With respect to further loan agreements and letters of credit we would refer the reader to the presentation of off-balance sheet financial instruments as well as the explanatory remarks in the Notes.

The provisions connected with the insurance business after consolidation and allowing for the shares of reinsurers can be broken down as follows:

	30.9. 2011	2010 ¹⁾	2009 ¹⁾	2008
Figures in EUR billion				
Benefit reserve	43.3	41.5	39.0	35.5
Loss and loss adjustment expense reserve	25.6	24.5	22.5	21.7
Unearned premium reserve	5.7	5.0	4.6	4.5
Provision for premium refunds	1.1	0.8	1.0	0.9
Other technical provisions	0.4	0.3	0.3	0.2
Total	76.1	72.1	67.4	62.8

¹⁾ Adjusted on the basis of IAS 8

In this respect, the existing liabilities to policyholders are to be covered by assets in at least the same amount. The proportion of net provisions connected with the insurance business relative to the total assets as at the balance sheet date – including funds held by ceding companies – stood at 88 (87)%. Surplus coverage of the provisions thus exists in an amount of EUR 10.5 (11.3) billion.

The provisions are available to the Group in accordance with the corresponding time to maturity.

Shareholders' equity

The major movements in shareholders' equity were driven by the following factors:

The Group net income attributable to our shareholders climbed sharply by 186% to EUR 329 (115) million and was allocated in full to retained earnings.

"Cumulative other comprehensive income (other reserves)" decreased by 4% relative to the consolidated financial statement as at 31 December 2010 to stand at EUR 370 million. Crucial to this development was the sharp decline in other changes in shareholders' equity (–EUR 139 million), which principally consist of the policyholder participation/shadow accounting. The measurement gains from cash flow hedges (EUR 98 million) and the gains/losses on investments recognized directly in equity, in which policyholders to some extent participate, only partially offset this development.

The non-controlling interests in shareholders' equity increased by EUR 99 million – or 3% – to EUR 3,134 million. The non-controlling interest in net income for the period amounted to EUR 237 (358) million. The dividends paid to non-Group shareholders, principally from the Hannover Re Group in an amount of EUR 182 million, further reduced the shareholders' equity.

Changes in shareholders' equity

	2011	2010 ¹⁾	2009	2008	2007
Figures in EUR million					
Common shares	260	260	260	260	260
Additional paid-in capital	630	630	630	630	630
Retained earnings	3,997	3,668	3,474	2,977	2,799
Cumulative other comprehensive income and other reserves	370	387	210	-241	43
Non-controlling interests in shareholders' equity	3,134	3,035	2,579	2,092	2,431
Total	8,391	7,980	7,153	5,718	6,163

¹⁾ Adjusted on the basis of IAS 8

Liquidity and financing

We generate liquidity primarily from our operational insurance and reinsurance business, the current income on our investments and from financing measures. Through regular liquidity planning and an investment strategy geared inter alia to liquidity requirements, we ensure that the Talanx Group is able to make the necessary payments at all times. Liquidity shortages consequently did not arise.

Analysis of the consolidated cash flow statement

The cash flows are shown in full in the cash flow statement in the Notes; they are presented in summary form in the table below:

	1.1.–30.9. 2011	1.1.–30.9. 2010
Figures in EUR million		
Cash flow from operating activities	3,180	3,828
Cash flow from investing activities	-2,612	-4,557
Cash flow from financing activities	-448	285
Change in cash and cash equivalents	120	-444

The cash flow from operating activities, which also includes inflows from the generated investment income, declined relative to the corresponding period of the previous year to stand at EUR 3,180 (3,828) million. The calculation adjusts the net income for the period of EUR 566 (473) million in the consolidated cash flow statement to allow for the increase in the technical provisions (net perspective) (EUR 4.2 billion). The decrease with respect to the "Changes in funds held and in accounts receivable and payable" in an amount of -EUR 2,486 million relative to the corresponding period of the previous year as well as the decrease in the change in "Other non-cash expenses and income" of -EUR 756 million could not be made up for by the increase in "Net changes in contract deposits" of +EUR 1,930 million.

The cash outflow from investing activities is determined by payments made to purchase investments. As in the comparable period of the previous year, the outflows associated with the purchase of investments exceeded the inflows from sales and maturities by an amount of EUR 2.2 billion, as against EUR 3.4 billion in 2010. In addition, the cash outflows are driven by payments for other invested assets. They increased on balance by EUR 585 million to -EUR 832 million. The corporate acquisitions described in chapter V "Business combinations in the period under review" led to a further cash outflow of EUR 153 million. An inflow of EUR 137 million was recorded in the period under review in connection with the sale of consolidated companies.

The cash outflow from financing activities was crucially shaped in the year under review by the dividends paid in an amount of EUR 182 (162) million as well as the "Net changes from other financing activities" amounting to –EUR 266 million, as against +EUR 449 million in the corresponding period of the previous year. The decrease was attributable above all to the repayment of the subordinated debt called by Hannover Finance (Luxembourg) S.A.

Cash and cash equivalents increased by altogether EUR 102 million in the third quarter to EUR 1.4 billion. An amount of EUR 13 million was deducted from the cash and cash equivalents for disposal groups pursuant to IFRS 5 "Non-current assets held for sale and discontinued operations". Detailed information on disposal groups is provided in the Notes (chapter VI).

Risk report

The risk reporting in the interim report focuses on material changes in the risk position that have occurred since compilation of the Talanx Group Annual Report 2010. For a thorough presentation of the various types of risk, which is omitted here, the reader is referred to the detailed information contained in the Annual Report.

Despite the considerable prevailing uncertainties, the German economy continues to be in robust shape overall. There are, however, widespread predictions of a cyclical cooldown in light of the softer growth in the global economy and doubts as to the viability of public finances in some countries.

The tensions in some Arab and North African nations led to higher commodity prices. Shortages in the global supply of primary products for the electrotechnical industry were the direct consequence of the earthquake and nuclear disaster in Japan.

The protracted dispute between the US Administration and the opposition over the country's debt ceiling prompted the rating agency Standard & Poor's to downgrade the United States from the highest level of AAA to AA+. The long-term outlook was also assessed as "negative". This means that the United States is faced with the prospect of a further downgrade within the next two years. The rating agency Moody's also lowered the long-term debt ratings of some of the largest US banks by one notch in view of the fact that the likelihood of assistance from the government was assessed as minimal.

The sovereign debt crisis within the Eurozone similarly remains unresolved. Greece, Ireland and Portugal are already refinancing through European and international rescue funds. In Greece, in particular, the urgently needed consolidation of public finances has been made more difficult by the deep and protracted recession combined with further increases in government spending. The fair value of the investments held by the Talanx Group in Greek government bonds amounted to around EUR 6 million as at the balance sheet date of 30 September 2011. S&P downgraded its rating for Italy in the quarter under review and assessed the outlook as negative. As at the end of the quarter under review the Talanx Group held investments (government and semi-governmental debt securities) in the so-called GIIPS countries with fair values of EUR 1.3 billion (thereof Italy 604 million, Spain 413 million, Ireland 233 million, Portugal EUR 46 million – excluding units in unit trusts attributable to policyholders), as a result of which creditworthiness-related defaults may arise. Particularly with respect to debt securities of GIIPS states other than Greece, safeguards on the European level (European Financial Stability Facility) currently rule out any impending risk of default and the decrease in value is therefore considered temporary.

As a consequence of the banking and economic crisis as well as emerging developments in supervisory law, a growing tendency can be observed on international markets towards the raising of capital requirements by local regulators. This trend could also affect individual foreign subsidiaries of the Group and necessitate capital measures. Against the backdrop of

the financial crisis the G20 nations are contemplating the adoption of surcharges on capital for systemically relevant insurers similar to those introduced for banks. Just what form such a capital surcharge is supposed to take for insurance companies apparently still remains to be seen. According to press reports, another possibility is the adoption of regulations that will prevent an insurer becoming systemically relevant. No decision has been taken as yet regarding the precise measures.

Based on the information available to date, the severe earthquake on 22 February 2011 in Christchurch/New Zealand will result Group-wide in strains totaling some EUR 110 million for net account. It is still not possible at this time to make an exact estimate of the burden of losses associated with the loss events in Japan. We nevertheless anticipate net claims expenditure in the region of EUR 283 million before tax for our Group.

Following a landmark decision by the European Court of Justice (ECJ) on 1 March 2011, insurance undertakings will no longer be permitted from 21 December 2012 onwards to allow gender to be used as one of several risk factors for the calculation of premiums and benefits. With respect to in-force contracts, the ruling could have implications for the available contractual options that can be exercised by existing customers and for the contractually agreed future conversions of in-force contracts. What is more, there may be repercussions for the premium calculation as well as risks resulting from coverage adjustments, increased lapse rates or a contraction in new business.

The "Foreign Account Tax Compliance Act" (FATCA), which was passed into law in the United States back in March 2010, enters into force on 1 January 2013. The new FATCA rules tighten up US tax reporting by foreign financial institutions (including insurers) with the aim of combatting efforts to evade tax by parties liable to US taxation through assets held abroad. It has still not been unambiguously clarified which insurance products are covered by the envisaged reporting duties. Based on the information available to date, term life insurance policies, property insurances and reinsurance products are to be exempted from the rules, whereas all so-called cash value products and insurance policies with an investment component will be included. We continue to monitor this issue.

No specific risks can as yet be discerned that could pose an existential threat to the Talanx Group's assets, financial position or net income. Particularly with an eye to the further unfolding of the banking and economic crisis, however, there is a considerable degree of uncertainty; this can also have implications for the behavior of policyholders. The same is true of ongoing developments in the legal framework governing our entrepreneurial activities. Substantial capital, reserves and underwriting provisions have been constituted 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 as well as the risk catalog contained in the Minimum Requirements for Risk Management in Insurance Undertakings (MaRisk (VA)).

Risk category	Material risks	Major risk management measures	
Underwriting risks			
Across segments:			
■ Concentration risk		■ Risk balancing through diversification	
Property/casualty primary insurance and non-life reinsurance:			
■ Actual claims experience diverges from the expected claims experience (premium/loss risk) ■ Technical provisions do not suffice to fully pay for claims that have not yet been settled or reported		■ Claims analysis and regular monitoring of the claims experience ■ Actuarial modeling and monitoring of the natural hazards exposure ■ Selective underwriting ■ Technical audits ■ Commensurate reinsurance protection ■ Establishment of IBNR reserves ■ External actuarial review of provisions	
Life primary insurance:			
■ Changes in biometric actuarial bases ■ Interest guarantee risk under life insurance contracts with guaranteed interest payments ■ Lapse risks		■ Regular review of the biometric actuarial bases ■ Factoring of safety loadings into the actuarial bases ■ Constant monitoring of investments and markets, initiation of appropriate steering measures ■ Interest rate hedges ■ Adjustment of the surplus distribution ■ Cost controlling, focus on variable sales costs ■ Careful selection of intermediaries ■ Systematic monitoring of the MCEV	
Life/health reinsurance:			
■ Changes in the biometric actuarial bases ■ Lapse and credit risk in connection with the prefunding of cedants' new business acquisition costs		■ Use of secure biometric actuarial bases ■ Systematic monitoring of the MCEV	
Default risks under insurance business			
Across segments:			
■ Risk of default on receivables due from reinsurers, retrocessionaires, policyholders and insurance agents		■ Careful selection of reinsurers and retrocessionaires ■ Constant monitoring of credit status ■ Measures to secure receivables ■ Effective dunning and reduction of outstandings ■ Establishment of adequate general bad debt provisions	
Investment risks			
Across segments:			
■ Potential losses due to adverse changes in market prices (interest rates, share prices and exchange rates) ■ Losses of value due to adverse changes in the credit status of debtors ■ Illiquidity risk: Holdings/open positions cannot be sold or closed or can only be sold/closed with delays/price markdowns		■ Management of market price risks using the Value at Risk (VaR) ■ Performance of enterprise-specific stress tests and those required by regulators ■ Matching currency coverage ■ Inclusion of ratings (rating agencies, internal ratings) in investment decisions ■ Liquid asset structure	

Risk category	Material risks	Major risk management measures	
Operational risks			
Across segments:			
■ Risk of losses due to the failure of persons, systems or processes or on account of external events		<ul style="list-style-type: none"> ■ Multi-faceted and cause-based risk management ■ Internal control system 	
Other risks			
Across segments:			
■ Participation risks of Talanx AG: instability in the performance of subsidiaries and/or the portfolio of participating interests		<ul style="list-style-type: none"> ■ Appropriate tools in the areas of controlling, internal auditing and risk management ■ Segmental and regional diversification ■ Investments in growth markets and in product and portfolio segments that stabilize results ■ Due diligence checks ■ Liquidity analyses and forecasts 	
■ Emerging risks, the content of which is not as yet reliably known and the implications of which are difficult to assess		<ul style="list-style-type: none"> ■ Various management measures, such as reinsurance, diversification, risk exclusions, safety margins, contingency plans, etc. 	
■ Strategic risks: the risk of an imbalance between the corporate strategy and the constantly changing general business environment		<ul style="list-style-type: none"> ■ At least annual review of the corporate and risk strategy ■ Adjustment of processes and structures as required 	
■ Reputational risks: possible damage to the company's name as a consequence of an unfavorable public perception		<ul style="list-style-type: none"> ■ Set communication channels ■ Professional approach to corporate communications ■ Tried and tested processes for defined crisis scenarios ■ Established Code of Conduct 	

We consider opportunity and risk management to be one of our core tasks. A central mandate performed by Talanx AG is the comprehensive monitoring and exact management of our risk position within the Group and the divisions with the aim of avoiding developments that could jeopardize the Group's continued existence while at the same time maximizing available opportunities.

The risk strategy defined by the Talanx Board of Management in conformity with the business strategy expresses the fundamental approach to identifying and dealing with risks and opportunities. It establishes the point of departure for the

Group-wide implementation of risk management and forms an integral part of our entrepreneurial actions. The paramount objective is to ensure adherence to the risk position strategically defined by way of the risk budget. The principles defined in the umbrella strategy of Talanx AG are reflected in risk-strategy measures and the risk management activities derived therefrom. Risk management supports, monitors and reports on the accomplishment of these strategic objectives.

For the Group-wide risk management of Talanx we aspire – on the basis of the rating agencies' Enterprise Risk Management (ERM) criteria – to a rating of "strong". In the medium

term we are seeking approval from the Federal Financial Supervisory Authority (BaFin) for an internal risk model as well as corresponding recognition from the rating agencies.

Risk management at Talanx draws on appropriate quantitative simulation models. As we transition towards an internal Solvency II-compliant system, it is at present still based in key areas on the so-called GDV (German Insurance Association) standard model and is used to analyze and evaluate risk categories as well as the Group's entire risk position. The purpose of risk quantification is to calculate the risk-based capital on the basis of a Value at Risk with a confidence level of 99.97%, given an observation period of one year. A stochastic, risk-

based capital model is currently under development that will facilitate the Talanx-wide use of internal models. It is already undergoing the BaFin approval process.

The hallmark of risk management within the Talanx Group is its decentralized organizational structure. Thus, responsibilities are split into local risk management on the level of the divisions and central risk management on the Group level. At Talanx AG responsibility for risk management rests with the Chief Financial Officer.

On the Group level the following instances are integrated into the risk management process:

Controlling elements	Key risk management tasks
Supervisory Board	<ul style="list-style-type: none"> ■ Advising and monitoring the Board of Management in its management of the company, inter alia with respect to risk strategy and risk management
Board of Management	<ul style="list-style-type: none"> ■ Overall responsibility for risk management ■ Definition of the risk strategy ■ Responsible for the proper functioning of risk management
Risk Committee	<ul style="list-style-type: none"> ■ Risk-monitoring and coordinating body, charged especially with the following tasks: <ul style="list-style-type: none"> ■ Critical observation and analysis of the risk position of the Group as a whole, with particular attention paid to the risk budget approved by the Board of Management and the risk strategy ■ Monitoring of steering measures within the Group with an eye to risks that could threaten the Group's continued existence
Chief Risk Officer	<ul style="list-style-type: none"> ■ Responsible for holistic risk monitoring across divisions (systematic identification and assessment, control/monitoring and reporting of risks) of all material risks from the Group perspective
Central Risk Management	<ul style="list-style-type: none"> ■ Group-wide risk monitoring function ■ Methodological competence, inter alia for <ul style="list-style-type: none"> ■ Development of processes/methods for risk assessment, management and analysis ■ Risk limitation and reporting ■ Risk monitoring and determination of the required risk-based capital across the Group
Local Risk Management	<ul style="list-style-type: none"> ■ Risk monitoring function in the divisions ■ Observance of centrally defined guidelines, methods and processes as well as systems of limits and thresholds that serve as a framework for local implementation, monitoring and reporting
Internal Auditing	<ul style="list-style-type: none"> ■ Process-independent review of the functional areas of the Group

Forecast

The forward-looking statements contained in this outlook are subject to the reservation that they are guided by expectations and assessments based on certain assumptions. 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.

