Q1

Group Interim Report *as at 31 March 2012*

talanx.

Key figures		1.1.–31.3.2012	1.1.–31.3.2011
Talanx Group overall			
Gross written premium	*In EUR million*	**7,605**	**7,039**
by regions			
Germany	*In %*	44	46
Central and Eastern Europe (CEE)	*In %*	3	4
Rest of Europe	*In %*	25	25
North America	*In %*	13	12
Latin America	*In %*	5	4
Australia/Asia	*In %*	7	6
Other countries	*In %*	3	3
Net premium earned	*In EUR million*	**4,965**	**4,647** [5]
Underwriting result	*In EUR million*	**–287**	**–664**
Net investment income	*In EUR million*	**961**	**835**
Return on investment [1]	*In %*	**4.6**	**4.2**
Operating profit (EBIT)	*In EUR million*	**546**	**146**
Net profit/loss for the period (after financing costs and taxes)	*In EUR million*	**357**	**132**
of which shareholders in Talanx AG	*In EUR million*	**211**	**77**
Return on equity [2]	*In %*	**14.9**	**6.3**
Earnings per share			
Basic earnings per share	*In EUR*	811.23	297.25
Diluted earnings per share	*In EUR*	811.23	297.25
Breakdown by segments [3]			
Industrial Lines			
Gross written premium	*In EUR million*	1,609	1,434
Net premium earned	*In EUR million*	374	451
Underwriting result	*In EUR million*	65	8
Investment result	*In EUR million*	58	53
Operating profit (EBIT)	*In EUR million*	101	46
Retail Germany			
Gross written premium	*In EUR million*	2,029	2,056
Net premium earned	*In EUR million*	1,247	1,259 [5]
Underwriting result	*In EUR million*	–335	–265
Investment result	*In EUR million*	390	352
Operating profit (EBIT)	*In EUR million*	42	59
Retail International			
Gross written premium	*In EUR million*	647	588
Net premium earned	*In EUR million*	525	445 [5]
Underwriting result	*In EUR million*	–14	–21
Investment result	*In EUR million*	76	41
Operating profit (EBIT)	*In EUR million*	37	5
Non-Life Reinsurance			
Gross written premium	*In EUR million*	2,117	1,924
Net premium earned	*In EUR million*	1,555	1,376
Underwriting result	*In EUR million*	47	–330
Investment result	*In EUR million*	267	267
Operating profit (EBIT)	*In EUR million*	283	–17
Life/Health Reinsurance			
Gross written premium	*In EUR million*	1,394	1,219
Net premium earned	*In EUR million*	1,261	1,114
Underwriting result	*In EUR million*	–50	–57
Investment result	*In EUR million*	177	128
Operating profit (EBIT)	*In EUR million*	107	68
Combined ratio in non-life insurance and reinsurance [4]	*In %*	**96.4**	**112.6**
Combined ratio of the property/casualty insurers	*In %*	95.8	98.9
Combined ratio in non-life reinsurance	*In %*	96.8	123.8

		31.3.2012	31.12.2011
Policyholders' surplus	*In EUR million*	**11,938**	**11,321**
Shareholders' equity of Talanx AG	*In EUR million*	5,870	5,421
Non-controlling interests	*In EUR million*	3,454	3,285
Hybrid capital	*In EUR million*	2,614	2,615
Investments under own management	*In EUR million*	**78,064**	**75,750**
Total investments	*In EUR million*	**89,854**	**87,467**
Total assets	*In EUR million*	**119,525**	**115,268**
Staff	*capacity*	**17,641**	**17,061**

[1] Annualised net investment income without interest income on funds withheld and contract deposits relative to average investments under own management (31.3. and 31.12.)
[2] Annualised net profit/loss for the period without non-controlling interests relative to average equity without non-controlling interests
[3] Before elimination of intra-Group cross-segment transactions
[4] Combined ratio adjusted for interest income on funds withheld and contract deposits, before elimination of intra-Group cross-segment transactions
[5] Adjusted on the basis of IAS 8, see section "Accounting policies", subsection "Changes in accounting policies and accounting errors" of the Notes

Contents

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Valid: 31 March 2012

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Group management report

Markets and business climate

Overall economic development

The European sovereign debt crisis remained the dominant theme in the first quarter of 2012. The start of the year was marked by sometimes drastic measures, which eased the debt crisis in the short term. At the end of January, EU countries reached an agreement on a pact ensuring stricter budgetary discipline; this was followed at the end of February by the ECB's second three-year tender (long-term refinancing operation); in March, the Greek restructuring overcame a major hurdle after private creditors (private sector involvement) agreed to a debt waiver. Furthermore, the existing bailout fund was increased to a total of EUR 800 billion through a combination of EFSF and ESM funds. The short-term calming of the markets was particularly reflected in falling yields for Spanish and Italian government bonds, which had previously reached a critical level.

Despite these measures, global economic development continued to be overshadowed by the unresolved European sovereign debt crisis, which has become a major burden for the Eurozone. The Eurozone has been in recession since the fourth quarter of 2011, when GDP contracted by 0.3% compared with the previous quarter. Having previously been the driving force behind the economy, Germany saw its GDP decline by 0.2% in the fourth quarter, compared with the preceding quarter. The ECB also lowered its growth forecast for 2012 from +0.3% to –0.1%. In addition, the euro debt crisis led to more high-profile rating downgrades: France and Austria lost their top ratings.

US economic data remained stable at the beginning of the year and were surprisingly positive. The US economy grew at an annualised rate of 3.0% in the fourth quarter of 2011 compared with the previous quarter. It grew at an annualised rate of 2.2% in the first quarter of 2012, while the unemployment rate stabilised at 8.2%, therefore a three-year low. In contrast, the UK saw weak development similar to that of the Eurozone. Its economy shrank by 0.3% in the fourth quarter of 2011 compared with the previous quarter, followed by a further decline of 0.2% in the first quarter of 2012.

The monetary policy pursued by the major central banks remained very expansive at the beginning of the year. In the first and second three-year tenders in December 2011 and February 2012 respectively, the ECB provided banks with around EUR 1 billion in credit at an interest rate of 1%. The Fed announced unexpectedly that the period of its de facto zero interest rate policy would be extended until the end of 2014 and would thus be longer than originally expected. At the same time, it announced a long-term inflation target of 2% for the first time. The US central bank has also raised the possibility of a third round of quantitative easing.

Inflation rates in the Eurozone remained at an annual rate of 2.7%, which was still above the ECB's target range. In the USA, inflation rates dropped back below the 3% mark. The annual inflation rate in March 2012 was 2.7%. In the UK, inflation slowed again slightly in relation to the previous year's figures (over 4%), most recently reaching a level of 3.5%.

The euro benefited early in the year from the temporary easing of the debt crisis, reaching levels of well above 1.30 EUR/USD. Rising from a low of 1.26 EUR/USD in mid-January, it peaked at 1.34 EUR/USD. The euro also initially recorded gains against the British pound, but later lost ground and most recently stood at around 0.82 EUR/GBP, below its level at the beginning of the year. The Swiss central bank's declaration that it was no longer prepared to tolerate an exchange rate below 1.20 EUR/CHF has had an impact: the euro levelled out at just above this target in relation to the Swiss franc in the first quarter of 2012, with relatively little volatility.

Capital markets

The European debt crisis and the liquidity and refinancing situation in the banking sector were also the overriding issues on the bond markets in the first quarter of 2012. Despite the lack of long-term progress in resolving the debt crisis, market players began the new year willing to take risks.