Economic environment

We expect the pace of growth to slow further in developed markets in 2012, as already suggested by many leading indicators. Given that the resources of both fiscal and monetary policy are largely exhausted, economic stimulus through recovery packages or interest rate cuts is hardly possible going forward. We therefore consider a return to "normal economic cycles" to be likely. The labor markets in countries on

the Eurozone periphery, in particular, will probably remain under pressure on account of stringent austerity efforts. The same is true of the US labor market, which has been flagging for some time now.

In a climate of declining growth rates we do not see any significant upward price trend. On the contrary, inflation rates should settle on a level below the central bank target of 2%.

The sovereign debt crisis within the Eurozone in combination with a renewed banking crisis will remain the major risk factor for the near future. Now more than ever, policymakers will face considerable challenges if they are to use all available resources to avert a "Financial Crisis Version 2.0". Memories of Lehman Brothers are still omnipresent. Yet emerging markets are unlikely in future to serve as lifelines in the same way as they did during the last crisis, since their economic prospects have taken an appreciably darker turn in recent months – accompanied in some cases by dramatic falls in exchange rates. This may give rise to further turmoil on global markets.

Capital markets

The unresolved debt issue, the negative sentiment in the banking sector and the appreciably gloomier economic expectations overall suggest that the low interest rate environment will remain intact in the months ahead. In the United States there is virtually a consensus that key interest rates should be left on a low level for the next two years. Stabilization of the general risk situation can only be achieved if politicians succeed – by way of measures and framework conditions that meet with corresponding acceptance – in restoring sustained confidence among market players.

The situation on equity markets continues to be extremely strained in the prevailing mood of considerable uncertainty. In this respect, we consider the management of the current crisis of confidence to be the greatest influencing factor on markets. The possibility of surprise political moves at any time will probably keep volatility on a relatively high level.

Since economic growth is also continuing to lose impetus, stock markets will again pose considerable risks as 2012 unfolds. Corporate growth has already passed its high point, and earnings prospects may therefore prove disappointing. In this complex constellation equities are therefore facing a difficult year overall.

Business development of the Group

It is our expectation that our Group's gross written premium on a consolidated basis will increase in the 2011 financial year – despite the weakening of the US dollar against the euro – to more than EUR 23 billion (2010: EUR 22.9 billion). We anticipate that above-average premium growth should be attainable in the Industrial Lines division and especially in the composite business written by the Retail International division. The planned acceleration of foreign growth is in line with our strategic objective of generating half of the Group's entire primary insurance premiums in international markets over the medium term. The Non-Life Reinsurance and Life/Health Reinsurance divisions will also play their part in growing the Group's premium volume.

Industrial Lines

On the premium side the Industrial Lines division will profit in the year under review from the acquisition of Nassau Verzekering Maatschappij N.V. as well as from the securing of lead mandates in France. A stable to modestly positive development is expected for the European foreign companies in Austria, the Netherlands, Belgium and Spain. Growth prospects are identified above all in international business. Through the expansion of HDI Seguros Madrid (Spain) – a subsidiary of HDI-Gerling Industrie Versicherung AG – into a hub for industrial insurance solutions in Latin America and thanks to the strategic partnership with Petro Vietnam Insurance Holdings (formerly Petrovietnam Insurance Joint Stock Corporation/PVI) in Vietnam, we are on the right track.

Retail Germany

For 2011 we anticipate a minimal premium decrease compared to the previous year. This will result largely from life insurance products, since many contracts taken out in 1999 in the run-up to tax changes that were under discussion at the time are scheduled to mature after twelve years. The rise in new business from life insurance and composite products will, however, have a compensatory effect. The restructuring of the Group is continuing in this segment in the year under review: the goal is to align the business processes and organization with the wishes of customers and sales partners in order to create one of the most efficient and customer-focused insurers in Germany. The restructuring is expected to result in further appreciable extraordinary expenses in the year under review, which could not be recognized in the current quarterly financial statement owing to the fact that negotiations with the employee representatives have only just got under way. With this in mind, the result generated in this division in the third quarter cannot be extrapolated on a linear basis to the expected result for the full financial year.

Retail International

In the Retail International division, which the Group has defined as a strategic growth segment, we expect – allowing for the acquisitions in Argentina and Uruguay – to generate significant premium growth year-on-year. In this context, the strong growth potential of our Brazilian subsidiary is likely to be reflected in a disproportionately vigorous premium increase. Sales of life insurance products by our Italian company are flagging after the appreciable surge of 2010, while sales of property/casualty products are set to pick up in the year under review. The closing of the Mexican insurer Metropolitana Compañía de Seguros (premium volume in 2010: equivalent to EUR 72 million), which was acquired in July, is not expected until the beginning of 2012.

Non-Life Reinsurance

In light of the market opportunities in the two divisions of Non-Life and Life/Health Reinsurance and given our very good positioning, it is our expectation that we shall achieve our growth and profit targets for the full 2011 financial year.

In non-life reinsurance the bottom line is that market conditions remain good. In view of the heavy losses suffered by the (re)insurance industry from natural catastrophe events (especially in the first quarter of 2011), it is our expectation that the market hardening observed across the board – albeit to varying degrees – in the renewals during the year will be sustained. This tendency was underscored not only by the industry gatherings in September in Monte Carlo and in October in Baden-Baden and the United States, but also by the recent round of renewals completed in October in North America. In aviation business, too – a line in which Hannover Re ranks among the market leaders – we continue to see good prospects; this is especially true of the so-called BRIC markets. In total non-life reinsurance we anticipate net premium growth of 8% to 10% in the original currencies in the current financial year.

Life/Health Reinsurance

The prospects in international life/health reinsurance remain favorable. In major markets for our company, such as the United States, risk-oriented reinsurance solutions are taking on greater importance. Business involving longevity risks also offers healthy growth opportunities, particularly in the United Kingdom; this applies both to enhanced annuities and the assumption of risks associated with existing pension funds. For the current financial year we are looking to grow net premium in Life/Health Reinsurance by more than 5% at constant exchange rates.

Group investments

In view of the expected positive cash flow we expect to generate modest growth in our portfolio of investments under own management in the year under review. At the end of 2010 the volume stood at EUR 74.5 billion. Based on our current assessment, income from investments under own management will – despite higher ordinary income – come in slightly lower than in the previous year, in which sizeable non-recurring income was booked from the sale of equities. The average return on investments under own management is thus likely to decline somewhat in the year under review relative to the previous year (2010: 4.2%).

Consolidated financial statements

Consolidated balance sheet of Talanx AG as at 30 September 2011

Assets	Note	30.9.2011	31.12.2010 ¹⁾
Figures in EUR million			
A. Intangible assets	1		
a. Goodwill		700	589
b. Other intangible assets		1,510	1,583
		2,210	2,172
B. Investments			
a. Investment property		857	860
b. Investments in affiliated companies and participating interests		79	74
c. Investments in associated companies		151	144
d. Loans and receivables	2	33,126	32,343
e. Other financial instruments			
i. Held to maturity	3	2,862	2,999
ii. Available for sale	4	32,214	30,635
iii. At fair value through profit or loss	5	942	1,221
f. Other invested assets		5,025	4,185
Investments under own management		75,256	72,461
g. Funds held by ceding companies		11,323	10,961
Total investments		86,579	83,422
C. Investments for the account and risk of holders of life insurance policies		5,924	6,414
D. Reinsurance recoverables on technical provisions		6,462	5,523
E. Accounts receivable on insurance business		4,594	5,011
F. Deferred acquisition costs		3,998	3,715
G. Cash		1,367	1,265
H. Deferred tax assets		287	268
I. Other assets		1,736	1,781
J. Non-current assets and assets of disposal groups classified as held for sale		146	1,529
Total assets		113,303	111,100

¹⁾ Adjusted on the basis of IAS 8

Liabilities	Note	30.9.2011	31.12.2010 ¹⁾
Figures in EUR million			
A. Shareholders' equity	6		
a. Common shares		260	260
Nominal value: 260			
Conditional capital: 26			
b. Reserves		4,997	4,685
Shareholders' equity excluding non-controlling interests		5,257	4,945
c. Non-controlling interests		3,134	3,035
Total shareholders' equity		8,391	7,980
B. Subordinated liabilities	7	2,628	2,791
C. Technical provisions	8		
a. Unearned premium reserve		6,332	5,411
b. Benefit reserve		44,185	42,466
c. Loss and loss adjustment expense reserve		30,529	28,538
d. Provision for premium refunds		1,078	845
e. Other technical provisions		274	250
		82,398	77,510
D. Technical provisions in the area of life insurance insofar as the investment risk is borne by policyholders		5,924	6,414
E. Other provisions			
a. Provision for pensions		1,326	1,316
b. Provision for taxes		442	743
c. Sundry provisions		555	692
		2,323	2,751
F. Liabilities			
a. Notes payable and loans		766	747
b. Funds held under reinsurance treaties		4,782	5,224
c. Other liabilities		4,421	4,858
		9,969	10,829
G. Deferred tax liabilities		1,550	1,444
Total liabilities/provisions		104,792	101,739
H. Liabilities of disposal groups classified as held for sale		120	1,381
Total equity and liabilities		113,303	111,100

¹⁾ Adjusted on the basis of IAS 8

The following Group Notes form an integral part of the consolidated financial statement.

Consolidated statement of income of Talanx AG for the period from 1 January to 30 September 2011

	Note	1.1.– 30.9.2011	1.1.– 30.9.2010	1.7.– 30.9.2011	1.7.– 30.9.2010
Figures in EUR million					
1. Gross written premium including premium from unit-linked life and annuity insurance		17,843	17,255	5,421	5,335
2. Savings elements of premium from unit-linked life and annuity insurance		824	821	253	330
3. Ceded written premium		2,083	2,119	615	641
4. Change in gross unearned premium		–959	–587	348	424
5. Change in ceded unearned premium		–137	–142	87	46
Net premium earned	9	14,114	13,870	4,814	4,742
6. Claims and claims expenses (gross)		14,184	13,035	4,273	4,499
Reinsurers' share		2,026	1,206	383	476
Claims and claims expenses (net)	12	12,158	11,829	3,890	4,023
7. Acquisition costs and administrative expenses (gross)		3,491	3,761	1,263	1,359
Reinsurers' share		303	417	112	156
Acquisition costs and administrative expenses (net)	13	3,188	3,344	1,151	1,203
8. Other technical income		23	43	5	8
Other technical expenses		155	336	–5	192
Other technical result		–132	–293	10	–184
Net technical result		–1,364	–1,596	–217	–668
9. a. Income from investments		2,683	2,585	914	871
b. Expenses for investments ¹⁾		556	378	280	78
Net income from investments under own management		2,127	2,207	634	793
Income/expense on funds withheld and contract deposits		225	197	79	63
Net investment income	10/11	2,352	2,404	713	856
thereof income from investments in associated companies using the equity method		4	1	1	–
10. a. Other income		505	750	113	212
b. Other expenses ¹⁾		773	800	320	201
Other income/expenses		–268	–50	–207	11
Profit before goodwill impairments		720	758	289	199
11. Goodwill impairments		–	–	–	–
Operating profit/loss (EBIT)		720	758	289	199
12. Financing costs		124	94	41	34
13. Taxes on income	14	30	191	37	–6
Net income		566	473	211	171
thereof attributable to non-controlling interests		237	358	92	185
thereof Group net income		329	115	119	–14

¹⁾ The expenses for the management of non-Group investments are recognized under the other expenses. The previous year was adjusted accordingly (1.1.–31.9.2010: EUR 34 million; 1.7.–30.9.2010: EUR 11 million)

The following Group Notes form an integral part of the consolidated financial statement.

Consolidated statement of comprehensive income of Talanx AG for the period from 1 January to 30 September 2011

	1.1.– 30.9.2011	1.1.– 30.9.2010	1.7.– 30.9.2011	1.7.– 30.9.2010
Figures in EUR million				
Net income	566	473	211	171
1. Unrealized gains and losses on investments				
Gains/losses recognized directly in equity during the period	186	665	184	395
Reclassification of net realized gain/loss	–14	–185	–11	–65
Tax income (expense)	–59	–116	–55	–39
	113	364	118	291
2. Currency translation				
Gains/losses recognized directly in equity during the period	–53	160	84	–195
Reclassification of net realized gain/loss	23	–	23	6
Tax income (expense)	–	–7	–15	16
	–30	153	92	–173
3. Changes from cash flow hedges				
Gains/losses recognized directly in equity during the period	107	–11	94	–9
Reclassification of net realized gain/loss	–	–	–	–
Tax income (expense)	–9	–1	–1	–2
	98	–12	93	–11
4. Changes in policyholder participation/shadow accounting				
Gains/losses recognized directly in equity during the period	–134	–44	–160	–140
Tax income (expense)	–2	7	1	6
	–136	–37	–159	–134
5. Changes from the measurement of associated companies				
Gains/losses recognized directly in equity during the period	–	–	–	–
Reclassification of net realized gain/loss	–	–	–	–
Tax income (expense)	–	–	–	–
	–	–	–	–
6. Other changes				
Gains/losses recognized directly in equity during the period	–25	–9	–23	1
Reclassification of net realized gain/loss	–	–	–	–
Tax income (expense)	7	3	6	–
	–18	–6	–17	1
Taxes on income and expense recognized in equity via other income/expenses				
	–63	–114	–64	–19
Income and expense recognized during the period in equity via other income/expenses after taxes				
	27	462	127	–26
Total recognized income and expense during the period	593	935	338	145
thereof attributable to non-controlling interests	281	580	205	151
thereof attributable to the Group	312	355	133	–6

The following Group Notes form an integral part of the consolidated financial statement.

Consolidated statement of changes in shareholders' equity

	Cumulative other comprehensive income (other reserves)								Total share- holders' equity
	Common shares	Additional paid-in capital	Retained earnings	Unrealized gains/ losses on investments	Gains/ losses from currency translation	Other changes in sharehold- ers' equity	Measure- ment gains and losses from cash flow hedges	Share- holders' equity	
Figures in EUR million									
Balance at 31.12.2009	260	630	3,474	667	-140	-294	-23	4,574	2,579
Adjustments pursuant to IAS 8	—	—	-22	29	—	-26	—	-19	—
Adjusted balance at 1.1.2010	260	630	3,452	696	-140	-320	-23	4,555	2,579
Changes in ownership interest ¹⁾	—	—	—	—	—	—	—	—	7
Result for the period	—	—	115	—	—	—	—	115	358
Income and expenses recognized in other income/expenses	—	—	—	180	93	-21	-12	240	222
thereof currency translation	—	—	—	—	93	—	—	93	60
thereof unrealized gains and losses on investments	—	—	—	180	—	—	—	180	184
thereof change from cash flow hedges	—	—	—	—	—	—	-12	-12	—
thereof sundry changes ²⁾	—	—	—	—	—	-21	—	-21	-22
Total recognized income and expense	—	—	115	180	93	-21	-12	355	580
Dividends paid to shareholders	—	—	—	—	—	—	—	—	-162
Capital reduction	—	—	—	—	—	—	—	—	-2
Other changes	—	—	—	—	—	-1	—	-1	1
Balance at 30.9.2010³⁾	260	630	3,567	876	-47	-342	-35	4,909	3,003
Balance at 31.12.2010	260	630	3,678	522	4	-15	-123	4,956	3,035
Adjustments pursuant to IAS 8	—	—	-10	—	-1	—	—	-11	—
Adjusted balance at 31.12.2010	260	630	3,668	522	3	-15	-123	4,945	3,035
Balance at 1.1.2011	260	630	3,668	522	3	-15	-123	4,945	3,035
Result for the period	—	—	329	—	—	—	—	329	237
Income and expenses recognized in other income/expenses	—	—	—	38	-14	-139	98	-17	44
thereof currency translation	—	—	—	—	-14	—	—	-14	-16
thereof unrealized gains and losses on investments	—	—	—	38	—	—	—	38	75
thereof change from cash flow hedges	—	—	—	—	—	—	98	98	—
thereof sundry changes ²⁾	—	—	—	—	—	-139	—	-139	-15
Total recognized income and expense	—	—	329	38	-14	-139	98	312	281
Dividends paid to shareholders	—	—	—	—	—	—	—	—	-182
Balance at 30.9.2011	260	630	3,997	560	-11	-154	-25	5,257	3,134

¹⁾ Changes in ownership interest with no change of control status

²⁾ The sundry changes consist of the policyholder participation/shadow accounting as well as other changes

³⁾ Adjusted on the basis of IAS 8

The following Group Notes form an integral part of the consolidated financial statement.