Discussions regarding implementation of debt write-downs in Greece with private investor involvement continued until these plans were implemented at the beginning of March. As anticipated, at the beginning of the year new issues in various asset classes were very active. Bonds with a volume of approximately EUR 402 billion were placed in January alone. In view of the alternative funding options available via the ECB, it was not surprising that the proportion of financial bonds was considerably lower than in previous years. The share of covered bonds in funding within the financial sector rose significantly. Government bonds accounted for the largest proportion of the issue volume overall, at over EUR 180 billion, driven by Spain (+122% compared with 2011) and Italy (+16% compared with 2011). Due to the available market liquidity, abundant supply met with lively demand with very good uptake of almost all new issues. Despite the flood of new issues, there was a widespread reduction in risk premiums. Although Spain and Italy remained very active in February and March, overall activity in new issues was much more subdued.

At approximately EUR 530 billion, demand for the second three-year tender at the end of February was even higher than it was for the first tender. The number of banks requesting funds from the tender, at 800, was also about 50% higher than in December. The volume requested by Italian and Spanish banks was above-average.

There was little change in yields on German government bonds compared with the preceding quarter. The yields on various AAA government bonds with a maturity of less than one year remained virtually zero. Two-year German government bonds listed at 0.20% and five-year bonds at 0.79%, while ten-year bonds fell slightly to 1.79%.

The successful three-year tenders of the ECB, falling bond yields in Italy and Spain and the robust economic data in the USA led to strong price gains on the stock markets. Germany's DAX index climbed over 1,000 points, or about 18%, to just under 7,000 points in the first quarter of 2012. The EURO STOXX 50 gained around 7% in the same period. In the USA, the S&P 500 rose to above 1,400 points for the first time since 2008, gaining 12% in the first three months. The implicit volatility for the S&P 500 fell to its lowest level since 2007. The Dow Jones recorded a gain of around 8% in the first quarter of 2012.

The insurance markets

The notes on the future situation in the sector are based mainly on information published by the ifo Institute for Economic Research, the German Insurance Association (GDV), KfW and the news agencies Reuters and Dow Jones as well as by selected reinsurers.

After a slight slowdown on the markets in the two previous quarters, estimates for economic development in the insurance industry became more positive again in the first quarter of 2012. The favourable business climate that the sector has enjoyed for almost two years is therefore continuing. The improvement in the climate was more obvious in life insurance than in property and casualty insurance. Forecasts with regard to the expected development of premium income in the 2012 financial year were also positive again. This applied to a greater extent to property and casualty insurance than to life insurance.

The positive mood in German property and casualty insurance improved again slightly in the first quarter of 2012; assessments were more confident for prospects in the coming months than for the current business situation. In terms of individual lines of insurance, the business climate index rose for private property insurance in particular and – to a lesser extent – in the commercial/industrial sector. In contrast, private accident insurance declined compared with the previous quarter. Forecasts in motor and liability insurance remained virtually unchanged.

Expectations were optimistic in all product segments with regard to both new business and the development of premium income in the current financial year. The end of the cycle of price cuts and associated increases in premiums in motor insurance played a part in this. There were also adjustments to premiums in other branches of property and casualty insurance. An overall comparison in this line of business indicated that only in liability insurance were expectations regarding premium income lower than in the other sectors. The situation with regard to development of claims, unfavourable in 2011, is expected to ease and improve in the current year compared with the previous year.

The business climate for German life insurance, recently somewhat subdued, recovered slightly in the first quarter of 2012. This reflected better economic prospects compared with the previous quarter. The economic environment nevertheless remains uncertain, given the unresolved European debt crisis, US debt problems and geopolitical risks. In this context, the current business situation in life insurance has been assessed slightly more positively than the business prospects for the next two quarters, which are expected to be weaker.

Forecasts for unit-linked life and annuity insurance and endowment life insurance are lower than the average for all life insurance. Continuing low interest rates had a particularly negative effect on classic life insurance products. Increasingly strict capital requirements are also making these products look less and less attractive. From the point of view of the market, however, and particularly in competition with banking products, experts believe that life insurance products are still attractive, taking into account the total return.

With regard to the development of premium income in the year under review, overall stabilisation is possible. In new business with regular premium payments, an upward trend is expected in all branches, with the exception of endowment insurance. In single-premium business, however, a further decline is expected.

In international non-life reinsurance, the numerous natural disasters of 2011 have curbed a decline in premiums for reinsurance cover that had been continuing for years. Rates stabilised or even increased in most segments. In the renewal rounds at the beginning of the year, European reinsurers recorded a significant increase in premiums for reinsurance cover, particularly in the segments that were directly affected by claims. In other segments and in regions that were less severely affected by major losses, prices remained unchanged or saw a moderate rise. This positive trend was confirmed by the renewal round on 1 April 2012.

Overall conditions are still favourable for international life/health reinsurance. In industrialised nations, demographic changes are resulting in an ageing population. In the majority of these markets, this is associated with increasing awareness of the need to make provisions for retirement, which is leading to increased demand for pension solutions and nursing care insurance products. In important growth markets such as China, India and Brazil, demand for products providing financial protection in old age is increasing as the population grows and the level of development rises. For reinsurers, the trend towards demographic change is also resulting in further business opportunities in the assumption of longevity risks.

Business development of the Talanx Group

	1.1.–31.3. 2012	1.1.–31.3. 2011[1]
Figures in EUR million		
Gross written premium	7,605	7,039
Net premium earned	4,965	4,647
Underwriting result	–287	–664
Net investment income	961	835
Operating result (EBIT)	546	146
Combined ratio (net, property and casualty only)	96.4%	112.6%

[1] Adjusted on the basis of IAS 8, see section "Accounting policies", subsection "Changes in accounting policies and accounting errors" of the Notes

The Talanx Group took a further important step in its internationalisation in the first quarter of 2012. Following several acquisitions in Latin America in the previous year, it now focused on the target region of Eastern Europe. Talanx International AG reached an agreement with the Belgian KBC Group to acquire the latter's shares in the second largest Polish insurance group, TUiR Warta S. A. Together with the takeover of the TU Europa group announced in December, Talanx will become a major player on the Polish market.

A sales agreement was signed in the same segment, Retail International, regarding the subsidiary ASPECTA Assurance International AG, Vaduz, Liechtenstein, at the beginning of the second quarter, in connection with efforts to focus the company in accordance with its strategic alignment.

A further measure to improve the focus on clients and ensure greater transparency and efficiency is taking shape in the Retail Germany segment. In future, HDI and HDI-Gerling are to be consolidated in this division under the “new” old brand HDI. In concrete terms, the two risk carriers in the property/casualty insurance business – HDI Direkt Versicherung AG and HDI-Gerling Firmen und Privat Versicherung AG – are to be merged in the second half of 2012. The risk carrier will then operate under the name HDI Versicherung AG, in line with the new brand alignment. The switch to HDI is to be completed in 2013. This simplification will also increase efficiency in the division. The duplication of large parts of the product range, including development, portfolio management and marketing, will be eliminated and the range will become simpler and more transparent for customers.

Further key measures related to the re-alignment of this Group segment, such as the bundling of operational functions – including contract processing, policy issuance, complaints management and telephony – with appropriate staff measures and resulting cost savings, may get under way following the conclusion of a basic agreement with the Group Employee Council after the end of the reporting period at the end of April.

Premium volume

The Group gross written premium was up 8% year-on-year at EUR 7.6 (7.0) billion for the first quarter of 2012. Adjusted for exchange rate effects, the level of growth would have been 7%. The main reasons for this were organic growth in reinsurance and growth in the Retail International segment, owing to several acquisitions in Latin America. Overall, all segments recorded double-digit premium growth (before currency effects), with the exception of Retail Germany, whose in premium income dropped slightly. Growth at Life/Health Reinsurance was highest, at around 14% (12% with adjustments for exchange rate effects). A high proportion of new business in high-risk life reinsurance in the USA was the main contributor to this.

Net premium earned rose by almost 7% to EUR 5.0 (4.6) billion – a slightly lower level of growth than in the gross premium, partly owing to the slight drop in our retention ratio.