Consolidated cash flow statement of Talanx AG for the period from 1 January to 30 September 2011

	1.1.– 30.9.2011	1.1.– 30.9.2010 ¹⁾
Figures in EUR million		
I. 1. Net income	566	473
I. 2. Changes in technical provisions	4,232	3,441
I. 3. Changes in deferred acquisition costs	–334	130
I. 4. Changes in funds held and in accounts receivable and payable	–1,777	709
I. 5. Net changes in contract deposits	746	–1,184
I. 6. Changes in other receivables and liabilities	448	254
I. 7. Changes in financial assets held for trading	66	23
I. 8. Net gains and losses on investments	–201	–323
I. 9. Changes in other balance sheet items	–188	–73
I. 10. Other non-cash expenses and income as well as adjustments to net income	–378	378
I. Cash flows from operating activities	3,180	3,828
II. 1. Cash inflow/outflow from the sale of consolidated companies	137	47
II. 2. Cash inflow/outflow from the purchase of consolidated companies	–153	–
II. 3. Cash inflow from the sale of real estate	84	32
II. 4. Cash outflow from the purchase of real estate	–142	–149
II. 5. Cash inflow from the sale and maturity of financial instruments	14,345	12,943
II. 6. Cash outflow from the purchase of financial instruments	–16,524	–16,388
II. 7. Changes in investments for the account and risk of holders of life insurance policies	473	–795
II. 8. Changes in other invested assets	–832	–247
II. Cash flows from investing activities	–2,612	–4,557
III. 1. Cash inflow from capital increases/cash outflow from capital reductions	–	–2
III. 2. Dividends paid	–182	–162
III. 3. Net changes from other financing activities	–266	449
III. Cash flows from financing activities	–448	285
Change in cash and cash equivalents (I.+II.+III.)	120	–444
Cash and cash equivalents at the beginning of the financial year	1,290	1,685
Cash and cash equivalents – exchange rate differences on cash	–13	45
Cash and cash equivalents of companies no longer included in the consolidated financial statement	–17	–
Cash and cash equivalents at the end of the reporting period	1,380	1,286
Cash and cash equivalents of disposal groups	13	–
Cash and cash equivalents at the end of the reporting period excluding disposal groups	1,367	1,286
Additional information		
Income taxes paid (on balance)	175	226
Interest paid	249	235
thereof from financing activities	124	94
thereof from operating activities	125	141

¹⁾ Adjusted on the basis of IAS 8

The following Group Notes form an integral part of the consolidated financial statement.

Notes on the consolidated 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.

Income taxes paid are allocated to the cash flows from operating activities (IAS 7.35).

The total cash outflows for business combinations amounted to EUR 232 million. In this context, cash and cash equivalents worth altogether EUR 79 million were acquired, as a consequence of which the cash outflow amounted to EUR 153 million after allowance for the cash and cash equivalents received. In the context of disposals an inflow of EUR 137 million resulted after allowance for the purchase price paid.

The informational value of the cash flow statement for the Group is to be considered minimal. For us, it is not a substitute for liquidity and financial planning, nor is it used as a management tool.

Notes and explanatory remarks

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

General accounting principles

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 quarterly financial report as at 30 September 2011 has been compiled in accordance with International Financial Reporting Standards (IFRS) in the form adopted for use in the European Union. The condensed consolidated financial report, consisting of the consolidated balance sheet, consolidated statement of income, consolidated statement of comprehensive income, consolidated statement of changes in shareholders' equity, consolidated cash flow statement and selected explanatory notes, reflects in particular the requirements of IAS 34 "Interim Financial Reporting".

We have observed all new or revised IFRS, application of which is mandatory as at 30 September 2011, and the interpretations thereof issued by the International Financial Reporting Interpretation Committee (IFRIC) (see also the section "Newly applicable standards/interpretations and changes in standards"). In addition, the accounting policies and the consolidation principles for already existing and unchanged IFRS correspond to those of our consolidated financial statement as at 31 December 2010.

In conformity with IAS 34.41, in our preparation of the consolidated quarterly financial statement we draw on estimates and planned figures to a greater extent than is the case with the annual financial reporting. Changes in estimates during the current interim reporting period with significant implications for the Group's assets, financial position or net income – with the exception of the circumstances specified in section II "Accounting policies" – did not arise. The tax expenditure (domestic income taxes, comparable taxes on income at foreign subsidiaries and changes in deferred taxes) is calculated within the year using an effective rate of taxation anticipated for the full financial year which is applied to the net income of the reporting period. The actuarial pension assumptions are not updated within the full financial year.

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 interim financial statement was drawn up in euros (EUR). The amounts shown have been rounded to EUR millions (EUR million). 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

The revised IAS 24 "Related Party Disclosures" was ratified by the EU on 20 July 2010. A major new feature is the requirement for disclosures of "commitments" such as guarantees and undertakings as well as other commitments which are dependent upon whether (or not) a particular event occurs in the future. The definitions of a related entity or a related person are also clarified. Talanx applied the revised IAS 24 for the first time in the quarterly financial statement as at 31 March 2011. There were no significant implications.

“Improvements to IFRSs” (published in May 2010) is a collective standard containing numerous minor IFRS amendments published as part of the IASB annual improvement process. The amendments are for the most part applicable to financial years beginning on or after 1 January 2011; the standard was adopted in European law in February 2011. Overall, the amendments have no significant implications for the assets, financial position or net income of the Talanx Group.

The following additional standards and interpretations applicable with effect from 1 January 2011 also had no implications for the Talanx Group:

- In December 2009 the EU adopted amendments to IAS 32 “Financial Instruments: Presentation – Classification of Rights Issues” in European law. IAS 32 was amended such that subscription rights as well as options and warrants for a fixed number of treasury shares against a fixed amount of any currency are to be classified as equity instruments as long as these are issued pro rata to all an entity’s existing shareholders of the same class.
- IFRIC 14 “IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction”: the amendments are of relevance if a pension plan provides for minimum funding requirements and the entity makes an early payment of contributions to cover those requirements.
- In November 2009 the IFRIC published IFRIC 19 “Extinguishing Financial Liabilities with Equity Instruments”. The interpretation addresses accounting by the debtor if renegotiated contractual conditions of a financial liability enable it to extinguish all or part of a financial liability through the issue of its own equity instruments (debt for equity swaps). The equity instruments are to be measured at fair value upon issuance. Differences between the fair value of the equity instrument and the carrying amount of the extinguished liability are recognized in profit or loss.

Standards, interpretation and changes to published standards, application of which was not yet mandatory in 2011 and which were not applied early by the Group

In November 2009 the IASB published a new standard on the classification and measurement of financial instruments, which was expanded in October 2010 to include rules governing the accounting of financial liabilities and derecognition 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 future, the standard envisages only two categories of financial assets: those measured at “fair value” and at “amortized costs”. Reclassification will only be possible if the business model changes significantly. Equity investments that fall within the scope of application 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 Group has still to analyze the full implications of IFRS 9. It is, however, already becoming clear that the revised rules will have an influence, *inter alia*, on the accounting of financial assets within the Group. The standard does not apply until financial years beginning on or after 1 January 2013; it has still to be adopted in European law. The IASB has currently published an Exposure Draft which will result in deferral of the date of application to financial years beginning on or after 1 January 2015.

In August 2010 and September 2010 the IASB published draft amendments to IFRS 1 "First-time Adoption of International Financial Reporting Standards" dealing respectively with the removal of fixed transition dates for first-time adopters and the resumption of IFRS accounting after severe hyperinflation. The amendments have still to be adopted by the EU. Among other things, the first of these amendments replaced the previously used reference to "1 January 2004" as a fixed transition date with a more general formulation. In addition, guidance was for the first time included in this standard for cases where an entity was unable to comply with the requirements of IFRS for a period of time prior to transition because its functional currency was subject to hyperinflation. The amendments enter into force for financial years beginning on or after 1 July 2011. We do not expect the application of these amendments to have any influence on the consolidated financial statement.

On 7 October 2010 the IASB published amendments to IFRS 7 "Financial Instruments: Disclosures" which are applicable to financial years beginning on or after 1 July 2011. The amendments concern disclosure requirements in connection with the transfer of financial assets. A transfer of financial assets exists, for example, where receivables are sold or in the case of asset-backed securities (ABS) transactions. The amendments have still to be ratified by the EU. We are currently reviewing the implications for the consolidated financial statement.

In December 2010 the IASB published amendments to IAS 12 "Income Taxes", which have still to be adopted by the EU. These new rules include clarification of the treatment of temporary tax differences in connection with measurement using the fair value model of IAS 40 "Investment Property". The amendment enters into force for reporting years beginning on or after 1 January 2012. We do not expect these amendments to have any effect on the consolidated financial statement.

On 12 May 2011 the IASB published three new and two revised standards governing consolidation and the accounting of investments in associated companies and joint ventures as well as the related disclosure requirements in the notes:

IFRS 10 "Consolidated Financial Statements" replaces the previous standards contained in IAS 27 "Consolidated and Separate Financial Statements" and SIC-12 "Consolidation – Special Purpose Entities" and establishes a consistent definition of control and hence a consistent basis for verifying the existence of a parent-subsidiary relationship. We are currently reviewing the implications of the new IFRS 10 for the consolidated financial statement.

The revised IAS 27 will henceforth only contain standards governing the accounting of interests in subsidiaries, associates and joint ventures in the separate financial statements of the parent company. The wording of the previous standard was carried over with only minimal changes.

IFRS 11 "Joint Arrangements" governs the accounting of situations in which an entity exercises joint control over a joint venture or a joint operation. The new standard replaces the stipulations contained in this regard in IAS 31 "Interests in Joint Ventures" and SIC-13 "Jointly Controlled Entities – Non-Monetary Contributions by Venturers". In accordance with IFRS 11 a proportionate inclusion of interests in joint ventures will no longer be permissible. Rather, interests in joint ventures must be accounted for in future using the equity method. Based on current knowledge, we are affected in only one case (Credit Life International Services GmbH).

The revised version of IAS 28 "Investments in Associates and Joint Ventures" is extended to include rules governing the accounting of investments in joint ventures. In future, application of the equity method is required on a uniform basis.

The disclosure requirements associated with the consolidation and accounting of interests in associates and joint ventures are to be combined in future in IFRS 12 "Disclosure of Interests in Other Entities". With the aim of clarifying for the users of financial statements the nature of an entity's interest in other entities as well as the effects of those interests on its financial position, financial performance and cash flows, significantly expanded disclosures of information are required in comparison with the previous requirements.

The requirements of IFRS 10, 11 and 12 as well as the revised IAS 27 and 28 are to be applied to financial years beginning on or after 1 January 2013. All of these standards have still to be ratified by the EU.

IFRS 13 "Fair Value Measurement", a new standard also published by the IASB on 12 May 2011, establishes a consistent definition of fair value across the various standards as well as of the methods that are used to measure it. The fair value is defined as the exit price, the calculation of which shall be based as far as possible on relevant observable inputs. In addition, extensive explanatory and qualitative disclosures are required; these are intended, in particular, to describe the quality of the calculation of fair value. We are currently reviewing the implications of the new IFRS 13; it is, however, our assumption that its application will not lead to any significant changes in accounting. IFRS 13 must be applied to financial years beginning on or after 1 January 2013 and has still to be ratified by the EU.

In June 2011 the IASB published amendments to IAS 1 "Presentation of Financial Statements" and IAS 19 "Employee Benefits".

IAS 1 requires entities to group items presented in OCI based on whether they are potentially reclassifiable to profit or loss subsequently, i.e. those that might be reclassified and those that will not be reclassified. Tax associated with items presented before tax is to be shown separately for each of the two groups of OCI items. The amendments to IAS 1 are to be applied to financial years beginning on or after 1 July 2012. The principal new feature of the revised IAS 19 is the elimination of the option to recognize future actuarial gains and losses either directly in other comprehensive income (OCI) or on a deferred basis using the so-called "corridor approach". Actuarial gains and losses will therefore have to be recognized entirely in OCI; the corridor method is no longer permissible. In addition, interest on plan assets will no longer be calculated using the expected rate of return on investments but rather the discount rate of the liability. Furthermore, extensive disclosure requirements are prescribed to reflect the purpose of the revised standard. Since the Group currently uses the corridor approach, corresponding implications – which are currently being explored – are to be anticipated. It is envisaged that the amended IAS 19 will be applicable for the first time to financial years beginning on or after 1 January 2013.

The amendments to IAS 1 and IAS 19 have still to be ratified by the EU.

II. Accounting policies

Changes in accounting policies and accounting errors

In the 2011 financial year we adjusted the previous year's figures with respect to the following circumstances retrospectively in accordance with the requirements of IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors". Insofar as the corrections relate to adjustments already made in the previous year with a knock-on effect for the comparable quarter as at 30 September 2010, the reader is also referred to the 2010 Annual Report (chapter: "Accounting policies", section: "Changes in accounting policies and accounting errors").

- a) The Group corrected the balance sheet recognition of certain life reinsurance contracts. In accordance with applicable US GAAP (FASB ASC 340-30), technical assets and liabilities relating to these contracts are to be offset in the balance sheet. These offsetting rules were not applied consistently within the Group in previous reporting periods. In accordance with the requirements of IAS 8, the balance sheet items "funds withheld" (assets side) and "contract deposits" (liabilities side) are each reduced by EUR 1,429 million relative to the amounts originally shown in the opening balance sheet as at 1 January 2010 (cf. here the 2010 Annual Report, page 125, letter d).
- b) In addition, pursuant to the requirements of IAS 8 it was necessary to correct the translation of intangible assets held in foreign currencies in the consolidated balance sheet as at 1 January 2010. In the opening balance sheet as at 1 January 2010 the balance sheet items "Other intangible assets" and "Reserves" each had to be increased by EUR 2 million; of this amount, EUR 1 million was attributable to non-controlling interests (cf. here the 2010 Annual Report, page 125, letter c).
- c) In the second quarter of 2011 we retrospectively corrected in the Retail International segment the disclosure of deferred tax liabilities for taxable temporary differences relating to the goodwill of an acquisition completed in previous years that did not derive from the first-time recognition of the goodwill. In the opening balance sheet as at 1 January 2010 the deferred tax liabilities increased by EUR 7 million; the retained earnings decreased by the same amount. Altogether, the reserves as at 31 December 2010 were reduced by EUR 11 million as a consequence of this adjustment; of this amount, EUR 3 million was attributable to Group net income and EUR 1 million to the other reserves (contra item: in each case deferred tax liabilities).
- d) Effective 30 September 2011 the Group changed the recognition of insurance-related intangible assets with respect to life insurance companies acquired in previous years (PVFP) in the Retail Germany segment in order to use standard methods. This gave rise to netting of the PVFP in favor of policyholders (item: Other intangible assets) in the amount of the liabilities-side provision for deferred premium refunds (item: provision for premium refunds) calculated and recognized upon initial consolidation. The change in this accounting method and the associated adjustment of the amortization patterns was applied retrospectively. There were no implications for Group net income or shareholders' equity in any of the prior reporting periods. As at 30 September 2011 the balance sheet items "Other intangible assets" and "Provision for premium refunds" decreased by EUR 281 million relative to the amounts originally recognized. These balance sheet items are each reduced by EUR 321 million in the opening balance sheet as at 1 January 2010.

The adjustments that were made have the following effects on items of the consolidated balance sheet as at 30 September 2010 and 31 December 2010:

Consolidated balance sheet as at 30 September 2010	30.9.2010 as reported	Changes from adjustments pursuant to IAS 8	30.9.2010
Figures in EUR million	Re d)		
A.b. Other intangible assets	1,941	−281	1,660
C.d. Provision for premium refunds	1,427	−281	1,146
Consolidated balance sheet as at 31 December 2010			30.12.2010
30.12.2010 as reported	Changes from adjustments pursuant to IAS 8	30.12.2010	
Figures in EUR million	Re c)	Re d)	
A.b. Other intangible assets	1,851	—	1,583
A.b. Reserves	4,696	−11	—
G. Provision for deferred taxes	1,433	11	—
C.d. Rückstellung für Beitragsrückerstattung	1,113	—	845

We corrected the following circumstance in the fourth quarter of 2010 through adjustment of the opening balances as at 1 January 2010; retrospective application to prior periods was omitted, since in this regard determination of the period-related adjustments was not feasible or did not seem advisable after weighing up cost/benefit considerations.

In connection with a changeover in data delivery for a certain investment portfolio, the measurement of financial assets – in the performance of which policyholders also participate – was converted to uniform methods. This procedure served to reduce the retained earnings by EUR 3 million; the other reserves increased by the same amount (cf. here the 2010 Annual Report, page 127, letter b).

This adjustment had the following implication for the 2010 opening balance sheet:

Consolidated balance sheet	Adjustments 2010
Figures in EUR million	
A.b. Reserves – retained earnings	−3
A.b. Reserves – other reserves	3

Changes in estimates during the reporting period

With respect to collateralized debt obligations, collateralized loan obligations and high-yield funds, the Group has adjusted the calculation logic used for model-based fair value measurement and for establishing the share of fair value changes attributable to impairments with the aim of measuring such items on a more market-oriented basis. This represents a change in an accounting estimate, which pursuant to IAS 8 “Accounting Policies, Changes in Accounting Estimates and Errors” is to be performed prospectively in the period under review without adjustment of the comparative figures for previous years. Retention of the parameters and methods used until 31 December 2010 would have reduced the impairments in the period under review by EUR 3 million and increased the write-ups by EUR 1 million. The amount recognized for the fair values of the specified instruments would have been EUR 1 million higher. The effect of this adjustment of the calculation logic in future reporting periods could only have been determined with a disproportionately high effort.