Underwriting result

The Group underwriting result improved by 57% year-on-year to –EUR 287 (–664) million, despite an increase in major losses in Industrial Lines. The Non-Life Reinsurance segment was the main driver behind this, achieving a positive result in the first quarter of EUR 47 (–330) million, owing to the absence of natural disasters. Several natural disasters in Asia and Australia imposed an unusually severe burden on the corresponding quarter of the previous year. In contrast, major losses in 2012 were considerably lower than expected. In the Retail Germany segment, the underwriting result was down around 25% year-on-year at –EUR 335 (–265) million, owing to the lower net premium earned. At Group level, the underwriting result is regularly negative, since the participation of policyholders in the investment income of our life insurers is included here.

The combined ratio saw a significant improvement of 16.2 percentage points compared with the corresponding quarter of the previous year, which had been hit by major losses. It decreased from 112.6% to 96.4%. A substantial reduction in the loss ratios of the Industrial Lines and Non-Life Reinsurance segments particularly contributed to this. Even the increase in the Retail Germany segment’s cost ratio did not impair this good result.

Net investment income

Net investment income development varied from segment to segment, but was positive throughout. The Retail International segment's growth of 85% was strongest, owing to an improvement in ordinary investment income and larger investment portfolios. All other segments – with the exception of Non-Life Reinsurance and Corporate Operations – saw double-digit growth. The Group's net investment income as a whole increased by 15% to EUR 961 (835) million, partly owing to an improvement in the unrealised net gain.

Holdings of government bonds from countries on the Eurozone periphery (the so-called GIIPS states), which were already low, were reduced further in the first quarter.

Operating result

The operating result's development (EBIT) was pleasing. With the exception of Retail Germany, it increased significantly in all operating segments, sometimes with high triple-digit growth. This included Retail International and, boosted by the moderate level of major losses, Non-Life Reinsurance. The operating result for the entire Group grew by 274% from the previous year's low figure of EUR 146 million to EUR 546 million.

Taxes on income amounted to EUR 148 million; income for the same period of the previous year was EUR 28 million, mainly owing to a tax effect in Non-Life Reinsurance. Although this effect no longer applied in the first quarter of 2012, net income for the period rose by 170% to EUR 357 million. Owing to a further reduction in non-controlling interests, the Group net income improved to a similar extent as the net profit for the period after taxes: for the first quarter of 2012, it amounted to EUR 211 (77) million, which represented an increase of 174%. Earnings per share, which we have reported for the first time in this quarter, were EUR 811.23 (297.25). There was a share split after the end of the quarter, which is outlined in the Notes under "Earnings per share".

Return on equity (annualised) was 14.9 (6.3)%.

Business development of the segments

Industrial Lines

	1.1.–31.3. 2012	1.1.–31.3. 2011
Figures in EUR million		
Gross written premium	1,609	1,434
Net premium earned	374	451
Underwriting result	65	8
Net investment income	58	53
Operating result (EBIT)	101	46
Combined ratio (net)	82.7%	98.0%

The Industrial Lines division is led by HDI-Gerling Industrie Versicherung AG, which is at the same time by far the largest company in this Group segment. 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. Comprehensive insurance solutions are assembled on the basis of customised coverage concepts, thereby providing the complete product range needed to protect against entrepreneurial risks. Just as importantly, due to its many years of experience and proven expertise, HDI-Gerling Industrie provides professional claims management that delivers the fastest possible assistance worldwide in the event of loss or damage.

Premium volume

The segment's gross written premium amounted to EUR 1.6 (1.4) million as at 31 March 2012, an increase of 12%. A key role was played by HDI-Gerling Industrie, which accounted for EUR 143 million (before consolidation) of this increase of EUR 175 million.

The positive development in premiums came from many sources: in motor insurance business in Germany, the previous year's positive trend continued; in industrial liability business in Germany, slight growth was also achieved and the quality of the premiums improved further. Conditions on the international markets varied. The Spanish subsidiary held its ground well overall, but suffered in the area of sales-related contracts as a result of continuing tensions in the Spanish economy. In the Netherlands, a considerable proportion of premium growth in liability insurance was due to Nassau Verzekering Maatschappij N. V., Rotterdam, which was acquired in 2011 and was not yet included in the figures for the corresponding period of last year. Business also varied in the important fire insurance division, where some European markets saw robust development, while in Spain, for example, business came under pressure due to the economic situation.

Reinsurance premiums written in the segment rose by 23% to EUR 744 (605) million, a disproportionately high level of growth in relation to the development of gross premiums. This was heavily influenced by reinstatement premiums, which were recognised as reinsurance premiums at HDI-Gerling Industrie for the first time in the fourth quarter of 2011. Net premium earned thus fell by EUR 77 million to EUR 374 (451) million.

Underwriting result

The segment's net underwriting result in the first quarter amounted to EUR 65 (8) million. This was supplemented by a favourable claims experience, specifically the significant drop of 15.9 percentage points in the net loss ratio to 64.5 (80.4)% led to a very good combined ratio of 82.7 (98.0)%. The net expense ratio was only slightly higher than in the previous year, at 18.1 (17.7)%.

Net technical expenses were down 29% year-on-year in the first quarter of 2012, at EUR 317 (446) million, while claims expenditure was also down 29% at EUR 239 (337) million, acquisition costs dropped to EUR 18 (31) million and other technical expenses fell to EUR 11 (30) million. On the other hand, there was a noticeable increase in gross claims expenditure of HDI-Gerling Industrie. The first quarter of the previous year had been affected, particularly in the fire division, by the consequences of natural disasters in Japan and other natural disasters as well as by considerable additional provisions in the field of liability insurance. However, major losses in the first quarter of 2012 – also in the fire division – led to a further increase in the gross loss burden to EUR 573 (431) million. Thanks to the high level of reinsurance cover, however, this had barely any impact on net claims expenditure. Claims experience in other markets was relatively unremarkable, with no significant loss events.

Net investment income

The segment's net investment income grew by 9% to EUR 58 (53) million. Above all, this reflects the positive overall business development; higher interest rates in the fixed-income sector also had an impact.

Operating result

Thanks to the above developments – particularly the significant improvement in the net underwriting result – the segment's operating result more than doubled, growing by 120% to EUR 101 (46) million.

HDI-Gerling Industrie, whose result improved by EUR 82 million to EUR 79 (–3) million, played a crucial part in this. This striking increase more than offset the decline at some foreign subsidiaries.

There was a noticeable change at the Dutch subsidiary, whose result plummeted to EUR 7 (18) million compared with the corresponding period of the previous year. The previous year's figures had been influenced by an unusually favourable claims experience. However, the 2012 result was shaped to a large extent by the integration of Nassau Verzekering, which means that a comparison with the first quarter of 2011 is difficult. The operating result at the Spanish subsidiary, at EUR 1 (8) million, was also lower than in the previous year. Although premiums were stable, the company suffered as a result of higher net claims expenditure of EUR 6 (0) million, mainly owing to adjustments to the level of reserves. HDI Austria's operating result allocated to the Industrial Lines segment fell to EUR 3 (7) million. This reflects the recognition of around 45% of the business in the Retail International segment (in the corresponding quarter of the previous year, 100% of the figures were reported in Industrial Lines).

Retail Germany

	1.1.–31.3. 2012	1.1.–31.3. 2011[1)]
Figures in EUR million		
Gross written premium	2,029	2,056
Net premium earned	1,247	1,259
Underwriting result	–335	–265
Net investment income	390	352
Operating result (EBIT)	42	59
Combined ratio (net, property and casualty only)	105.3%	99.0%

[1)] Adjusted on the basis of IAS 8, see section "Accounting policies", subsection "Changes in accounting policies and accounting errors" of the Notes

The Retail Germany division bundles the German retail clients served by HDI and HDI-Gerling and the Talanx Group's German bancassurance activities and offers them insurance cover tailored to their needs. In the field of life insurance, the division also operates in Austria. The product range extends from property/casualty insurance via life insurance to company pension schemes, which are offered through a wide variety of distribution channels.