Currency translation

Items in the financial statements of Group companies are measured on the basis of the currency corresponding to the currency of the primary economic environment in which the company operates (functional currency). The consolidated financial statement is prepared in the euro, which constitutes the functional currency and the reporting currency of the Talanx Group.

The Group companies' statements of income prepared in the national currencies are converted into euro at the average rates of exchange and transferred to the consolidated financial statement. 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. All resulting currency translation differences – including those arising out of the capital consolidation – are recognized as a separate item within the other reserves in shareholders' equity.

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

Exchange rates	Balance sheet (balance sheet date)		Statement of income (average)	
	30.9.2011	31.12.2010	1.1.–30.9.2011	1.1.–30.9.2010
1 EUR corresponds to:				
ARS Argentina	5.6756	—	5.7621	—
AUD Australia	1.3890	1.3068	1.3525	1.4776
BHD Bahrain	0.5087	0.4997	0.5312	0.4999
BRL Brazil	2.4824	2.2085	2.3060	2.3582
CAD Canada	1.4110	1.3259	1.3813	1.3815
CLP Chile	693.7529	619.9699	668.1091	687.1050
CNY China	8.6117	8.7511	9.1514	9.0193
GBP United Kingdom	0.8657	0.8585	0.8752	0.8603
HKD Hong Kong	10.5129	10.3146	10.9713	10.3031
HUF Hungary	292.6541	280.1572	272.2937	275.5768
KRW South Korea	1,593.6819	1,501.6346	1,547.4153	1,547.0884
MXN Mexico	18.6312	16.4031	17.0934	16.9104
MYR Malaysia	4.3077	4.0869	4.2747	4.3269
PLN Poland	4.4194	3.9678	4.0330	4.0132
SEK Sweden	9.2583	9.0119	9.0061	9.6719
TRY Turkey	2.5103	2.0597	2.2965	2.0134
UAH Ukraine	10.8020	10.5603	11.2409	10.5298
UYU Uruguay	26.9190	—	26.9459	—
USD United States	1.3493	1.3254	1.4091	1.3261
ZAR South Africa	10.9499	8.7907	9.8247	9.8600

III. Segment reporting

Identification of reportable segments

As a first step, in accordance with its internal organizational structure, the Talanx Group has split its business activities into the areas of insurance and corporate operations. Insurance activities are subdivided into five reportable segments; in view of the different product types, risks and capital allocations, a differentiation is initially made between primary insurance and reinsurance.

Reflecting its different products and business groups, reinsurance business continues to be split into the two segments of Non-Life Reinsurance and Life/Health Reinsurance. On account of their management according to customer groups and geographical regions (domestic versus international) – which therefore spans the various lines of business –, insurance activities in the primary sector have been structured in accordance with the following three reportable segments: “Industrial Lines”, “Retail Germany” and “Retail International”. The segmentation in primary insurance corresponds to the responsibilities of the members of the Board of Management.

The area of “Corporate Operations” constitutes another reportable segment. Altogether, then, the Group has identified six reportable segments in conformity with IFRS 8 “Operating Segments”.

The major products and services with which these reportable segments generate income are set out below.

Industrial Lines: In the Industrial Lines segment we report worldwide industrial business as an independent segment. The scope of business operations encompasses a wide selection of insurance products such as liability, motor, accident, fire, marine, special lines and engineering insurance for large and mid-sized enterprises in Germany and abroad. In addition, reinsurance in various classes of insurance is granted.

Retail Germany: Insurance activities serving German retail and commercial customers that span the various lines of business, including the bancassurance business transacted Germany-wide – i.e. insurance products sold over the counter at banks –, are managed in this reportable segment. In addition to traditional composite insurance products, numerous life insurance products are offered in the form of individual, group and collective policies for a single or regular premium: endowment, annuity and term life insurance, accident insurance, unit-linked life insurance, occupational disability and strict “any occupation” disability insurance, foreign travel insurance and occupational retirement provision.

Retail International: The scope of operations in this segment encompasses insurance business transacted across the various lines of insurance with retail and commercial customers, including bancassurance activities in foreign markets. The broad selection of insurance products largely reflects those offered in the Retail Germany segment.

Non-Life Reinsurance: The most important activities concentrate on property and casualty business with retail, commercial and industrial customers – first and foremost in the US and German markets –, marine and aviation business, credit/surety business, facultative business 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.

Contrary to the corresponding segmentation within the Hannover Re Group, we assign holding functions of this group to the Non-Life Reinsurance segment. Loans across segments within the Hannover Re Group are allocated to the two reinsurance segments within the Talanx consolidated financial statement (consolidated financial statement of Hannover Re: consolidation column). As a result, divergences in the segment results between the consolidated financial statements of Talanx AG and of Hannover Re are unavoidable.

Corporate Operations: The Corporate Operations segment encompasses – in contrast to the five operating segments – management and other functional activities in support of the business conducted by the Group, primarily relating to asset management, the run-off and placement of portions of reinsurance cessions for the primary insurance companies as well as Group financing. Central service companies that perform specific service functions – such as IT services, collections, personnel and accounting tasks – on an at-cost basis principally for the primary insurers based in Germany are also allocated to this segment.

Measurement bases for the performance of the reportable segments

All transactions between reportable 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 are eliminated within the scope of consolidation – in the consolidation column, insofar as they are cross-segment transactions. For reasons of consistency and comparability, we have adjusted the consolidated statement of income in line with the segment statement of income; the same applies to the consolidated balance sheet and the segment balance sheet. Non-current assets are considered largely to consist of intangible assets and own-use real estate/investment property.

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 reportable segments within the 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 (financing costs).

Segment report.
Balance sheet as at 30 September 2011

Assets	Industrial Lines		Retail Germany ¹⁾		Retail International	
	30.9.2011	31.12.2010	30.9.2011	31.12.2010	30.9.2011	31.12.2010
Figures in EUR million						
A. Intangible assets						
a. Goodwill	153	60	408	397	116	124
b. Other intangible assets	29	8	1,268	1,361	28	29
	182	68	1,676	1,758	144	153
B. Investments						
a. Investment property	37	39	378	449	71	69
b. Investments in affiliated companies and participating interests	9	9	23	24	—	—
c. Investments in associated companies	12	—	44	9	22	24
d. Loans and receivables	2,722	3,084	26,968	26,993	3	3
e. Other financial instruments						
i. Held to maturity	120	121	290	295	245	71
ii. Available for sale	2,980	2,764	9,133	8,599	2,176	2,444
iii. At fair value through profit or loss	7	16	267	445	496	487
f. Other invested assets	785	559	1,659	849	302	224
Investments under own management	6,672	6,592	38,762	37,663	3,315	3,322
g. Funds held by ceding companies	31	43	3	3	—	—
Total investments	6,703	6,635	38,765	37,666	3,315	3,322
C. Investments for the account and risk of holders of life insurance policies	—	—	4,926	5,419	998	995
D. Reinsurance recoverables on technical provisions	4,346	3,866	2,510	2,797	719	713
E. Accounts receivable on insurance business	995	1,675	479	368	386	354
F. Deferred acquisition costs	36	26	1,640	1,498	193	202
G. Cash	320	242	236	337	214	204
H. Deferred tax assets	25	25	22	22	65	59
I. Other assets	488	448	867	1,412	213	210
J. Non-current assets and assets of disposal groups classified as held for sale	2	—	171	—	—	—
Total assets	13,097	12,985	51,292	51,277	6,247	6,212

¹⁾ Adjusted on the basis of IAS 8

Non-Life Reinsurance		Life/Health Reinsurance		Corporate Operations		Consolidation		Total	
30.9.2011	31.12.2010	30.9.2011	31.12.2010	30.9.2011	31.12.2010	30.9.2011	31.12.2010	30.9.2011	31.12.2010
23	8	—	—	—	—	—	—	700	589
26	29	105	108	54	48	—	—	1,510	1,583
49	37	105	108	54	48	—	—	2,210	2,172
369	301	2	2	—	—	—	—	857	860
18	11	1	—	28	30	—	—	79	74
121	85	12	12	13	14	—73	—	151	144
3,457	2,270	29	45	—	1	—53	—53	33,126	32,343
2,740	3,024	2	4	17	46	—552	—562	2,862	2,999
12,471	12,096	5,155	4,409	299	323	—	—	32,214	30,635
131	181	39	92	2	—	—	—	942	1,221
1,987	2,352	340	273	508	413	—556	—485	5,025	4,185
21,294	20,320	5,580	4,837	867	827	—1,234	—1,100	75,256	72,461
791	696	12,137	11,940	—	—	—1,639	—1,721	11,323	10,961
22,085	21,016	17,717	16,777	867	827	—2,873	—2,821	86,579	83,422
—	—	—	—	—	—	—	—	5,924	6,414
1,522	941	491	515	—	—	—3,126	—3,309	6,462	5,523
2,049	1,806	962	1,036	—	—	—277	—228	4,594	5,011
445	362	1,461	1,472	—	—	223	155	3,998	3,715
412	328	124	118	61	36	—	—	1,367	1,265
27	10	13	2	135	181	—	—31	287	268
1,102	970	62	47	376	474	—1,372	—1,780	1,736	1,781
—	1,529	—	—	—	—	—27	—	146	1,529
27,691	26,999	20,935	20,075	1,493	1,566	—7,452	—8,014	113,303	111,100

Segment report.
Balance sheet as at 30 September 2011

Liabilities	Industrial Lines		Retail Germany ¹⁾		Retail International ¹⁾	
	30.9.2011	31.12.2010	30.9.2011	31.12.2010	30.9.2011	31.12.2010
Figures in EUR million						
B. Subordinated liabilities	262	265	164	165	—	—
C. Technical provisions						
a. Unearned premium reserve	991	713	2,114	1,835	1,035	1,008
b. Benefit reserve	1	—	33,140	32,333	1,766	1,752
c. Loss and loss adjustment expense reserve	8,066	7,777	2,583	2,696	1,149	1,129
d. Provision for premium refunds	11	13	1,045	793	22	39
e. Other technical provisions	31	31	7	8	15	15
	9,100	8,534	38,889	37,665	3,987	3,943
D. Technical provisions in the area of life insurance insofar as the investment risk is borne by policyholders						
	—	—	4,926	5,419	998	995
E. Other provisions						
a. Provision for pensions	441	438	121	133	8	8
b. Provision for taxes	108	117	90	142	31	40
c. Sundry provisions	91	92	216	283	37	33
	640	647	427	558	76	81
F. Liabilities						
a. Notes payable and loans	—	—	—	—	8	17
b. Funds held under reinsurance treaties	14	4	2,031	2,224	324	345
c. Other liabilities	1,241	1,835	2,144	2,321	326	298
	1,255	1,839	4,175	4,545	658	660
G. Deferred tax liabilities						
	99	88	279	290	17	20
Total liabilities/provisions	11,356	11,373	48,860	48,642	5,736	5,699
H. Liabilities of disposal groups classified as held for sale						
	—	—	122	—	—	—

Non-Life Reinsurance		Life/Health Reinsurance		Corporate Operations		Consolidation		Total	
30.9.2011	31.12.2010	30.9.2011	31.12.2010	30.9.2011	31.12.2010	30.9.2011	31.12.2010	30.9.2011	31.12.2010
1,734	1,869	91	92	518	542	-141	-142	2,628	2,791
2,158	1,813	111	98	—	—	-77	-56	6,332	5,411
—	—	9,822	8,941	—	—	-544	-560	44,185	42,466
17,299	15,634	2,586	2,431	—	—	-1,154	-1,129	30,529	28,538
—	—	—	—	—	—	—	—	1,078	845
141	131	59	51	—	—	21	14	274	250
19,598	17,578	12,578	11,521	—	—	-1,754	-1,731	82,398	77,510
—	—	—	—	—	—	—	—	5,924	6,414
67	64	19	18	670	655	—	—	1,326	1,316
119	263	20	24	74	157	—	—	442	743
85	135	18	23	109	128	-1	-2	555	692
271	462	57	65	853	940	-1	-2	2,323	2,751
207	188	254	168	1,304	1,304	-1,007	-930	766	747
381	320	4,944	5,572	—	—	-2,912	-3,241	4,782	5,224
738	620	1,340	1,139	386	757	-1,754	-2,112	4,421	4,858
1,326	1,128	6,538	6,879	1,690	2,061	-5,673	-6,283	9,969	10,829
779	716	344	310	11	4	21	16	1,550	1,444
23,708	21,753	19,608	18,867	3,072	3,547	-7,548	-8,142	104,792	101,739
—	1,381	—	—	—	—	-2	—	120	1,381
								Shareholders' equity²⁾	8,391
								Total equity and liabilities	113,303
									111,100

¹⁾ Adjusted on the basis of IAS 8²⁾ Group shareholders' equity incl. non-controlling interests

Segment report

Statement of income for the period from 1 January to 30 September 2011

	Industrial Lines		Retail Germany		Retail International	
	1.1.– 30.9.2011	1.1.– 30.9.2010	1.1.– 30.9.2011	1.1.– 30.9.2010	1.1.– 30.9.2011	1.1.– 30.9.2010
Figures in EUR million						
1. Gross written premium including premium from unit-linked life and annuity insurance	2,556	2,527	5,006	5,067	1,774	1,651
thereof: with other segments	19	15	44	16	—	—
with third parties	2,537	2,512	4,962	5,051	1,774	1,651
2. Savings elements of premium from unit-linked life and annuity insurance	—	—	642	680	182	141
3. Ceded written premium	1,334	1,322	296	418	172	149
4. Change in gross unearned premium	–229	–211	–273	–97	–81	96
5. Change in ceded unearned premium	–102	–90	–2	49	–23	138
Net premium earned	1,095	1,084	3,797	3,823	1,362	1,319
6. Claims and claims expenses (gross)	1,850	1,499	4,121	4,355	1,092	1,139
Reinsurers' share	1,089	683	146	185	76	62
Claims and claims expenses (net)	761	816	3,975	4,170	1,016	1,077
7. Acquisition costs and administrative expenses (gross)	438	400	855	1,035	388	583
Reinsurers' share	203	186	111	246	19	248
Acquisition costs and administrative expenses (net)	235	214	744	789	369	335
8. Other technical income	6	6	5	17	7	11
Other technical expenses	31	73	55	186	33	24
thereof: amortization PVFP	—	—	41	101	1	1
Other technical result	–25	–67	–50	–169	–26	–13
Net technical result	74	–13	–972	–1,305	–49	–106
9. a. Income from investments	209	196	1,385	1,392	153	132
b. Expenses for investments ¹⁾	59	24	214	133	40	15
Net income from investments under own management	150	172	1,171	1,259	113	117
Income/expense on funds withheld and contract deposits	1	—	–22	–25	–1	–1
Net investment income	151	172	1,149	1,234	112	116
thereof: interest and similar income	164	166	1,149	1,106	108	90
impairments/depreciation on investments	25	5	74	54	15	5
write-ups on investments	2	—	17	10	1	—
profit/loss from investments in associated companies	—	—	2	—	–2	–1
10. a. Other income	96	169	117	316	26	46
b. Other expenses ¹⁾	153	146	183	247	71	85
Other income/expenses	–57	23	–66	69	–45	–39
thereof: interest and similar income	4	1	6	4	4	14
write-ups on accounts receivable and other assets	—	—	1	—	—	—
interest and similar expenses	21	24	11	21	1	9
write-downs on accounts receivable and other assets	59	5	16	11	8	11
amortization on acquired insurance portfolios	—	—	—	—	—	—
Profit before goodwill impairments	168	182	111	–2	18	–29
11. Goodwill impairments	—	—	—	—	—	—
Operating profit/loss (EBIT)	168	182	111	–2	18	–29
12. Financing costs	10	10	7	7	—	—
13. Taxes on income	33	53	12	31	8	19
Net income	125	119	92	–40	10	–48
thereof attributable to non-controlling interests	—	—	6	–1	–2	–1
thereof Group net income	125	119	86	–39	12	–47

¹⁾ Expenses for the administration of non-Group investments are recognized under other expenses.

The previous year was adjusted accordingly (EUR 34 million)

Non-Life Reinsurance		Life/Health Reinsurance		Corporate Operations		Consolidation		Total	
1.1.– 30.9.2011	1.1.– 30.9.2010	1.1.– 30.9.2011	1.1.– 30.9.2010	1.1.– 30.9.2011	1.1.– 30.9.2010	1.1.– 30.9.2011	1.1.– 30.9.2010	1.1.– 30.9.2011	1.1.– 30.9.2010
5,220	4,826	3,844	3,730	—	2	-557	-548	17,843	17,255
307	298	187	217	—	2	-557	-548	—	—
4,913	4,528	3,657	3,513	—	—	—	—	17,843	17,255
—	—	—	—	—	—	—	—	824	821
504	457	342	316	—	—	-565	-543	2,083	2,119
-380	-373	-17	-11	—	—	21	9	-959	-587
-55	-72	-2	-2	—	—	47	-165	-137	-142
4,391	4,068	3,487	3,405	—	2	-18	169	14,114	13,870
4,286	3,257	3,112	2,985	—	1	-277	-200	14,184	13,035
781	256	236	242	—	—	-302	-222	2,026	1,206
3,505	3,001	2,876	2,743	—	1	25	22	12,158	11,829
1,168	1,098	852	908	—	—	-210	-263	3,491	3,761
54	69	49	73	—	—	-133	-405	303	417
1,114	1,029	803	835	—	—	-77	142	3,188	3,344
1	-1	6	11	—	—	-2	-1	23	43
-3	7	7	40	—	1	32	5	155	336
—	—	2	3	—	—	—	—	44	104
4	-8	-1	-29	—	-1	-34	-6	-132	-293
-224	30	-193	-202	—	—	—	-1	-1,364	-1,596
763	717	198	179	18	9	-43	-40	2,683	2,585
165	197	85	32	45	43	-52	-66	556	378
598	520	113	147	-27	-34	9	26	2,127	2,207
10	7	237	216	—	—	—	-1	225	197
608	527	350	363	-27	-34	9	25	2,352	2,404
517	504	480	411	4	2	-49	-48	2,373	2,231
21	19	—	—	5	7	—	—	140	90
17	14	—	—	—	—	—	—	37	24
5	2	—	—	1	—	-2	—	4	1
171	292	38	98	456	442	-399	-613	505	750
203	180	48	46	488	647	-373	-551	773	800
-32	112	-10	52	-32	-205	-26	-62	-268	-50
70	80	2	—	9	10	-6	-9	89	100
12	59	—	—	—	—	—	—	13	59
9	16	23	5	52	41	-11	-13	106	103
23	17	9	8	3	2	—	—	118	54
—	—	—	—	—	—	—	—	—	—
352	669	147	213	-59	-239	-17	-39	720	758
—	—	—	—	—	—	—	—	—	—
352	669	147	213	-59	-239	-17	-39	720	758
78	64	4	2	60	46	-35	-35	124	94
-36	108	25	44	-18	-65	6	1	30	191
310	497	118	167	-101	-220	12	-5	566	473
176	275	57	85	—	—	—	—	237	358
134	222	61	82	-101	-220	12	-2	329	115

Segment report.

Statement of income for the period from 1 July to 30 September 2011

	Industrial Lines		Retail Germany		Retail International	
	1.7.– 30.9.2011	1.7.– 30.9.2010	1.7.– 30.9.2011	1.7.– 30.9.2010	1.7.– 30.9.2011	1.7.– 30.9.2010
Figures in EUR million						
1. Gross written premium including premium from unit-linked life and annuity insurance	550	498	1,482	1,547	580	530
thereof: with other segments	6	1	33	6	—	—
with third parties	544	497	1,449	1,541	580	530
2. Savings elements of premium from unit-linked life and annuity insurance	—	—	196	268	57	62
3. Ceded written premium	390	361	91	120	52	51
4. Change in gross unearned premium	306	307	95	160	-24	-1
5. Change in ceded unearned premium	99	64	13	90	5	13
Net premium earned	367	380	1,277	1,229	442	403
6. Claims and claims expenses (gross)	427	516	1,367	1,482	349	335
Reinsurers' share	226	235	43	55	25	33
Claims and claims expenses (net)	201	281	1,324	1,427	324	302
7. Acquisition costs and administrative expenses (gross)	159	119	345	460	144	154
Reinsurers' share	87	69	54	159	17	37
Acquisition costs and administrative expenses (net)	72	50	291	301	127	117
8. Other technical income	1	2	2	2	—	3
Other technical expenses	-48	48	39	132	10	13
thereof: amortization PVFP	—	—	33	53	—	—
Other technical result	49	-46	-37	-130	-10	-10
Net technical result	143	3	-375	-629	-19	-26
9. a. Income from investments	69	66	475	451	54	46
b. Expenses for investments ¹⁾	42	7	84	28	28	7
Net income from investments under own management	27	59	391	423	26	39
Income/expense on funds withheld and contract deposits	—	—	-6	-9	—	—
Net investment income	27	59	385	414	26	39
thereof: interest and similar income	55	56	384	384	43	20
impairments/depreciation on investments	19	2	40	7	12	1
write-ups on investments	—	—	2	—	—	—
profit/loss from investments in associated companies	—	—	2	—	-1	—
10. a. Other income	25	64	36	210	11	28
b. Other expenses ¹⁾	87	32	48	81	25	33
Other income/expenses	-62	32	-12	129	-14	-5
thereof: interest and similar income	1	1	1	3	1	5
write-ups on accounts receivable and other assets	—	—	—	-3	—	—
interest and similar expenses	6	17	5	11	1	3
write-downs on accounts receivable and other assets	21	1	5	3	2	3
amortization on acquired insurance portfolios	—	—	—	—	—	—
Profit before goodwill impairments	108	94	-2	-86	-7	8
11. Goodwill impairments	—	—	—	—	—	—
Operating profit/loss (EBIT)	108	94	-2	-86	-7	8
12. Financing costs	3	3	3	-4	—	—
13. Taxes on income	19	40	-17	-32	—	8
Net income	86	51	12	-50	-7	—
thereof attributable to non-controlling interests	—	—	2	-4	-1	-1
thereof Group net income	86	51	10	-46	-6	1

¹⁾ Expenses for the administration of non-Group investments are recognized under other expenses.
The previous year was adjusted accordingly (EUR 11 million)

Non-Life Reinsurance		Life/Health Reinsurance		Corporate Operations		Consolidation		Total	
1.7.– 30.9.2011	1.7.– 30.9.2010	1.7.– 30.9.2011	1.7.– 30.9.2010	1.7.– 30.9.2011	1.7.– 30.9.2010	1.7.– 30.9.2011	1.7.– 30.9.2010	1.7.– 30.9.2011	1.7.– 30.9.2010
1,676	1,553	1,344	1,319	—	1	-211	-113	5,421	5,335
98	29	74	76	—	—	-211	-113	—	—
1,578	1,524	1,270	1,243	—	1	—	—	5,421	5,335
—	—	—	—	—	—	—	—	253	330
149	133	143	89	—	—	-210	-113	615	641
4	2	-14	-8	—	—	-19	-36	348	424
-12	-6	-2	-1	—	—	-16	-114	87	46
1,543	1,428	1,189	1,223	—	1	-4	78	4,814	4,742
1,164	1,158	1,069	1,049	—	—	-103	-41	4,273	4,499
91	118	103	82	—	—	-105	-47	383	476
1,073	1,040	966	967	—	—	2	6	3,890	4,023
416	386	286	307	—	—	-87	-67	1,263	1,359
17	26	24	20	—	—	-87	-155	112	156
399	360	262	287	—	—	—	88	1,151	1,203
—	-1	1	3	—	—	1	-1	5	8
—	2	-1	12	—	1	-5	-16	-5	192
—	—	1	1	—	—	—	—	34	54
—	-3	2	-9	—	-1	6	15	10	-184
71	25	-37	-40	—	—	—	—	-217	-668
233	255	84	58	14	3	-15	-8	914	871
56	55	67	-2	21	10	-18	-27	280	78
177	200	17	60	-7	-7	3	19	634	793
4	—	82	73	—	—	-1	-1	79	63
181	200	99	133	-7	-7	2	18	713	856
182	163	154	108	2	1	-15	-10	805	722
5	3	—	—	5	—	—	—	81	13
2	3	—	—	—	—	—	—	4	3
2	—	—	—	—	—	-2	—	1	—
6	81	11	12	164	159	-140	-342	113	212
74	-4	12	14	177	366	-103	-321	320	201
-68	85	-1	-2	-13	-207	-37	-21	-207	11
3	76	1	—	4	2	-2	—	9	86
3	9	—	—	—	—	—	—	3	6
3	-11	19	2	12	14	-4	-1	42	35
4	3	3	2	-10	1	—	—	25	13
—	—	—	—	—	—	—	—	—	—
184	310	61	91	-20	-214	-35	-3	289	199
—	—	—	—	—	—	—	—	—	—
184	310	61	91	-20	-214	-35	-3	289	199
26	24	2	1	21	15	-14	-5	41	34
19	20	19	22	3	-64	-6	—	37	-6
139	266	40	68	-44	-165	-15	2	211	171
71	154	20	36	—	—	—	—	92	185
68	112	20	32	-44	-165	-15	1	119	-14

Breakdown of investments and written premium per segment

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. Segmentation has essentially been condensed into the areas of primary insurance, reinsurance and corporate operations.

In addition, we are reporting the gross written premium broken down according to types and lines of insurance on the Group level.

Geographical split of investments under own management¹⁾

	Primary insurance	Reinsurance	Corporate Operations	30.9.2011 Total
Figures in EUR million				
Germany	29,247	6,008	369	35,624
United Kingdom	2,272	2,086	176	4,534
Rest of Europe	14,641	7,123	313	22,077
United States	835	6,651	3	7,489
Rest of North America	87	960	1	1,048
Asia and Australia	256	2,582	1	2,839
Rest of the world	761	883	1	1,645
Total	48,099	26,293	864	75,256

	Primary insurance	Reinsurance	Corporate Operations	31.12.2010 Total
Figures in EUR million				
Germany	30,795	6,064	465	37,324
United Kingdom	1,371	1,705	46	3,122
Rest of Europe	12,842	6,993	316	20,151
United States	839	6,052	—	6,891
Rest of North America	103	987	—	1,090
Asia and Australia	240	2,121	—	2,361
Rest of the world	756	766	—	1,522
Total	46,946	24,688	827	72,461

¹⁾ After elimination of internal transactions within the Group across segments. Divergences from the figures presented in the management report may therefore arise

Breakdown of gross written premium¹⁾

	1.1.–30.9.2011	1.1.–30.9.2010	1.7.–30.9.2011	1.7.–30.9.2010
Figures in EUR million				
Industrial Lines	2,537	2,512	544	496
Retail Germany	4,962	5,051	1,448	1,542
Retail International	1,774	1,651	580	530
Non-Life Reinsurance	4,913	4,528	1,578	1,524
Life/Health Reinsurance	3,657	3,513	1,271	1,243
Total	17,843	17,255	5,421	5,335

¹⁾ After elimination of internal transactions within the Group across segments. Divergences from the figures presented in the management report may therefore arise

Geographical split of gross premium according to client's country of domicile¹⁾

	Primary insurance	Reinsurance	1.1.–30.9.2011
			Total
Figures in EUR million			
Germany	6,274	599	6,873
United Kingdom	84	1,801	1,885
Rest of Europe	2,045	1,532	3,577
United States	91	1,992	2,083
Rest of North America	—	326	326
Asia and Australia	55	1,399	1,454
Rest of the world	724	921	1,645
Total	9,273	8,570	17,843

	Primary insurance	Reinsurance	1.1.–30.9.2010
			Total
Figures in EUR million			
Germany	6,258	590	6,848
United Kingdom	142	1,702	1,844
Rest of Europe	2,125	1,304	3,429
United States	97	2,227	2,324
Rest of North America	—	304	304
Asia and Australia	35	1,072	1,107
Rest of the world	557	842	1,399
Total	9,214	8,041	17,255

¹⁾ After elimination of internal transactions within the Group across segments. Divergences from the figures presented in the management report may therefore arise

	Primary insurance	Reinsurance	1.7.–30.9.2011
			Total
Figures in EUR million			
Germany	1,681	151	1,832
United Kingdom	21	616	637
Rest of Europe	570	491	1,061
United States	14	653	667
Rest of North America	—	113	113
Asia and Australia	18	516	534
Rest of the world	268	309	577
Total	2,572	2,849	5,421

	Primary insurance	Reinsurance	1.7.–30.9.2010
			Total
Figures in EUR million			
Germany	1,736	147	1,883
United Kingdom	40	621	661
Rest of Europe	545	415	960
United States	26	750	776
Rest of North America	—	111	111
Asia and Australia	10	387	397
Rest of the world	211	336	547
Total	2,568	2,767	5,335

¹⁾ After elimination of internal transactions within the Group across segments. Divergences from the figures presented in the management report may therefore arise

Gross written premium broken down by types and lines of insurance¹⁾

	1.1.–30.9.2011	1.1.–30.9.2010	1.7.–30.9.2011	1.7.–30.9.2010
Figures in EUR million				
Property/casualty primary insurance	5,122	4,806	1,261	1,126
Life primary insurance	4,151	4,408	1,312	1,442
Non-Life Reinsurance	4,913	4,528	1,577	1,524
Life/Health Reinsurance	3,657	3,513	1,271	1,243
Total	17,843	17,255	5,421	5,335

¹⁾ After elimination of internal transactions within the Group across segments. Divergences from the figures presented in the management report may therefore arise

IV. Consolidation

As at the balance sheet date 121 individual companies as well as three foreign subgroups – collectively as a group (incl. any existing associated companies) – were included in full in the Talanx consolidated financial statement; one company was consolidated proportionately and seven associated companies were included at equity.

The major changes in the scope of consolidation/interests held as well as with respect to special purpose entities relative to year-end 2010 are set out below.

Scope of consolidation

Acquisitions and establishments

On 1 April 2011 Talanx International AG (TINT), Hannover, acquired all the shares of Saint Honoré Iberia SL, Madrid, Spain. As a holding company, the latter holds interests of 99.231% in the intermediate holding company Protecciones Esenciales S.A., Buenos Aires, Argentina, and 10% in the insurance company L'Union de Paris Cía. Uruguaya de Seguros S.A., Montevideo, Uruguay. The intermediate holding company itself holds a stake of 98.771% in the hitherto privately owned L'Union de Paris Cía. Argentina de Seguros S.A., Buenos Aires, Argentina. For its part, L'Union de Paris Cía. Argentina de Seguros S.A. holds a 90% stake in the hitherto privately owned L'Union de Paris Cía. Uruguaya de Seguros S.A.

On the same date our Chilean subsidiary Inversiones HDI Limitada, Santiago, Chile, acquired interests of 0.769% in the intermediate holding company Protecciones Esenciales S.A. and 1.229% in the Argentinian company L'Union de Paris Cía. Argentina de Seguros S.A. All four companies were consolidated for the first time in the second quarter of 2011 (see also our remarks in chapter V of the Notes, "Business combinations in the reporting period").

TINT raised its stake in HDI Seguros S.A., São Paulo, Brazil, from 99.9977% to 99.9979% through two capital increases implemented in the first quarter of 2011 in which the minority shareholders did not participate. By way of a capital increase implemented in March 2011 at HDI STRAKHUVANNYA, Kiev, Ukraine, TINT increased its participation in the company from 99.2240% to 99.2795%.

With effect from the closing on 27 April 2011 HDI-Gerling Industrie Versicherung AG (HG-I), Hannover, acquired all the shares of Nassau Verzekering Maatschappij N.V. (Nassau), Rotterdam. Once the insurance portfolio of its German branch has been spun off, it is envisaged that the acquired company will be merged in 2011 with retroactive effect as at 1 January 2011 into our Dutch insurance company HDI-Gerling Verzekeringen N.V., Rotterdam. Further information on the initial consolidation of Nassau is provided in the chapter of the Notes entitled "Business combinations in the reporting period".

Nassau also holds a stake of 25% in VOV Verwaltungsorganisation für Vermögensschadenhaftpflicht-Versicherungen für Mitglieder von Organen juristischer Personen GmbH, Cologne. Since it is immaterial to the assets, financial position and net income of the Group, this company is not consolidated at equity in the consolidated financial statement.

International Hannover Holding AG was established in the second quarter with registered office in Hannover. The company, the share capital of which amounts to EUR 50,000, is a wholly owned subsidiary of International Insurance Company of Hannover Ltd., Bracknell, United Kingdom, which in turn is wholly owned by Hannover Re. The business object of the company is to hold, acquire and sell participating interests in other companies.

In the course of the second quarter Funis GmbH & Co. KG, a wholly owned subsidiary of Hannover Re, acquired a participating interest in Glencar Underwriting Managers, Inc., based in Chicago, United States, with a capital contribution of USD 98,000 (corresponding to 49% of the share capital). The business object of the company will primarily be to underwrite specialty lines as well as property and casualty program business. Preference shares in an amount of roughly USD 2.3 million were purchased in the course of the third quarter of 2011.

Since they are immaterial to the assets, financial position and net income of the Group, International Hannover Holding AG and Glencar Underwriting Managers, Inc. are not included in the consolidated financial statement.

On 25 August 2011 Talanx Deutschland Bancassurance GmbH was established with registered office in Hilden through the spin-off of participating interests in joint-stock companies of Talanx Deutschland AG; Talanx Deutschland AG holds 100% of the shares in Talanx Deutschland Bancassurance GmbH. The business object of the new company is principally – as a management holding company – to hold participating interests in German and foreign insurance companies and in particular – through the provision of coordinating advice – to ensure consistent management at the companies in which it holds a majority stake.