Premium volume and new business

Gross written premiums in the Retail Germany segment – including the savings elements under unit-linked life insurance – fell slightly by 1% to EUR 2.0 (2.1) million in the period under review. The figures for the corresponding period of the previous year included EUR 25 million for the legal aid insurance business, which has since been sold. With adjustments for this sale, gross premiums remained stable. The share of property/casualty insurance products in the total premium income increased, supported in the quarter under review by adjustments to premiums. Gains were achieved in the public liability insurance and motor insurance divisions and by our "Compact" product, which allows policyholders to bundle various risks. As a result, the net premium earned for property/casualty insurance products was EUR 330 (334) million.

A drop in single premiums led to a 2% reduction in the gross written premium booked by our life insurers, including savings elements under unit-linked life insurance products, to EUR 1,201 (1,224) million. Developments at the individual companies in our segment varied: while sales at HDI-Gerling Lebensversicherung AG and PB Lebensversicherung AG declined, neue leben Lebensversicherung AG once again achieved growth in its single-premium business. TARGO Lebensversicherung AG continued the positive trend in business with a regular premium payment, thereby offsetting a decline in single premiums.

The retention ratio rose slightly to 92.6% owing to a slight fall in reinsurance cessions in property/casualty insurance. The savings elements for our unit-linked products fell, in line with the decline in single-premium business. Allowing for the change in unearned premiums, the net premium earned totalled EUR 1.2 (1.3) million.

New business of companies in our segment – measured by the internationally recognised yardstick of the Annual Premium Equivalent (APE) – amounted to EUR 181 (203) million. In property/casualty insurance, the previous year had been influenced by large volumes of co-insurance business with HDI-Gerling Firmen und Privat. New business in life insurance products, particularly in conventional product groups, declined with a reduction in single premiums.

Underwriting result

The underwriting result amounted to –EUR 335 (–265) million. Its development was once again dominated by life insurance products, which accounted for –EUR 320 (–268) million of the total amount. This includes factors such as compounding technical liabilities (allocation to the benefit reserve) and participation of our policyholders in net investment income (allocation to the provision for premium refunds). The income opposing these expenses, however, is recognised in net investment income, so that the underwriting result shows a negative balance. The drop in the underwriting results of the life insurers in the period under review was due primarily to an increase in net investment income and larger write-downs on purchased in-force insurance portfolios. Net claims expenditure for life insurance products thus rose to EUR 1,084 (1,053) million.

The change in the underwriting result from our property/casualty insurance products was influenced primarily by higher expenses for insurance operations. The total underwriting result for this business area amounted to –EUR 16 (2) million.

Net investment income

The segment's net investment income grew by 11% to EUR 390 (352) million, with life insurance products accounting for 92% of this sum. Of the total net investment income, around EUR 360 (321) million was credited in very large measure pro rata to the holders of life insurance policies. With investment income remaining virtually unchanged, a drop in investment expenses caused this development.

Operating result

Overall, the segment result fell short of the previous year's figure. Costs incurred in the corresponding quarter of the previous year had been atypical and disproportionately low, which had boosted the figures. Other income/expenses showed a positive change. Costs associated with the realignment of and adjustments to the division no longer applied, as they had in the corresponding period of the previous year. The overall operating result was thus reduced to EUR 42 (59) million, primarily owing to a drop in the underwriting result.

Segment overview – further key figures	1.1.–31.3. 2012	1.1.–31.3. 2011[1)]
Figures in EUR million		
Gross written premium	**2,029**	**2,056**
Property/casualty	828	832
Life	1,201	1,224
Net premium earned	**1,247**	**1,259**
Property/casualty	330	334
Life	917	925
Underwriting result	**–335**	**–265**
Property/casualty	–16	2
Life	–320	–268
Other	1	1
Net investment income	**390**	**352**
Property/casualty	30	30
Life	360	321
Other	—	1
New business measured in annual premium equivalent	**181**	**203**
Single premiums (life)	281	300
Regular premiums (life and non-life)	153	173
New business by products in annual premium equivalent	**181**	**203**
Motor	64	67
Property/casualty insurance	4	4
Liability insurance	9	6
Accident insurance	3	3
Other property/casualty insurance	5	16
Unit-linked life and annuity insurance	32	31
Classical life and annuity insurance	49	59
Term life products	15	15
Other life products	1	—

[1)] Adjusted on the basis of IAS 8, see section "Accounting policies", subsection "Changes in accounting policies and accounting errors" of the Notes

Retail International

	1.1.–31.3. 2012	1.1.–31.3. 2011[1]
Figures in EUR million		
Gross written premium	647	588
Net premium earned	525	445
Underwriting result	–14	–21
Net investment income	76	41
Operating result (EBIT)	37	5
Combined ratio (net, property and casualty only)[2]	100.0%	99.8%

[1] Adjusted on the basis of IAS 8, see section “Accounting policies”, subsection “Changes in accounting policies and accounting errors” of the Notes
[2] Including interest income on funds withheld and contract deposits

The Retail International segment brings together the activities of the companies serving retail clients in property/casualty insurance, life insurance and bancassurance outside Germany, and now operates in 15 countries with over eight million clients.

Its local, industry-specific know-how and presence via an extensive distribution network enable the division to identify its clients’ particular requirements and provide customised solutions in all markets in which it operates. The product range encompasses motor insurance, property and casualty insurance, marine and fire insurance as well as various offerings in the life insurance sector.

The first quarter of 2012 was marked by further expansion on our target markets in Central and Eastern Europe and Latin America and by preparations for takeovers, particularly in Poland. The takeover of the TU Europa group, which offers both life and property/casualty insurance products, is expected to be concluded in the second quarter, followed by the takeover of TUiR Warta S.A. from the Belgian KBC Group during the second half of the year. Our strategic partner Meiji Yasuda will then take over 30% of the shares in Warta and will own a significant minority holding in the TU Europa group. The acquisition of the property and life insurer Metropolitana Compañía des Seguros S.A. de C.V. in Mexico was also completed in the first quarter of 2012.

We are present on the two largest and fastest-growing core markets within each of our strategic target regions, Brazil and Mexico in Latin America and Poland and Turkey in Eastern Europe.

Premium volume

The segment’s gross written premium (including premiums under unit-linked life and annuity insurance policies) rose by around 10% compared with the corresponding quarter of the previous year, to a total of EUR 647 (588) million. Most of this premium growth was attributable to inorganic growth (inclusion of Austrian retail business, acquisitions in Mexico, Uruguay and Argentina). Organic growth stagnated year-on-year after conversion into euros, owing to a decline in single-premium business in life insurance; with adjustments for exchange rate effects, the level of growth was +3%.

Gross written premium growth was primarily influenced by the positive development of the property insurance business, while the life insurance business saw a decline owing to one-off effects in the first quarter of 2011. The gross premium income in property insurance business rose by 25% to EUR 482 million; in life insurance business, it fell by 19% to EUR 165 million.

Around three quarters of our total premium income in Latin America comes from the Brazilian market, where we operate mainly in motor insurance. Once again, the Brazilian company HDI Seguros was a key driver behind the increase in the gross written premium in property insurance business, with premium growth equivalent to EUR 18 million (without exchange rate effects: EUR 24 million). Growth in property insurance products was also heavily influenced in other countries by exchange rate effects, particularly in Mexico and Turkey. The Mexican company HDI Seguros achieved property premium growth of 29% in local currency and of 24% after conversion into euros.

Our Turkish property insurance company HDI Sigorta saw premium growth of 34% in local currency, mainly due to a rise in average premiums in motor insurance and an increase in sales through agencies in other property insurance business; after conversion into euros, the increase was 22%.

The Polish property insurance company HDI Asekuracja remained stable in relation to the same period of the previous year, while the gross premium income of the life insurer HDI-Gerling Zycie fell by 69% in euros, owing to a one-off effect arising from a higher level of single-premium business in the first quarter of 2011. Following the takeover of the insurance companies TU Europa and TUiR Warta S. A., Talanx International AG will be the second-largest operator on the Polish property and life insurance market, according to the Polish supervisory authority.

At Italian company HDI Assicurazioni, life insurance premiums fell compared with the same period of last year. On one hand, income from a banking sales channel declined; on the other, many of the policies that matured at the end of 2010 were reinvested at the beginning of 2011. This effect was absent in the quarter under review. In contrast, growth of around 10% was achieved in property/casualty insurance, particularly in motor third-party liability insurance, thanks to higher average premiums and the conclusion of a large number of new contracts.

Of the life insurance companies, the Hungarian company increased its premium volume by 60% in euros (in local currency: +75%). The Turkish company CiV Hayat Sigorta also recorded a 30% increase in premium volume, converted into euros (in local currency: +42%), partly as a result of an increase in protection for credit card balances. These two companies are among the fastest-growing companies, in relative terms, on their markets.

Underwriting result

The combined ratio in international property/casualty insurance was 100.0 (99.8)%, the same level as in the previous year. This development was influenced, among other factors, by the Polish company HDI Asekuracja, which was burdened by the consequences of a major loss event in the agricultural sector (frost damage).

The underwriting result in the segment amounted to –EUR 14 (–21) million, an improvement of around 33% compared with the corresponding period of the previous year.

Net investment income

Net investment income of EUR 76 million was recorded in the segment in the first quarter of 2012; this represents an increase of 85% year-on-year. This was partly the result of an improvement in the ordinary investment income, owing to larger investment portfolios across the board, and partly due to more favourable interest rates in some cases. In contrast, the extraordinary investment income benefited from gains realised on the sale of Italian government bonds. In particular, the Italian company HDI Assicurazioni contributed to this positive development with extraordinary investment income of EUR 13 million (of which EUR 10 million was realised gains).

Operating result

Thanks to both the improvement in the underwriting result and the increase in net investment income, the retail segment closed the quarter under review with an improved EBIT compared with the corresponding period of the previous year, at EUR 37 (5) million, and a positive EBIT margin of 7.0 (1.2)%.

Segment overview – further key figures	1.1.–31.3. 2012	1.1.–31.3. 2011[1]
Figures in EUR million		
Gross written premium	**647**	**589**
Property/casualty	482	386
Life	165	203
Net premium earned	**525**	**445**
Property/casualty	409	334
Life	116	111
Underwriting result	**–14**	**–21**
Property/casualty	—	1
Life	–14	–22
Other	—	—
Net investment income	**76**	**41**
Property/casualty	37	21
Life	31	20
Other	8	—
New business measured in annual premium equivalent	**211**	**216**
Single premiums (life)	93	129
Regular premiums (life and non-life)	202	204
New business by products in annual premium equivalent	**211**	**216**
Motor	134	142
Property/casualty insurance	17	19
Liability insurance	13	10
Accident insurance	2	3
Other property/casualty insurance	25	19
Unit-linked life and annuity insurance	5	9
Classical life and annuity insurance	6	5
Term life products	5	3
Other life products	4	6

[1] Adjusted on the basis of IAS 8, see section "Accounting policies", subsection "Changes in accounting policies and accounting errors" of the Notes

Non-Life Reinsurance

	1.1.–31.3. 2012	1.1.–31.3. 2011
Figures in EUR million		
Gross written premium	2,117	1,924
Net premium earned	1,555	1,376
Underwriting result	47	–330
Net investment income	267	267
Operating result (EBIT)	283	–17
Combined ratio (net)	96.8%	123.8%

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. It offers its clients in the Group segment of Non-Life Reinsurance a comprehensive product range in treaty and facultative reinsurance in the field of structured reinsurance solutions and in direct business.

Market development

We are highly satisfied with the performance of our Non-Life Reinsurance segment. The treaty renewals as at 1 January 2012 – when 63% of our treaties in traditional reinsurance were renegotiated – passed off favourably for our company. We boosted premium volume from renewed business by some 6%, compared with an increase of 2% in the previous year. Overall, we secured better conditions and rates than in the prior year. As anticipated, price increases were especially marked in segments that had suffered losses in 2011. It is nevertheless still too soon to speak of a hard market taking hold throughout the entire non-life reinsurance sector.

The most appreciable rate rises were recorded in property catastrophe business: prices for reinsurance cover improved sharply on the back of the substantial losses incurred from natural catastrophes in 2011. The renewal round for business in our domestic market, where the situation in motor insurance improved, passed off better than expected. We are also broadly satisfied with the treaty renewals in North America. Rate increases were for the most part pushed through in

US property business. The situation was especially gratifying in Canada, where we obtained substantial rate increases in most cases. We were also satisfied with developments in specialty lines: our premium volume in marine, aviation and credit/surety business continued to grow. The picture in global reinsurance was a mixed one: in developed markets we maintained our portfolio broadly unchanged, whereas in the markets of Asia and the Middle East we booked further strong growth.

Premium volume

The gross premium for our non-life reinsurance business group increased by a sizeable 10% relative to the corresponding period of the previous year, to stand at EUR 2.1 (1.9) billion. At constant exchange rates, especially against the US dollar, growth would have been 8%. The level of retained premium increased to 91.2 (87.8)%. Net premium earned climbed 13% to EUR 1.6 (1.4) billion. The major loss situation in the first quarter was very much on the moderate side. At EUR 61 (572) million, the net burden of major losses came in well below our expectations.

Underwriting result

The largest single loss in the first quarter was the partial sinking of the Costa Concordia cruise ship. This gave rise to net loss expenditure of EUR 45 million. In view of the favourable major loss development, the underwriting result for the entire non-life reinsurance portfolio closed at a very pleasing EUR 47 (–330) million for the first quarter. The combined ratio improved markedly to 96.8 (123.8)%.

Operating result (EBIT)

Operating profits (EBIT) in non-life reinsurance rose to a very good EUR 283 (–17) million as at 31 March 2012 due to the influence of positive factors.

Life and Health Reinsurance

	1.1.–31.3. 2012	1.1.–31.3. 2011
Figures in EUR million		
Gross written premium	1,394	1,219
Net premium earned	1,261	1,114
Underwriting result	–50	–57
Net investment income	177	128
Operating result (EBIT)	107	68

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

Market development

The environment in international life and health reinsurance continues to offer advantageous conditions. The importance to our life/health reinsurance portfolio of mature insurance markets such as the USA, Germany, the UK, France and Scandinavia remains undiminished. In the area of health, long-term care and annuity insurance, demographic change is opening up particularly attractive opportunities. Business in emerging Asian markets, most strikingly in China, and so-called retakaful business – i.e. insurance transacted in accordance with Islamic law – are enjoying sustained growth, and we therefore see promising new business potential here. This is also true of the Australian market, where we put our primary insurance licence at the disposal of sales organisations and are achieving significant growth in certain product lines.

Through direct contact with our clients, we are able to offer tailored reinsurance solutions designed to optimise the management of their capital, liquidity and risks: in the first quarter of 2012, for example, we closed a promising new business financing transaction in South Africa on this basis. We also wrote a number of new acceptances in other markets, most notably in France and Asia. Our business activities in the UK annuity market were further expanded.

Premium volume

Gross written premium in life and health reinsurance climbed 14% to EUR 1.4 (1.2) billion as at 31 March 2012. At constant exchange rates, growth would have come in at 12%. Net premium earned increased by 13% to EUR 1.3 (1.1) billion, corresponding to a retention of 90.8 (91.5)%.