Funis GmbH & Co. KG, a wholly owned subsidiary of Hannover Re, acquired roughly 75% of the shares in Integra Insurance Solutions Ltd. effective 18 August 2011. As an agency, Integra mediates insurance business to International Insurance Company of Hannover Ltd., which is also a company belonging to the Hannover Re Group (see also further information on initial consolidation in chapter V “Business combinations in the reporting period”).

Disposals

With the approval of anti-trust authorities, Talanx Deutschland AG (TD), Hannover, sold all its shares in Clarus AG, Wiesbaden, to Clarus Holding GmbH, Wiesbaden, with effect from the closing on 28 June 2011 (segment: Retail Germany). This transaction gave rise to a disposal loss of EUR 0.2 million. In the context of the sale a provision for contingent losses, inter alia for guaranteed rehabilitation subsidies, was also constituted in an amount of EUR 13 million. As part of this disposal transaction TD acquired 25.1% of the interests of EUR 25,000 in Clarus Holding GmbH from Aragon AG, Wiesbaden. Clarus Holding GmbH is an associated company of the Talanx Group, which is not consolidated at equity in the consolidated financial statement since it is immaterial to the assets, financial position and net income of the Group.

Once the customary regulatory approvals had been received on 8 July 2011 Hannover Re closed the sale of the operational companies of its US subgroup Clarendon Insurance Group, Inc. (CIGI), Wilmington, and completed the associated deconsolidation on 12 July 2011. Hannover Re holds all shares of CIGI indirectly through the intermediate holding company Hannover Finance, Inc., Wilmington, which is also included in full in the consolidated financial statement of Hannover Re. For further details of deconsolidation please see our remarks in chapter VI “Non-current assets held for sale and disposal groups”.

Mergers/liquidations/deletions

Gerling Insurance Agency, Inc., Chicago, and HDI-Gerling Australia Insurance Company Pty. Ltd. (HDI-GAUS), Sydney, are no longer included in the consolidated financial statement with effect from the first quarter of 2011 – *inter alia* on account of the transfer of the insurance portfolio of HDI-GAUS to HDI-Gerling Industrie Versicherungs AG (Australian branch) in the previous year –, since based on their total assets and result they no longer reach the materiality threshold for full consolidation. They are therefore to be regarded as immaterial to the assessment of the Group's assets, financial position and net income. The deconsolidation of HDI-GAUS gave rise to income of EUR 4 million.

In April 2011 Proactiv IT Servicegesellschaft mbH, Munich, was merged into Proactiv Servicegesellschaft mbh, Hilden, with legal effect from 1 January 2011.

The Zurich-based HDI-Gerling Versicherungs-Service AG, which was not previously included in the consolidated financial statement, has been liquidated and was deleted from the official register in Switzerland on 20 April 2011.

HDI-Gerling Leben Vertriebsservice AG, Cologne, was merged into HDI-Gerling Vertrieb Firmen und Privat AG, Cologne, at the end of September 2011 with legal effect from 1 January 2011.

The scope of consolidation as at the balance sheet date encompassed the following companies:

Consolidated subsidiaries (fully consolidated)	Individual companies		Subgroups		Total
	Domestic	Foreign ¹⁾	Foreign	Foreign	
31.12.2010	70	49	3		122
Additions	—	—	—	—	—
Retirements	—	2	—	—	2
31.3.2011	70	47	3		120
Additions	—	5	—	—	5
Retirements	2	—	—	—	2
30.6.2011	68	52	3		123
Additions	1	1	—	—	2
Retirements	1	—	—	—	1
30.9.2011	68	53	3		124

¹⁾ 30.9.2011: Consists of 51 individual companies and two special purpose entities

In addition, 19 special funds and one public fund were included in the consolidated financial statement; of these, 12 were domestic funds. One special equity fund (PBVL-Aktien) was liquidated in the first quarter of 2011, while another (HG-LV Corporate) was liquidated in the third quarter.

Consolidation of special purpose entities

With regard to the consolidation of special purpose entities, the Group makes a distinction below between the areas of investments (excluding special and public funds), securitization of reinsurance risks, retrocessions and insurance-linked securities (ILS). Such special purpose entities are to be examined in accordance with SIC-12 "Consolidation – Special Purpose Entities" with an eye to their consolidation requirement. In cases where IFRS do not currently contain any specific standards, our analysis also falls back – in application of IAS 8 – on the relevant standards of US GAAP.

Investments

Within the scope of its asset management activities our subsidiary Hannover Re, Hannover, has participated since 1988 in numerous special purpose entities – predominantly funds –, 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 – primarily through the companies Secquaero ILS Fund Ltd. and Hannover Insurance-Linked Securities GmbH & Co. KG – in a number of special purpose entities for the securitization of catastrophe risks. 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 reinsurance risks is largely structured through the use of special purpose entities.

Effective 30 March 2011 a structured transaction was entered into by Hannover Re in order to finance the statutory reserves (so-called XXX reserves) of a US cedant. The structure necessitates the involvement of a special purpose entity, namely the Delaware-based Maricopa LLC. The special purpose entity carries extreme mortality risks securitized by the cedant above a contractually defined retention and transfers these risks by way of a fixed/floating swap with a ten-year term to a group company of the Hannover Re Group. The maximum capacity of the transaction is USD 500 million; an amount of USD 250 million was initially taken up upon contract closing. The variable payments to the special purpose entity guaranteed by Hannover Re cover its payment obligations. By way of a compensation agreement Hannover Re is reimbursed by the cedant's parent company for all payments resulting from the swap in the event of a claim. Since Hannover Re does not bear the majority of the economic risks or benefits arising out of its business relations with the special purpose entity and does not exercise a controlling influence over it, there is no consolidation requirement for Hannover Re. Under IAS 39 this transaction is to be recognized at fair value as a financial guarantee. To this end Hannover Re uses the net method, according to which the present value of the agreed fixed swap premiums is netted with the present value of the guarantee commitment. The fair value on initial recognition therefore amounted to zero. The higher of the fair value and the amount carried as a provision on the liabilities side pursuant to IAS 37 is recognized at the point in time when utilization is considered probable. In this case the reimbursement claims from the compensation agreement are to be capitalized separately from and up to the amount of the provision.

In July 2009 Hannover Re issued a catastrophe ("CAT") bond with the aim of transferring to the capital market peak natural catastrophe exposures deriving from European winterstorm events. The term of the CAT bond, which has a volume of nominally EUR 150 million, runs until 31 March 2012; it was placed with institutional investors from Europe and North America by Eurus II Ltd., a special purpose entity domiciled in the Cayman Islands. Hannover Re does not exercise a controlling influence over the special purpose entity. Under IFRS this transaction is to be recognized as a financial instrument.

Effective 1 January 2009 Hannover Re raised further underwriting capacity for catastrophe risks on the capital market by way of the "K6" transaction. This securitization, which was 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. The volume of "K6", which has been increased on multiple occasions, was equivalent to EUR 248 (249) million as at the balance sheet date.

The planned term of the transaction runs until 31 December 2011 or in the case of the new shares placed in the years 2010/2011 until 31 December 2012/2013. Kaith Re Ltd., a special purpose entity domiciled in Bermuda, is being used for the securitization.

Hannover Re also 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.

Retrocessions and insurance-linked securities (ILS)

In the course of 2010, as part of its extended insurance-linked securities (ILS) activities, Hannover Re wrote a number of so-called collateralized fronting arrangements under which risks assumed from ceding companies were passed on to institutional investors outside the Group using special purpose entities. The purpose of such transactions is to directly transfer clients' business. Due to the lack of a controlling influence over the special purpose entities involved, there is no consolidation requirement for Hannover Re with respect to these structures.

A major transaction in this connection is "FacPool Re", under which Hannover Re transferred a portfolio of facultative reinsurance risks to the capital market from September 2009 until January 2011. The contracts, which are now in run-off, were mediated by an external reinsurance intermediary, written by Hannover Re and placed on the capital market in conjunction with a service provider. The "FacPool Re" transaction consisted of a quota share reinsurance arrangement and two non-proportional cessions. A number of special purpose entities participated in the reinsurance cessions within "FacPool Re"; Hannover Re did not hold any shares in these special purpose entities and did not bear the majority of the economic benefits or risks arising out of their activities through any of its business relations.

In connection with the sale of the operational companies of the subgroup Clarendon Insurance Group, Inc. (CIGI), Wilmington, to Enstar Group Ltd., Hamilton/Bermuda, a partial portfolio of CIGI was retroceded to a special purpose entity. Since Hannover Re is not the major beneficiary of the special purpose entity and does not exercise either indirect or direct control over it, there is no requirement to consolidate this special purpose entity.

Associated companies

HDI-Direktversicherung AG, Hannover, acquired a participation of 28% in Aspect Online AG, Augsburg, as part of a consortium by subscribing to a capital increase on 1 July 2011 and concluding a share purchase and transfer agreement on 15 July 2011. Aspect Online AG is the operator of an online comparison portal for all types of insurance, energy and financial services. In the third quarter of 2011 we included this participating interest in the consolidated financial statement for the first time as an associated company.

Four domestic and three foreign associated companies were therefore consolidated at equity as at the balance sheet date. The figures are exclusive of foreign subgroups.

Joint ventures

As in the 2010 annual financial statement, Credit Life International Services GmbH, Neuss, continues to be included in the consolidated financial statement on a proportionate basis as a joint venture.

V. Business combinations in the reporting period

On 1 April 2011 (closing date) Talanx International AG (TINT), Hannover, acquired all the shares of Saint Honoré Iberia SL, Madrid, Spain, for a purchase price of USD 34.6 million. With regard to the detailed shareholder structure please see our remarks in chapter IV "Consolidation", section "Scope of consolidation".

With effect from the same date our Chilean subsidiary Inversiones HDI Limitada, Santiago, Chile, acquired stakes of 0.769% in the intermediate holding company Protecciones Esencial S.A. for a purchase price of USD 152,000 as well as 1.229% in the Argentinian company L'Union de Paris Cía. Argentina de Seguros S.A. for a purchase price of USD 248,000. Altogether, the Talanx companies in question paid the equivalent of EUR 25 million for the four companies and as a result TINT holds all voting rights at all the companies.

In Argentina the company transacts primarily motor and life insurance business (along with marine, fire and accident), while in Uruguay the bulk of the insurance business is conducted in the marine and motor lines (together with fire and accident). Both companies work together with independent agents. The purpose of these acquisitions is to move forward with further internationalization in the Retail International segment. The Group has expanded its presence in Latin America through these acquisitions and is thus able to make the most of the available opportunities in local markets.

This transaction gave rise to goodwill – stemming inter alia from the regional expansion in Latin America – in an amount of EUR 6 million. The goodwill is not tax-deductible.

The amounts recognized under IFRS at the acquisition date for each main group of acquired assets and assumed liabilities are presented below; figures have been combined as permitted by IFRS 3.B65. We acquired assets in the form of investments (EUR 31 million), accounts receivable on insurance business (EUR 15 million), reinsurance recoverables on technical provisions (EUR 13 million), cash (EUR 1 million), deferred tax assets (EUR 1 million) and other assets (EUR 7 million) as well as liabilities in the form of technical provisions (EUR 35 million), other provisions (EUR 3 million), liabilities (EUR 8 million) and provisions for deferred taxes (EUR 3 million). The acquired assets include intangible and tangible assets of EUR 9 million. The IFRS equity amounted to EUR 19 million at the acquisition date.

The amount recognized for the accounts receivable corresponds to the fair value. No further payment defaults are anticipated.

Contingent liabilities were identified in an insignificant amount (EUR 0.4 million); conditional payments, indemnification assets and separate transactions as defined by IFRS 3 were not brought to account. The gross written premium until 30 September 2011 totaled EUR 29 million. If the companies had been included as at 1 January 2011, the gross written premium would have amounted to EUR 43 million. The result generated by the companies before tax stood at EUR 2 million as at 30 September 2011. Had the acquisition taken place on 1 January 2011, it would have amounted to EUR 3 million.

On 27 April 2011 (closing date) HDI-Gerling Industrie Versicherung AG (HG-I), Hannover, acquired all the shares of the Dutch property/casualty insurer Nassau Verzekering Maatschappij N. V. (Nassau), Rotterdam, for a purchase price of EUR 198 million (segment: Industrial Lines). The insurer acquired by our subsidiary is an established niche insurer which has specialized in the Netherlands and beyond in specialty lines such as professional indemnity, D&O and crisis management. The end customers are small to mid-sized enterprises. Nassau has branches in Germany, France and Denmark. The acquired company is to be subsequently merged with retroactive effect as at 1 January 2011 into the Dutch insurer HDI Verzekeringen N. V., a wholly owned subsidiary of HG-I. The German insurance portfolio – predominantly D&O business – was transferred to HDI-Gerling Firmen und Privat Versicherung AG (HG-FP), Hannover, in the period under review.

Initial accounting in the second quarter of 2011 was based on a provisional purchase price allocation, since – most notably – the accounting of intangible assets and tax items had not yet been completed.

The total goodwill provisionally recognized in connection with this transaction amounted to EUR 121 million. Of this, based on the planned portfolio transfer to HG-FP and the requirements of the management approach under IFRS 8 “Reporting Segments”, an amount of EUR 13 million was allocated to the Retail Germany segment in the context of initial consolidation. The acquisition of Nassau is intended first and foremost to advance the further internationalization of the Industrial Lines segment. Goodwill additionally derives from the anticipated synergistic effects associated with the combining of business processes at our Dutch subsidiaries. The goodwill is not tax-deductible.

The amounts recognized under IFRS at the acquisition date for each main group of acquired assets and assumed liabilities were as follows on a provisional basis. We acquired assets in the form of investments (EUR 75 million), accounts receivable on insurance business (EUR 38 million), reinsurance recoverables on technical provisions (EUR 42 million), cash (EUR 77 million) and other assets (EUR 9 million) as well as liabilities in the form of technical provisions (EUR 143 million), other provisions (EUR 6 million), liabilities (EUR 13 million) and provisions for deferred taxes (EUR 2 million). The acquired assets include tangible assets of EUR 6 million. The IFRS equity amounted to EUR 77 million at the acquisition date.

The acquired accounts receivable consist largely of accounts receivable from direct written business, with an amount of EUR 34 million attributable to accounts receivable from insurance intermediaries and EUR 4 million attributable to accounts receivable from business ceded. The amount of the recognized accounts receivable corresponds to the fair value. No further payment defaults are anticipated.

Following completion of the purchase price allocation in the period under review we adjusted the provisional figures on the date of acquisition against the goodwill outside the statement of income. The adjustments relate principally to the recognition of intangible assets in an amount of EUR 23 million, the increase of EUR 6 million in deferred tax liabilities and the increase of EUR 17 million in equity. The goodwill is consequently reduced by altogether EUR 17 million and is attributable in amounts of EUR 11 million to the Retail Germany segment and EUR 93 million to the Industrial Lines segment. The intangible assets are comprised of other intangible assets of EUR 16 million and insurance-related intangible assets (PVFP) of EUR 7 million. The IFRS equity amounts to EUR 94 million after the adjustments.

Contingent liabilities, conditional payments, indemnification assets and separate transactions as defined by IFRS 3 were not brought to account. The gross written premium until 30 September 2011 totaled EUR 27 million. If the company had been included as at 1 January 2011, the gross written premium would have amounted to EUR 98 million. The result generated by the company before tax stood at –EUR 0.4 million as at 30 September 2011. Had the acquisition taken place on 1 January 2011, it would have amounted to EUR 4 million.

Funis GmbH & Co. KG, a wholly owned subsidiary of Hannover Re, acquired roughly 75% of the shares in Integra Insurance Solutions Ltd. for a purchase price of GBP 7.5 million effective 18 August 2011. Incidental acquisition costs of EUR 0.1 million were recognized as other expenses in the statement of income. As an agency, Integra mediates insurance business to International Insurance Company of Hannover Ltd., which is also a company belonging to the Hannover Re Group. In addition, a contingent purchase price payment of at most GBP 11.3 million was agreed; this is conditional principally on the volume and profitability of the business acquired by Integra until 2014. Based on the probable business experience, the fair value of the contingent purchase price payments at the time of acquisition was around GBP 5.1 million, thereby increasing the difference arising in the context of initial consolidation.

The acquired equity of Integra amounted to GBP 0.1 million. The company's assets are comprised largely of accounts receivable and payable. In the context of allocation of the purchase price, no effects arose out of the measurement of the assumed assets, nor was it possible to identify any intangible assets or liabilities that had hitherto not been brought to account. For this reason, the difference of GBP 12.6 million arising in the context of initial consolidation was recognized in full as goodwill. In the period of its affiliation with the Group Integra generated a positive result after tax of GBP 0.1 million.