In the early months of the current financial year, unlike in 2011, credit spreads on securities had a favourable effect on the performance of life and health reinsurance: narrowing credit spreads resulted in a positive fair value development for the derivative that we recognise for the default risk associated with assets in the securities deposits held for our account by US clients. The resulting unrealised gains totalled EUR 37 million. The result in life and health reinsurance also profited from a favourable mortality experience in our US life reinsurance portfolio.

Operating result (EBIT)

The operating profit (EBIT) for the life and health reinsurance business group surged strongly to EUR 107 (68) million as at 31 March 2012. The EBIT margin of around 8.5% was well above our strategic target.

Corporate Operations

The Corporate Operations segment comprises Talanx AG, the in-house service providers Talanx Service AG and Talanx Systeme AG, asset management through Talanx Asset Management GmbH, AmpegaGerling Investment GmbH and Talanx Immobilien Management GmbH as well as Talanx Reinsurance Broker AG.

Talanx Asset Management GmbH – in cooperation with its subsidiary AmpegaGerling Investment GmbH – is chiefly responsible for handling the management and administration of the Group companies' securities portfolios and provides related services such as investment accounting and reporting. The total operating profit of Talanx Asset Management GmbH, AmpegaGerling Investment GmbH and Talanx Immobilien Management GmbH fell in the first quarter of 2012 to EUR 8 million (from EUR 11 million in the first quarter of 2011).

As an investment company, AmpegaGerling Investment GmbH administers public and special funds and performs financial portfolio management tasks for institutional clients. The emphasis is on portfolio management and the administration of investments for clients outside the Group. Following outflows worth billions of euros from public funds in 2011 (according to statistics from the German investment and asset management umbrella organisation BVI, outflows were recorded of approximately EUR 17 billion), the sales situation appears to have eased slightly in the first few months of 2012. In contrast to the sector, our company achieved a positive cash inflow in 2011, and in the first quarter of 2012 the volume of assets under management rose by 4% compared with the level at the start of the year, to EUR 13.3 (12.7) billion. Over half of this sum, EUR 7.5 (7.1) billion, was administered on behalf of Group companies through special funds and direct investment mandates. Of the remaining portion, EUR 2.6 (2.5) billion was attributable to institutional third-party clients and EUR 3.2 (3.1) billion to retail business. 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.

At the end of the first quarter of 2012, the total assets under own management at the Talanx Group amounted to EUR 78.1 billion, an increase of 3% compared with the end of 2011.

Talanx Reinsurance Broker AG is wholly owned by Talanx AG and handles the complete spectrum of the reinsurance business process for Group cedants. The company's operating profit for the first quarter was EUR 4 (3) million, of which a significant portion will be reallocated to the ceding business segments. Thus, approximately EUR 1 (1) million of its earnings remained in the Corporate Operations segment in the first quarter of 2012.

Operating result

The operating result of the Corporate Operations segment improved in the first quarter of 2012 to –EUR 8 million, compared with –EUR 21 million in the same quarter of the previous year. The main reasons for this were a reduction in interest expense and higher fee income for Talanx AG: its contribution to the segment result amounted to –EUR 20 (–30) million.

The service companies Talanx Service AG and Talanx Systeme AG essentially do not contribute to earnings as they operate on a cost reimbursement basis by agreement.

Assets and financial position

Assets

The balance sheet structure of the Talanx Group is shaped by its nature as a diversified insurance group and its activities as a large, globally operating insurance group. The predominant item on the assets side are investments, which – without taking into account funds withheld by ceding companies (EUR 11.8 billion) – accounted for 65% of total assets. They serve first and foremost as security for provisions constituted in insurance business, which – excluding provisions in the area of life insurance insofar as the investment risk is borne by policyholders – totalled EUR 89.9 billion. The most important sources of funding also include shareholders' equity (8% of the balance sheet total) and issued subordinated debt (2% of the balance sheet total).

Amount and composition of assets

The Group's assets 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	**31.3.2012**		**31.12.2011**	
	In EUR million	*In %*	*In EUR million*	*In %*
Intangible assets	2,220	2	2,210	2
Investments	89,854	75	87,467	76
Investments for the account and risk of holders of life insurance policies	6,589	5	6,067	5
Reinsurance recoverables on technical provisions	6,729	6	6,462	6
Accounts receivable on insurance business	5,899	5	4,729	4
Deferred acquisition costs	4,140	3	4,013	3
Cash	1,396	1	1,570	1
Deferred tax assets	307	<1	320	<1
Other assets	1,813	2	1,865	2
Non-current assets and assets of disposal groups classified as held for sale	578	<1	565	1
Total assets	**119,525**	**100**	**115,268**	**100**

The substantial increase of EUR 4.2 billion in our total assets to EUR 119.5 billion can be attributed first and foremost to the marked growth in our investments (+EUR 2,387 million) and the considerable increase in accounts receivable on insurance business (+EUR 1,170 million). At the same time, growth of 9% was noted in investments for the account and risk of holders of life insurance policies compared with the same period of the previous year. No significant compensatory effects were recorded in the period under review. More detailed explanations of the investments are provided below under "Notes on the individual items of the consolidated balance sheet".

In addition to the planned sale of the Group company ASPECTA Assurance International AG, Vaduz, Lichtenstein (Retail International segment), the planned transfers of portfolios of PB Pensionskasse AG, Cologne (Retail Germany segment) and HDI Seguros S. A. de C. V., León, Mexico (Retail International segment) are reported under the item "Non-current assets and assets of disposal groups classified as held for sale". We have also recognised a real estate portfolio of HDI-Gerling Lebensversicherung AG, Cologne, neue leben Lebensversicherung, Hamburg (both in the Retail Germany segment), HDI-Gerling Industrie Versicherung AG, Hannover (Industrial Lines segment), and E+S Rückversicherung AG (Non-Life Reinsurance segment) separately as assets held for sale. All transactions are discussed in section VI of the Notes entitled "Non-current assets held for sale and disposal groups".

Movements in investments

Breakdown of the investment portfolio	31.3.2012	31.12.2011
Figures in EUR million		
Funds withheld by ceding companies	11,790	11,717
Assets under own management	78,064	75,750
Total	**89,854**	**87,467**

In the first quarter of the 2012 financial year, the total investment portfolio grew by EUR 2.4 billion to reach EUR 89.9 billion. These increases can be attributed largely to reinvested ordinary income and cash inflows from underwriting business.

The exchange rate against the US dollar at the beginning of the year was 1.29 USD/EUR. At the end of the first quarter, the rate was higher than at the beginning of the year, at 1.33 USD, showing that the US dollar had depreciated against the euro.

Interest rates remained virtually constant in the first quarter compared with those at the beginning of the year. There was a marginal increase of about 3 basis points in the category of five-year government bonds as at 31 March 2012. Interest rates also remained at a constant low level for ten-year government bonds. The main category of funds for reinvestment is the asset category "Financial assets available for sale", which is recognised 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 0.8 billion was available from ordinary investment income for reinvestment.

The current equity allocation is 1% and thus remains unchanged in relation to the same period of the previous year, at a low level. Equity holdings were reduced significantly in 2011, owing to negative developments on the stock markets. The easing of the euro debt crisis resulted in a strong start to the first quarter of 2012. The EURO STOXX 50 gained 7% compared with the beginning of the year to 2,477 points, while the DAX added 18% to 6,947 points. However, we have not carried out any significant transactions since the start 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 (+13%). In compliance with all legal requirements and internal Group guidelines, the diversification of the investment portfolio as at 31 March 2012 is similar to that at year-end 2011.

Breakdown of the investment portfolio	31.3.2012	31.12.2011
In %		
Fixed-income securities	77	78
Equities and other variable-yield securities	1	1
Funds withheld by ceding companies	13	13
Real estate	2	2
Other	7	6
Total	**100**	**100**

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

Fixed-income securities

Interest rates were constant for all maturities in the first quarter of 2012. Provision of significant liquidity by central banks alleviated uncertainty regarding refinancing and liquidity, thus leading to lower spreads for financials. However, spreads remain at historically high levels. The same trend was also observed with corporates.

Compared with German government bonds, the current performance of government bonds from countries on the Eurozone periphery is very mixed. Further developments in Italy will have a determining influence on the development of the Eurozone. Spanish banks still harbour risks. In Belgium, there are signs that the new government is making a good start. In the Republic of Ireland, the cost-cutting programme has been implemented; yields are stable, although there is still a risk of contagion. A cost-cutting programme is also planned in Portugal, still with no business model for the future. Greece continues to harbour major risks for the Eurozone.

Breakdown of the assets under own management by asset class	31.3.2012		31.12.2011	
	In EUR million	*In %*	*In EUR million*	*In %*
Investment property	1,219	2	1,100	2
Investments in affiliated companies and participations	89	<1	78	<1
Investments in associated companies	209	<1	209	<1
Loans and receivables				
Loans incl. mortgage loans	1,246	2	1,291	2
Loans and receivables due from governmental or quasi-governmental entities, as well as fixed-income securities	31,137	40	31,670	42
Financial assets held to maturity	4,122	5	4,294	6
Financial assets available for sale				
Fixed-income securities	33,097	42	31,009	41
Variable-yield securities	1,242	2	1,132	2
Financial assets at fair value through profit or loss				
Financial assets classified at fair value through profit or loss				
Fixed-income securities	979	1	856	1
Variable-yield securities	42	<1	16	<1
Financial assets – trading				
Fixed-income securities	10	<1	5	<1
Variable-yield securities	93	<1	70	<1
Derivatives [1)]	100	<1	53	<1
Other invested assets	4,479	6	3,967	4
Total investments under own management	**78,064**	**100**	**75,750**	**100**

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

In the light of risk considerations, we sold the Greek government bonds in our portfolio in 2011 with the exception of a small residual holding. This residual holding was written down to its current market value in the third quarter of 2011. The write-downs in the first quarter of 2012 therefore amount to only around EUR 64,000 for the Group as a whole. Holdings of Italian and Spanish government bonds were reduced in the first quarter. Despite the reduction, the market values have risen overall as spreads have fallen.

The investment exposure (government bonds) of the Talanx Group to countries on the Eurozone periphery – the so-called GIIPS states – amounts to EUR 1.1 billion at market values. Italy accounts for EUR 632 million of this sum (of which our Group company HDI Assicurazioni S. p. A. accounts for EUR 395 million), Spain EUR 254 million, Ireland EUR 217 million, Portugal EUR 25 million and Greece EUR 3 million.

The bulk of the Talanx Group's portfolio of assets under own management is comprised of investments in fixed-income securities and loans. Total holdings of this asset class grew by EUR 1.5 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 33.1 billion and 50% of the total holding of this asset class. Valuation reserves – i.e. the balance of unrealised gains and losses – rose from EUR 0.5 billion to EUR 1.2 billion despite the fact that interest rates had remained constant since year-end 2011. Along with the category of "Financial assets available for sale", the Talanx Group is fundamentally standing by its strategy of making new investments in the category of "Loans and receivables" in order to reduce balance sheet volatility. In the first three months of 2012, however, a reduction was seen in assets under the item "Loans and receivables". There was a drop of –EUR 0.6 billion to EUR 32.4 billion (47% of the total portfolio). The reserves here rose to EUR 2.6 billion, compared with EUR 2.3 billion at year-end 2011.

The focus of investments in fixed-income securities continues to be government bonds with a good rating or instruments of similarly sound issuers. After rating downgrades led in the last financial year to a reduction in the proportion of AAA-rated holdings, no major downgrades were observed in the first three months of the year under review. As a result, holdings of AAA-rated bonds stood at EUR 25.1 billion at the end of March 2012, accounting for 36% of the total portfolio of fixed-income securities and loans.

Investments in corporate bonds grew to EUR 20.8 billion, accounting for 31% of fixed-income securities. A further 34% is attributable to covered bonds, with a total volume of EUR 22.8 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 6.5 years as at 31 March 2012.

With an eye to matching currency coverage, investments in US dollars continue to account for the largest share (14%) of the foreign currency portfolio within the Talanx Group. The total proportion held in foreign currencies as at the end of the first quarter of 2012 remained virtually unchanged.

Rating of fixed-income securities	**31.3. 2012**	**31.12.2011**
In %		
AAA	36	38
AA	28	28
A	20	20
BBB or less	16	14

The Talanx Group continues to pursue a conservative investment policy. Of instruments in the asset class of fixed-income securities, at least 84% have an A rating.

Equities and equity funds

Overall, the portfolio of equities and equity funds grew from EUR 0.9 billion as at 31 December 2011 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 at a low level.

The net balance of unrealised gains and losses on holdings within the Group (excluding other invested assets) amounted to +EUR 219 million as at the end of March 2011 (31 December 2011: +EUR 129 million).

Real estate including shares in real estate funds

Investment property amounted to EUR 1.2 billion as at the balance sheet date. An additional EUR 337 million is held in real estate funds, which are recognised under the "Financial assets available for sale" category. Scheduled depreciation of EUR 6 million was taken on investment property in the period under review, along with impairments of EUR 1 million. There were virtually no write-ups to offset these write-downs in the period under review.

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

Net investment income

Development of net investment income	31.3.2012	31.3.2011 [1)]
Figures in EUR million		
Ordinary investment income	761	698
thereof current income from interest	720	660
thereof profit/loss from shares in associated companies	1	2
Realised net gains on investments	61	45
Write-ups/write-downs on investments	–13	–13
Unrealised net gains/losses on investments	114	68
Investment expenses	36	31
Income from investments under own management	**887**	**767**
Interest income on funds withheld and contract deposits	**74**	**68**
Total	**961**	**835**

[1)] Expenses for the management of non-Group investments have been recognised under "Other expenses" since 2011. 2011 has been adjusted accordingly (EUR 18 million)

Income from investments under own management exceeded the previous year's level by EUR 120 million. The key drivers of income were an increase in ordinary investment income (+EUR 63 million), a higher unrealised net gain and an improvement in the net gain on disposal, while there was a slight rise in investment expenses. Of the increase in the unrealised net gain (+EUR 46 million to EUR 114 million), EUR 84 million can be attributed to the two reinsurance segments alone. 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 unrealised gains of EUR 42 million, which were recognised in income. Moreover, unrealised gains of technical derivatives recognised for credit risk of special life insurance contracts (ModCo) rose by EUR 37 million (Life/Health Reinsurance segment). The net gain from write-ups/write-downs remained constant in relation to 2011 (EUR 13 [13] million); a reduction in impairment on real estate and equities in the Retail Germany segment and on fixed-income securities in non-life reinsurance was offset by a decline in income from write-ups.

The rise in ordinary investment income can be attributed in particular to the enlarged total portfolio of fixed-income assets, with the average coupon remaining virtually identical.

For our assets under own management, the annualised net return on investment (including the effects of derivatives)* was 4.6%.

Net investment income is shown below broken down into Group segments.

Breakdown of net investment income by Group segments [1]	31.3.2012	31.3.2011 [2]
Figures in EUR million		
Industrial Lines	57	51
Retail Germany	396	359
Retail International	77	43
Non-Life Reinsurance	266	266
Life/Health Reinsurance	176	126
Corporate Operations	–11	–10
Total	**961**	**835**

[1] Presentation after elimination of intra-Group relations
[2] Expenses for the management of non-Group investments have been recognised under "Other expenses" since 2011. 2011 has been adjusted accordingly (EUR 18 million)

* Annualised net investment income without interest income on funds withheld and contract deposits relative to average investments under own management (31.3. and 31.12.)