VI. Non-current assets held for sale and disposal groups

The sale of items of real estate of HDI-Gerling Lebensversicherung AG (total book value of EUR 50 million) in the second quarter of 2011, which we had already recognized as "held for sale" in the reporting as at 31 March 2011, produced a disposal gain of EUR 9 million. The company is allocated to the Retail Germany segment. In addition, the company generated a disposal gain of EUR 4 million in the third quarter of 2011 from the sale of further real estate in Cologne with book values of EUR 6 million, which we had already recognized as "held for sale" in the reporting as at 30 June 2011.

Clarus AG, Wiesbaden, which was sold by Talanx Deutschland AG, Hannover, under a contract dated 29 March 2011 and which we measured and recognized as a disposal group in the first quarter of 2011, was deconsolidated in the second quarter of 2011. Further information is provided in chapter IV "Consolidation", section "Scope of consolidation".

On 21 December 2010 Hannover Re reached agreement on the sale of the operational companies of its US subgroup Clarendon Insurance Group, Inc. (CIGI), Wilmington, to Enstar Group Ltd., Hamilton/Bermuda, a company specializing in the run-off of insurance business. The transaction received the customary regulatory approvals on 8 July 2011; closing of the transaction and deconsolidation of CIGI subsequently took place on 12 July 2011. Hannover Re holds all shares of CIGI indirectly through the intermediate holding company Hannover Finance, Inc. (HFI), Wilmington, which is also included in full in the consolidated financial statement. The agreed purchase price is USD 219 million.

Pursuant to IFRS 5 "Non-current Assets Held for Sale and Discontinued Operations" the subsidiaries of CIGI constituted a disposal group, which was to be measured at the lower of the carrying amount and fair value less costs to sell. The measurement of the disposal group gave rise to income of EUR 8 million in the current financial year. The income was recognized in other income and expenses.

The cumulative other comprehensive income of -EUR 23 million (31 December 2010: -EUR 29 million) arising out of the currency translation of the assets and liabilities belonging to the disposal group was realized in the context of deconsolidation. Profits from the measurement of available-for-sale financial assets were realized in an amount of EUR 5 million (31 December 2010: EUR 3 million) upon deconsolidation.

In compliance with IFRS 5 "Non-current Assets Held for Sale and Discontinued Operations" we recognized the assets and liabilities of the disposal group in corresponding balance sheet items that were distinct from continuing operations. Transactions between the disposal group and the Group's continuing operations were entirely eliminated in conformity with IAS 27 "Consolidated and Separate Financial Statements".

The assets and liabilities of the disposal group are presented in the following table and broken down into their major components.

	30.9.2011	31.12.2010
Figures in EUR million		
Assets		
Total investments	577	643
Cash	16	27
Reinsurance recoverables on unpaid claims	783	831
Accounts receivable	4	17
Other assets	16	11
Assets held for sale	1,396	1,529
Liabilities		
Loss and loss adjustment expense reserve	1,206	1,310
Funds withheld	18	27
Reinsurance payable	11	17
Other liabilities	21	27
Liabilities related to assets held for sale	1,256	1,381

In the third quarter of 2011 HDI-Gerling Industrie Versicherung AG (segment: Industrial Lines) and HDI-Gerling Lebensversicherung AG (segment: Retail Germany) classified items of real estate in Cologne with book values of EUR 2 million and in Krefeld with book values of EUR 5 million as "held for sale". In view of the deterioration in the rental situation and high administrative expenditure, these properties were sold at prices of EUR 2 million and EUR 4 million respectively with purchase dates of 27 and 26 September 2011. The transfer of rights and obligations will take place on 1 December 2011 and 1 November 2011 respectively.

In accordance with a notarized agreement dated 5 May 2011 HDI-Gerling Firmen und Privat Versicherung AG (HG-FP), Hannover, and Talanx Deutschland AG (TD), Hannover, sold all shares of HDI-Gerling Rechtsschutz Versicherung AG (HG-RS), Hannover, and HDI-Gerling Rechtsschutz Schadenregulierungs-GmbH (HG-RSG), Hannover, to ROLAND Rechtsschutz-Versicherungs-AG, Cologne, for purchase prices of EUR 36 million and EUR 100,000 respectively. The shares in HG-RS are held by HG-FP, while those of HG-RSG are held by TD. The companies sold are both allocated to the Retail Germany segment. The transaction closed on 1 October 2011 and the associated deconsolidation took place in the fourth quarter of 2011.

Pursuant to IFRS 5 each of the two companies constitutes a disposal group, which is to be measured at the lower of the carrying amount and fair value less costs to sell. The valuation of HG-RSG results in a measurement expense of EUR 0.3 million in the year under review owing to the establishment of a provision. The corresponding expenditures are recognized in other income and expenses. The assets of the company classified as a disposal group are attributable in an amount of EUR 1 million to cash. The liabilities in an amount of EUR 1 million are attributable to the other provisions.

The profits of the disposal group (HG-RS) accruing as at 30 September 2011, which are recognized directly in equity, amount to EUR 1 million. No amounts were recognized with respect to HG-RSG.

In compliance with IFRS 5 we recognize the assets and liabilities of each disposal group in corresponding balance sheet items that are distinct from continuing operations. Transactions between the disposal group and the Group's continuing operations continue to be entirely eliminated in conformity with IAS 27.

The assets and liabilities of the disposal group (HG-RS) are presented in the following table and broken down into their major components.

	30.9.2011
Figures in EUR million	
Assets	
Total investments	121
Accounts receivable	2
Deferred acquisition costs	3
Cash	12
Assets held for sale	138
Liabilities	
Technical provisions	112
Other provisions	5
Other liabilities	2
Liabilities related to assets held for sale	119

In addition, we are currently reviewing the saleability of our wholly owned subsidiary PARTNER OFFICE AG, Cologne (segment: Retail Germany). All shares are held by HDI-Gerling Vertrieb Firmen und Privat AG, Hannover. Given that the requirements pursuant to IFRS 5 had not been fully satisfied on the balance sheet date, separate disclosure as "long-term assets held for sale" was omitted as at 30 September 2011.

VII. Notes on individual items of the consolidated balance sheet

The main items of the consolidated balance sheet can be broken down as follows:

(1) Intangible assets

	30.9.2011	31.12.2010 ¹⁾
Figures in EUR million		
a. Goodwill	700	589
b. Other intangible assets	1,510	1,583
thereof:		
Insurance-related intangible assets	1,323	1,400
Software	128	143
Other	59	40
Total	2,210	2,172

¹⁾ Adjusted on the basis of IAS 8

The increase in goodwill of EUR 111 million resulted mainly from acquisitions recognized in the period under review in the segments Industrial Lines, Retail Germany and Retail International. Please see our presentation in chapter V "Business combinations in the reporting period".

The "insurance-related intangible assets" (= PVFP) with respect to life insurance undertakings derived principally from the insurance portfolios of the former Gerling Group acquired in 2006 (EUR 775 million) and the portfolios of BHW Lebensversicherung AG (EUR 265 million) and PB Lebensversicherung AG (EUR 55 million) purchased in 2007 as well as from neue leben Lebensversicherung AG (EUR 97 million). In addition, an amount of EUR 96 million is apportionable to Hannover Life Reassurance (Ireland) Ltd. (Life/Health Reinsurance segment) as well as an amount of EUR 7 million to Nassau Verzekering Maatschappij N.V. (Netherlands) from the insurance portfolio acquired in 2011.

The PVFP is composed of a shareholders' portion – on which deferred taxes are established – and a policyholders' portion. It is capitalized in order to spread the charge to Group shareholders' equity under IFRS upon acquisition of an insurance portfolio equally across future periods in step with the amortization. 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 are obliged to enable their policyholders to participate in all results through the establishment of a provision for deferred premium refunds.

	30.9.2011	31.12.2010 ¹⁾
PVFPs for life insurance companies		
Figures in EUR million		
Shareholders' portion	679	720
Policyholders' portion	543	583
Balance	1,222	1,303

¹⁾ Adjusted on the basis of IAS 8

Of the amortization on insurance-related intangible assets totaling altogether EUR 81 (30 September 2010: 180) million, an amount of EUR 44 (30 September 2010: 104) million was attributable to the shareholders' portion and EUR 37 (30 September 2010: 76) million to the policyholders' portion; it relates almost entirely to the Retail Germany segment. The amortization on the shareholders' portion is recognized in the statement of income in the item "Other technical expenses".

(2) Loans and receivables

	Amortized cost		Unrealized gains/losses		Fair value	
	30.9.2011	31.12.2010	30.9.2011	31.12.2010	30.9.2011	31.12.2010
Figures in EUR million						
Mortgage loans	1,138	1,239	126	106	1,264	1,345
Loans and prepayments on insurance policies	197	200	—	—	197	200
Loans and receivables due from governmental or semi-governmental entities ¹⁾	10,366	9,728	853	304	11,219	10,032
Corporate securities	6,818	7,342	226	97	7,044	7,439
Covered bonds, asset-backed securities	14,273	13,491	1,213	341	15,486	13,832
Participation rights	334	343	—21	—6	313	337
Total	33,126	32,343	2,397	842	35,523	33,185

¹⁾ The debt securities issued by semi-governmental entities include securities of EUR 2,054 (2,114) million which are guaranteed by the Federal Republic of Germany, other EU states or German federal states

The item "Covered bonds, asset-backed securities" includes German covered bonds (Pfandbriefe) with a carrying amount of EUR 14,249 (13,464) million (99 (99)%).

(3) Financial assets held to maturity

	Amortized cost		Unrealized gains/losses		Fair value	
	30.9.2011	31.12.2010	30.9.2011	31.12.2010	30.9.2011	31.12.2010
Figures in EUR million						
Government debt securities of EU member states	389	438	22	13	411	451
US treasury notes	383	386	44	45	427	431
Other foreign government debt securities	30	11	1	1	31	12
Debt securities issued by semi-governmental entities ¹⁾	577	726	39	34	616	760
Corporate securities	493	429	7	18	500	447
Covered bonds, asset-backed securities	990	1,009	46	44	1,036	1,053
Total	2,862	2,999	159	155	3,021	3,154

¹⁾ The debt securities issued by semi-governmental entities include securities of EUR 106 (191) million which are guaranteed by the Federal Republic of Germany, other EU states or German federal states

The item "Covered bonds, asset-backed securities" includes German covered bonds (Pfandbriefe) with a carrying amount of EUR 978 (998) million (99 (99)%).

(4) Financial assets available for sale

	Amortized cost		Unrealized gains/losses		Fair value	
	30.9.2011	31.12.2010	30.9.2011	31.12.2010	30.9.2011	31.12.2010
Figures in EUR million						
Government debt securities of EU member states	4,185	4,719	55	-65	4,240	4,654
US treasury notes	1,874	2,059	78	66	1,952	2,125
Other foreign government debt securities	1,086	950	31	14	1,117	964
Debt securities issued by semi-governmental entities ¹⁾	5,063	5,165	242	98	5,305	5,263
Corporate securities	11,483	9,538	75	115	11,558	9,653
Investment funds	648	640	5	-3	653	637
Covered bonds/asset-backed securities	5,663	4,742	130	80	5,793	4,822
Participation rights	178	210	1	2	179	212
Total fixed-income securities	30,180	28,023	617	307	30,797	28,330
Equities	410	926	134	250	544	1,176
Investment funds	804	1,035	33	58	837	1,093
Participation rights	36	36	—	—	36	36
Other	—	—	—	—	—	—
Total variable-yield securities	1,250	1,997	167	308	1,417	2,305
Total securities	31,430	30,020	784	615	32,214	30,635

¹⁾ The debt securities issued by semi-governmental entities include securities of EUR 2,629 (3,039) million which are guaranteed by the Federal Republic of Germany, other EU states or German federal states

The item "Covered bonds/asset-backed securities" includes German covered bonds (Pfandbriefe) with a carrying amount of EUR 5,235 (4,220) million (90 (88)%).

(5) Financial assets at fair value through profit or loss

	30.9.2011	31.12.2010
Figures in EUR million		
Government debt securities of EU member states	5	14
Other foreign government debt securities	118	34
Debt securities issued by semi-governmental entities	50	97
Corporate securities	332	467
Investment funds	80	30
Covered bonds/asset-backed securities	79	230
Participation rights	89	102
Total fixed-income securities	753	974
Investment funds (variable-yield securities)	18	15
Other variable-yield securities	—	—
Total financial assets classified at fair value through profit or loss	771	989
Government debt securities of EU member states	2	3
Other foreign government debt securities	16	49
Debt securities issued by semi-governmental entities	5	9
Corporate securities	10	7
Other securities	1	1
Total fixed-income securities	34	69
Investment funds (variable-yield securities)	89	83
Derivatives	48	80
Total financial assets held for trading	171	232
Total securities	942	1,221

The item "Covered bonds/asset-backed securities" includes German covered bonds (Pfandbriefe) with a carrying amount of EUR 11 (121) million (14 (53)%).

(6) 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. With regard to the composition of the shareholders' equity, please see the "Consolidated statement of changes in shareholders' equity".

Conditional capital is available in an amount of up to EUR 26 million, divided into up to 26,000 registered no-par shares. The Board of Management was authorized by a resolution of the General Meeting dated 15 November 2010 to issue or guarantee this contingent capital until 14 November 2015. Effective 6 April 2011 the amendment to the Articles of Association of Talanx AG came into force by way of entry in the commercial register. The conditional capital increase serves to grant shares to holders of convertible bonds.

Non-controlling interests in equity

Figures in EUR million

	30.9.2011	31.12.2010
Unrealized gains and losses from investments	300	225
Non-controlling interest in net profit	237	450
Other shareholders' equity	2,597	2,360
Total	3,134	3,035

Non-controlling interests in equity refer principally to shares held by companies outside the Group in the shareholders' equity of the Hannover Re Group.

(7) Subordinated liabilities

	Nominal amount EUR million	Coupon	Maturity	Rating	30.9.2011	31.12.2010
					EUR million	EUR million
Hannover Finance (Luxembourg) S.A.	500	fixed (5%), then floating rate	2005/no final maturity	(a; A) ³⁾	487	484
Hannover Finance (Luxembourg) S.A.	500	fixed (5.75%), then floating rate	2010/2040	(a; A) ³⁾	500	500
Hannover Finance (Luxembourg) S.A.	750	fixed (5.75%), then floating rate	2004/2024	(a; A) ³⁾	747	747
Hannover Finance (Luxembourg) S.A. ¹⁾	—	fixed (6.25%), then floating rate	2001/2031	(a; A) ³⁾	—	138
HDI-Gerling Industrie Versicherung AG	250	fixed (7%), then floating rate	2004/2024	(bbb+; A-) ³⁾	262	265
HDI-Gerling Lebensversicherung AG	110	fixed (6.75%)	2005/no final maturity	(—; A-) ³⁾	114	115
Talanx AG	300	fixed, then floating rate	2010/no final maturity	(—; BBB) ³⁾	300	300
Talanx Finanz ²⁾	218	fixed (4.5%)	2005/2025	(bbb; BBB) ³⁾	218	242
Total					2,628	2,791

¹⁾ In the first quarter of 2011 the issuer exercised the call option and repaid in full the remaining debt volume

²⁾ In the first quarter of 2011 Group companies purchased portions of the debt in a nominal amount of EUR 24 million; the remaining volume was reduced accordingly

³⁾ (Debt rating A.M. Best; debt rating S&P)

(8) Technical provisions

	30.9.2011			31.12.2010 ¹⁾		
	Gross	Re	Net	Gross	Re	Net
Figures in EUR million						
a. Unearned premium reserve	6,332	560	5,772	5,411	406	5,005
b. Benefit reserve	44,185	915	43,270	42,466	977	41,489
c. Loss and loss adjustment expense reserve (loss reserve)	30,529	4,905	25,624	28,538	4,073	24,465
d. Provision for premium refunds	1,078	1	1,077	845	1	844
e. Other technical provisions	274	-78	352	250	-84	334
Total	82,398	6,303	76,095	77,510	5,373	72,137

¹⁾ Adjusted on the basis of IAS 8

Of the technical provisions where the investment risk is borne by policyholders amounting to EUR 5,924 (6,414) million, an amount of EUR 159 (150) is attributable to reinsurers.

VIII. Notes on the consolidated statement of income

The major items of the consolidated statement of income can be broken down as follows:

(9) 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.

1.1.–30.9.2011 ¹⁾	Industrial Lines	Retail Germany	Retail International	Non-Life Reinsurance	Life/Health Reinsurance	Corporate Operations	Total
Figures in EUR million							
Gross written premium including premium from unit-linked life and annuity insurance	2,537	4,962	1,774	4,913	3,657	—	17,843
Savings elements of premium from unit-linked life and annuity insurance	—	642	182	—	—	—	824
Ceded written premium	1,083	127	76	490	307	—	2,083
Change in gross unearned premium	–228	–273	–82	–359	–17	—	–959
Change in ceded unearned premium	–90	3	5	–53	–2	—	–137
Net premium earned	1,316	3,917	1,429	4,117	3,335	—	14,114

¹⁾ Presentation after elimination of intra-Group relations between segments

1.1.–30.9.2010 ¹⁾	Industrial Lines	Retail Germany	Retail International	Non-Life Reinsurance	Life/Health Reinsurance	Corporate Operations	Total
Figures in EUR million							
Gross written premium including premium from unit-linked life and annuity insurance	2,512	5,051	1,651	4,528	3,513	—	17,255
Savings elements of premium from unit-linked life and annuity insurance	—	680	141	—	—	—	821
Ceded written premium	1,076	219	68	448	308	—	2,119
Change in gross unearned premium	–211	–97	97	–365	–11	—	–587
Change in ceded unearned premium	–80	–18	31	–73	–2	—	–142
Net premium earned	1,305	4,073	1,508	3,788	3,196	—	13,870

¹⁾ Presentation after elimination of intra-Group relations between segments

(10) Investment income

1.1.–30.9.2011 ¹⁾	Industrial Lines	Retail Germany	Retail International	Non-Life Reinsurance	Life/Health Reinsurance	Corporate Operations	Total
Figures in EUR million							
Income from real estate	4	29	1	27	—	—	61
Dividends ²⁾	6	17	1	9	—	14	47
Current interest income	153	1,133	108	485	154	4	2,037
Other income	3	9	—	32	1	—	45
Ordinary investment income	166	1,188	110	553	155	18	2,190
Appreciation	2	17	1	17	—	—	37
Realized gains on investments	32	140	24	167	27	—	390
Unrealized gains on investments	—	23	18	9	16	—	66
Investment income	200	1,368	153	746	198	18	2,683
Realized losses on investments	21	81	6	76	5	—	189
Unrealized losses on investments	3	21	13	23	72	1	133
Total	24	102	19	99	77	1	322
Impairments/depreciation on investment property							
Scheduled	1	5	—	6	—	—	12
Unscheduled	1	13	—	—	—	—	14
Impairments on equity securities	16	45	15	1	—	5	82
Impairments on fixed-income securities	6	5	1	5	—	—	17
Impairments on other investments	1	6	—	9	—	—	16
Expenses for the administration of investments ³⁾	4	6	1	11	2	34	58
Other expenses	2	8	2	17	2	4	35
Other investment expenses/ impairments	31	88	19	49	4	43	234
Investment expenses	55	190	38	148	81	44	556
Net income from investments under own management	145	1,178	115	598	117	–26	2,127
Interest income on funds withheld and contract deposits	2	2	—	15	317	—	336
Interest expense on funds withheld and contract deposits	1	17	—	5	88	—	111
Net interest income on funds withheld and contract deposits	1	–15	—	10	229	—	225
Net investment income	146	1,163	115	608	346	–26	2,352

¹⁾ Presentation after elimination of intra-Group relations between segments²⁾ The profit or loss on investments in associated companies using the equity method amounts to EUR 4 (1) million and is recognized under dividends³⁾ Expenses for the administration of non-Group investments are recognized under other expenses with effect from the current reporting period.

The previous year was adjusted accordingly (EUR 34 million)

The reallocations between levels of the fair value hierarchy used to establish the fair value of financial instruments that were made in the reporting period as well as changes in the classification of financial assets were of immaterial insignificance to the Group's assets, financial position and net income.

1.1.–30.9.2010 ¹⁾	Industrial Lines	Retail Germany	Retail International	Non-Life Reinsurance	Life/Health Reinsurance	Corporate Operations	Total
Figures in EUR million							
Income from real estate	4	36	1	22	—	—	63
Dividends ²⁾	8	19	3	4	—	6	40
Current interest income	156	1,090	90	476	139	2	1,953
Other income	2	9	—	5	2	1	19
Ordinary investment income	170	1,154	94	507	141	9	2,075
Appreciation	—	10	—	14	—	—	24
Realized gains on investments	14	164	21	172	31	—	402
Unrealized gains on investments	2	49	18	9	6	—	84
Investment income	186	1,377	133	702	178	9	2,585
Realized losses on investments	9	20	2	40	7	—	78
Unrealized losses on investments	—	9	5	98	11	—	123
Total	9	29	7	138	18	—	201
Impairments/depreciation on investment property							
Scheduled	1	5	—	5	—	—	11
Unscheduled	—	4	—	—	—	—	4
Impairments on equity securities	2	23	5	1	—	6	37
Impairments on fixed-income securities	—	9	—	8	—	—	17
Impairments on other investments	2	13	—	6	—	—	21
Expenses for the administration of investments ³⁾	1	10	1	8	1	34	55
Other expenses	2	10	1	16	1	2	32
Other investment expenses/ impairments	8	74	7	44	2	42	177
Investment expenses	17	103	14	182	20	42	378
Net income from investments under own management	169	1,274	119	520	158	–33	2,207
Interest income on funds withheld and contract deposits	—	—	—	15	263	—	278
Interest expense on funds withheld and contract deposits	—	18	—	8	55	—	81
Net interest income on funds withheld and contract deposits	—	–18	—	7	208	—	197
Net investment income	169	1,256	119	527	366	–33	2,404

¹⁾ Presentation after elimination of intra-Group relations between segments²⁾ The profit or loss on investments in associated companies using the equity method amounts to EUR 4 (1) million and is recognized under dividends³⁾ Expenses for the administration of non-Group investments are recognized under other expenses with effect from the current reporting period.

The previous year was adjusted accordingly (EUR 34 million)

Of the unscheduled impairments totaling EUR 129 million, an amount of EUR 82 million was attributable to equity securities and EUR 12 million to private equity. The impairments on fixed-income securities of EUR 17 million were taken predominantly on structured assets (EUR 9 million) and on loans and receivables (EUR 8 million). This contrasted with appreciation of EUR 37 million on investments that had been written down in previous periods; this total volume was attributable principally to real estate (EUR 13 million) and fixed-income securities (EUR 17 million).

As at the balance sheet date the portfolio did not contain any other overdue, unadjusted securities because overdue securities are written down immediately.

(11) Net gains and losses on investments by asset types

	30.9.2011	30.9.2010
Figures in EUR million		
Investments in affiliated companies and participating interests	4	2
Loans and receivables	1,032	1,055
Financial assets held to maturity	101	95
Financial assets available for sale		
Fixed-income securities	972	954
Variable-yield securities	−19	100
Financial assets at fair value through profit or loss		
Financial assets classified at fair value through profit or loss		
Fixed-income securities	33	68
Variable-yield securities	—	1
Financial assets held for trading		
Fixed-income securities	2	5
Variable-yield securities	−1	1
Derivatives	12	41
Other invested assets, insofar as they are financial assets	103	15
Other ¹⁾	−19	−43
Investments under own management	2,220	2,294
Funds held by ceding companies/funds held under reinsurance treaties	225	197
Total	2,445	2,491

¹⁾ For the purposes of reconciliation with the consolidated statement of income, the "Other" item combines the gains 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 are not included in the list if they do not relate to hedges in the area of investments

Making allowance for expenses for the administration of investments (EUR 58 (55) million) and other expenses (EUR 35 (32) million), the total net investment income as at the balance sheet date amounted to EUR 2,352 (2,404) million.

(12) Claims and claims expenses

1.1.–30.9.2011 ¹⁾	Industrial Lines	Retail Germany	Retail International	Non-Life Reinsurance	Life/Health Reinsurance	Corporate Operations	Total
Figures in EUR million							
Gross							
Claims and claims expenses paid	1,617	2,788	970	2,369	2,435	—	10,179
Change in loss and loss adjustment expense reserve	202	–39	75	1,744	181	—	2,163
Change in benefit reserve	—	870	37	—	453	—	1,360
Expenses for premium refunds	3	470	9	—	—	—	482
Total	1,822	4,089	1,091	4,113	3,069	—	14,184
Reinsurers' share							
Claims and claims expenses paid	617	200	22	276	224	—	1,339
Change in loss and loss adjustment expense reserve	322	–76	7	482	–12	—	723
Change in benefit reserve	—	–41	—	—	–2	—	–43
Expenses for premium refunds	1	—	6	—	—	—	7
Total	940	83	35	758	210	—	2,026
Net							
Claims and claims expenses paid	1,000	2,588	948	2,093	2,211	—	8,840
Change in loss and loss adjustment expense reserve	–120	37	68	1,262	193	—	1,440
Change in benefit reserve	—	911	37	—	455	—	1,403
Expenses for premium refunds	2	470	3	—	—	—	475
Total	882	4,006	1,056	3,355	2,859	—	12,158

¹⁾ Presentation after elimination of intra-Group relations between segments

1.1.–30.9.2010 ¹⁾	Industrial Lines	Retail Germany	Retail International	Non-Life Reinsurance	Life/Health Reinsurance	Corporate Operations	Total
Figures in EUR million							
Gross							
Claims and claims expenses paid							
1,514	2,566	799	2,523	2,203	—	—	9,605
Change in loss and loss adjustment expense reserve	–21	–11	93	594	256	–5	906
Change in benefit reserve	—	1,137	239	—	484	—	1,860
Expenses for premium refunds	3	654	7	—	—	—	664
Total	1,496	4,346	1,138	3,117	2,943	–5	13,035
Reinsurers' share							
Claims and claims expenses paid	591	99	20	312	201	—	1,223
Change in loss and loss adjustment expense reserve	–27	66	2	–53	8	—	–4
Change in benefit reserve	—	–45	—	—	29	—	–16
Expenses for premium refunds	1	—	2	—	—	—	3
Total	565	120	24	259	238	—	1,206
Net							
Claims and claims expenses paid	923	2,467	779	2,211	2,002	—	8,382
Change in loss and loss adjustment expense reserve	6	–77	91	647	248	–5	910
Change in benefit reserve	—	1,182	239	—	455	—	1,876
Expenses for premium refunds	2	654	5	—	—	—	661
Total	931	4,226	1,114	2,858	2,705	–5	11,829

¹⁾ Presentation after elimination of intra-Group relations between segments

(13) Acquisition costs and administrative expenses

1.1.–30.9.2011 ¹⁾	Industrial Lines	Retail Germany	Retail International	Non-Life Reinsurance	Life/Health Reinsurance	Total
Figures in EUR million						
Gross						
Payments	283	756	298	1,063	658	3,058
Change in deferred acquisition costs	–22	–127	–11	–86	–32	–278
Administrative expenses	172	221	102	121	95	711
Total acquisition costs and administrative expenses	433	850	389	1,098	721	3,491
 Reinsurers' share						
Payments	166	25	13	52	2	258
Change in deferred acquisition costs	–16	7	11	–2	45	45
Total acquisition costs	150	32	24	50	47	303
 Net						
Payments	117	731	285	1,011	656	2,800
Change in deferred acquisition costs	–6	–134	–22	–84	–77	–323
Administrative expenses	172	221	102	121	95	711
Total acquisition costs and administrative expenses	283	818	365	1,048	674	3,188

¹⁾ Presentation after elimination of intra-Group relations between segments

1.1.–30.9.2010 ¹⁾	Industrial Lines	Retail Germany	Retail International	Non-Life Reinsurance	Life/Health Reinsurance	Total
Figures in EUR million						
Gross						
Payments	290	713	272	947	616	2,838
Change in deferred acquisition costs	–58	35	227	–38	20	186
Administrative expenses	164	284	85	119	85	737
Total acquisition costs and administrative expenses	396	1,032	584	1,028	721	3,761
 Reinsurers' share						
Payments	165	60	21	71	40	357
Change in deferred acquisition costs	–30	24	38	–5	33	60
Total acquisition costs	135	84	59	66	73	417
 Net						
Payments	125	653	251	876	576	2,481
Change in deferred acquisition costs	–28	11	189	–33	–13	126
Administrative expenses	164	284	85	119	85	737
Total acquisition costs and administrative expenses	261	948	525	962	648	3,344

¹⁾ Presentation after elimination of intra-Group relations between segments

(14) Taxes on income

On the basis of a decision of the Federal Fiscal Court (BFH) in October 2010 regarding the taxation of investment income generated by the Group's reinsurance subsidiaries domiciled in Ireland as foreign-sourced income pursuant to the Foreign Transactions Tax Act, taxes already paid for earlier years were in large measure refunded in the first quarter. Assessments regarding the taxation of foreign-sourced income for the companies Hannover Reinsurance (Ireland) Ltd. and Hannover Life Reassurance (Ireland) Ltd. were rendered immaterial by cancellation notices dated 8 February 2011 and 31 March 2011 respectively. Subsequent assessment notices regarding corporation tax were issued for Hannover Re and E+S Rück in the period under review. The trade tax effects were also offset in the third quarter of 2011 by the controlling company HDI Haftpflichtverband der Deutschen Industrie V.a.G. In total, after allowance for non-controlling interests in equity, the refund of taxes and interest resulted in an improvement of EUR 64 million in Group net income in the period under review.

IX. Other information

Staff

The average number of staff employed throughout the reporting period can be broken down as follows:

	30.9.2011	31.12.2010
Industrial Lines	2,664	2,441
Retail Germany	5,970	6,792
Retail International	5,006	4,746
Reinsurance companies	2,208	2,130
Corporate Operations	2,116	1,671
Total excluding apprentices and student trainees	17,964	17,780
Apprentices and student trainees	458	442
Total	18,422	18,222

As at the balance sheet date a total workforce of 17,149 (16,874) was employed by the Talanx Group; this figure refers to full-time equivalents (FTEs).

Related party disclosures

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 to 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.

Transactions between Talanx AG and its subsidiaries 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.

There have been no significant changes in related party disclosures in the course of the 2011 financial year relative to the position as at 31 December 2010.

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 then appealed the ruling, as a result of which the matter is now before the Federal Court of Justice awaiting a decision.

The Italian anti-trust authority imposed a fine of EUR 6 million on HDI-Gerling Industrie Versicherung AG in September 2011 on account of alleged cartel agreements in the region of Campania. The company is currently considering its options for appealing this decision.

With the exception of the aforementioned proceedings, no significant court cases were pending during the period 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

As at the balance sheet date the following contingent liabilities and other financial commitments derived from contracts and memberships that had been entered into:

	30.9.2011	31.12.2010
Figures in EUR million		
Trust accounts (master trust, supplemental trust and single trust funds) as security for technical liabilities to US clients	2,932	2,884
Sureties in the form of letters of credit furnished by various financial institutions as security for technical liabilities	3,081	2,842
Guarantees for subordinated debts issued: The guarantees cover the relevant bond volumes as well as interest due.	1,968	2,131
Blocked custody accounts and other trust accounts as collateral in favor of reinsurers and ceding companies: The securities held in the blocked custody accounts and trust accounts are largely recognized in the investment portfolio as "financial instruments available for sale".	2,092	1,902
Commitments arising out of rental/lease agreements ¹⁾	492	492
Funding commitments and contribution payments pursuant to §§ 124 et seq. Insurance Supervision Act (VAG) as a member of the Security Fund for Life Insurers	388	372
Outstanding capital commitments with respect to existing investment exposures: The commitments involve primarily private equity funds and venture capital firms in the form of private limited companies	479	333
Collateral for liabilities to various banks in connection with participating interests in real estate companies and real estate transactions	330	258
Commitments based on service agreements – primarily in connection with IT outsourcing contracts	191	186
Obligations in connection with structured securities through issuers' rights to take delivery: The potential amounts that could be utilized total EUR 25 (31 December 2010: 159) million for 2011 and EUR 11 (31 December 2010: 11) million for 2012.	36	170
Other commitments	34	36
Total	12,023	11,606

¹⁾ Fresh data is collected only at year-end

As guarantor institutions for Gerling Versorgungskasse VVaG, various Group companies are liable pro rata for any deficits that may be incurred by Gerling Versorgungskasse.

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 meet its liabilities, an obligation exists to take over such other member's share within the framework of the quota participation.

Events after the end of the period under review

In a press release dated 17 August 2011 our subsidiary HDI-Gerling Industrie Versicherung AG announced that in the context of a capital increase at PVI Holdings (Petro Vietnam Insurance Holdings), Hanoi, Vietnam, it had acquired a stake of 25% in the company and had thus become the strategic partner of PVI Holdings. The purchase price is equivalent to EUR 65 million. This transaction closed on 20 October 2011; the company will therefore be included in the consolidated financial statements as an associated company for the first time as at year-end.

A listed company with 25 branches throughout Vietnam, PVI Holdings is a leading property and industrial insurer with a market share of 24%. The premium volume in 2010 amounted to USD 183 million. In making this acquisition HDI-Gerling Industrie Versicherung AG is pursuing its strategy of globalization.

Hannover Re anticipates a notable major loss as a consequence of the severe flooding in Thailand in October 2011.

Drawn up and released for publication in Hannover, 10 November 2011.

Hannover, 10 November 2011

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This is a translation of the original German text; the German version shall be authoritative in case of any discrepancies in the translation.

Interim Report online:

<http://www.talanx.com/en/publikationen/index.jsp>

Financial calendar 2012

22 March

11.00 a.m.: Press briefing on the 2011 annual results

16 May

Interim Report as at 31 March 2012

13 August

Interim Report as at 30 June 2012

14 November

Interim Report as at 30 September 2012

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