Off-balance sheet financing instruments

The Talanx Group enters into various commitments. Of material significance to the assessment of its assets are letters of credit and trust accounts put up as security for technical liabilities (EUR 6,604 million), guarantee payments under issued subordinated bonds (EUR 1,958 million), blocked custody accounts and other trust accounts (EUR 2,145 million), outstanding commitments and collateral furnished under existing capital participations (EUR 1,102 million) and financial commitments arising from planned company acquisitions (EUR 758 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. 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	31.3.2012		31.12.2011	
	In EUR million	*In %*	*In EUR million*	*In %*
Shareholders' equity	9,324	8	8,706	8
Subordinated liabilities	2,614	2	2,615	2
Technical provisions – gross	85,711	72	83,100	72
Technical provisions in the area of life insurance insofar as the investment risk is borne by policyholders	6,589	6	6,067	5
Other provisions	2,585	2	2,589	2
Liabilities	10,571	9	10,212	9
Provisions for deferred taxes	1,628	1	1,488	1
Debts of disposal groups classified as held for sale	503	<1	491	1
Total liabilities	**119,525**	**100**	**115,268**	**100**

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, internationally operating insurers normally receive payments and pay claims in their respective national currencies. This means that assets to cover liabilities are also held in foreign currencies (matching currency coverage). For the purposes of the consolidated financial statement, relevant national currencies are presented in the Notes under "Accounting policies – Currency translation".

Development of major items

In the period just ended, the shareholders' equity increased significantly by EUR 618 million – or 7% – to EUR 9,324 (8,706) million. The Group's share amounted to EUR 5,870 (5,421) million.

With effect from 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".

The volume of subordinated liabilities fell very slightly by EUR 1 million owing to a repurchase. The features are described in the remarks on item 7 of the Notes "Subordinated liabilities".

In addition, a line of credit with a volume of nominally EUR 1.5 billion is available to Talanx AG, of which – as in the previous period – an amount of EUR 550 million was utilised. The available floating-rate loan matures at the latest on 31 July 2012. Furthermore, on 13 July 2011 and 21 December 2011 Talanx AG concluded agreements on two syndicated variable-interest credit lines in the amounts of EUR 500 million and EUR 650 million, respectively, each with a term of five years. In an additional agreement on 30 March 2012, the credit line of EUR 650 million was increased by a further EUR 50 million to EUR 700 million. These are follow-on funding agreements that come into effect only when the existing credit line matures or is cancelled or when the new credit line is paid out.

With respect to further loan agreements and letters of credit, please see the presentation of off-balance sheet financial instruments and the explanatory remarks in the Notes.

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

	31.3.2012	31.12.2011
Figures in EUR billion		
Unearned premium reserve	5.6	4.3
Benefit reserve	45.0	44.7
Loss and loss adjustment expense reserve	26.8	26.5
Provision for premium refunds	1.5	1.0
Other technical provisions	0.3	0.3
Total	**79.2**	**76.8**

Liabilities to policyholders must 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 withheld by ceding companies – stood at 88%, as in the previous period. The provisions thus include surplus coverage in the amount of EUR 10.7 (10.7) billion.

Shareholders' equity

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

The Group net income apportionable to shareholders of Talanx AG increased significantly by 174% to EUR 211 (77) million and was allocated in full to retained earnings.

"Cumulative other comprehensive income and other reserves" increased substantially by 69% compared to the consolidated financial statement as at 31 December 2011, to EUR 581 million. The main reasons for this growth were non-realised gains/losses on investments, which increased by EUR 568 million to EUR 984 million. This was due above all to narrowing spreads since the beginning of the year, which has led to an increase in the value shown on the balance sheet for our fixed-income securities in the category "Financial assets available for sale".In contrast, there was a significant decline in other changes in shareholders' equity (–EUR 366 million), which essentially comprised policyholder participation/ shadow accounting for non-realised gains/losses. Measurement gains from cash flow hedges (EUR 41 million) also had a positive impact on this development. Equity generated by the hedging of interest rate risks for future transactions increased, largely owing to changes in interest rates. Reserves from currency translation fell, which was above all due to the depreciation of the US dollar.

Non-controlling interests in shareholders' equity increased by EUR 169 million – or 5% – to EUR 3,454 million. The non-controlling interest share in net income amounted to EUR 146 (55) million. On the other hand, dividends paid to non-Group shareholders reduced the shareholders' equity – principally from the Hannover Re Group in the amount of EUR 52 million.

Changes in shareholders' equity

	31.3.2012	31.12.2011
Figures in EUR million		
Common shares	260	260
Additional paid-in capital	630	630
Retained earnings	4,399	4,188
Cumulative other comprehensive income and other reserves	581	343
Group shareholders' equity	**5,870**	**5,421**
Non-controlling interests in shareholders' equity	3,454	3,285
Total	**9,324**	**8,706**

Shareholders' equity by segments[1] including non-controlling interests	31.3.2012	31.12.2011
Figures in EUR million		
Segment		
Industrial Lines	1,797	1,683
thereof non-controlling interests	—	—
Retail Germany	2,484	2,417
thereof non-controlling interests	21	23
Retail International	773	709
thereof non-controlling interests	8	7
Reinsurance	5,958	5,595
thereof non-controlling interests	3,709	3,295
Corporate Operations	−1,694	−1,702
thereof non-controlling interests	—	—
Consolidation	6	4
thereof non-controlling interests	−284	−40
Total shareholders' equity	**9,324**	**8,706**
Group shareholders' equity	5,870	5,421
Non-controlling interest in shareholders' equity	3,454	3,285

[1] The shareholders' equity per segment is defined as the difference between the assets and liabilities of each segment

Note: For simplicity's sake, non-controlling interests in equity for the reinsurance business sector are derived from Group non-controlling interests in the Hannover Re Group; for this purpose, the two reinsurance segments are combined.

The Corporate Operations segment has posted a negative value that reflects the debt leverage of Talanx AG. As the Group's holding company, Talanx AG performs a financing function for the Group in the primary insurance sector and for the companies in corporate operations. The liabilities concerned are mainly retirement pension provisions in the amount of EUR 753 (753) million, subordinated liabilities of EUR 300 (300) million and loans in the amount of EUR 559 (559) million. These liabilities are offset on Talanx AG's balance sheet by the value of its participations in its subsidiaries, which are consolidated against the pro-rata equity of the subsidiaries in the consolidated financial statements.

The balance in the consolidation column is essentially the result of differences in the valuation of receivables from life reinsurance and liabilities under life primary insurance policies. These differences are unavoidable due to mandatory application of different accounting standards for primary insurance and reinsurance.

The increase in non-controlling interests in the consolidation column is due to the fact that the parent company of Hannover Reinsurance (Ireland) PLC (until 2011: Hannover Rück Beteiligung Verwaltungs-GmbH) is no longer assigned to the Non-Life Reinsurance segment; the new parent company (from 2012: Hannover Life Reassurance [Ireland] PLC) is reported in the Life/Health Reinsurance segment. From a technical viewpoint, consolidation therefore no longer takes place in the reinsurance segments, but instead in the consolidation column (intersegment consolidation). This development is offset by the increase in non-controlling interests in the two reinsurance segments.

Liquidity and financing

We generate liquidity primarily from our operational insurance and reinsurance business, from current income on our investments and from financing measures. Regular liquidity planning and an investment strategy aligned with liquidity requirements ensure that the Talanx Group is able to meet its payment obligations at all times. Accordingly, no liquidity shortages were experienced.

Analysis of the consolidated cash flow statement

We have published the entire cash flow in the cash flow statement in the Notes; it can be summarised as follows.

	1.1.–31.3. 2012	1.1.–31.3. 2011[1]
Figures in EUR million		
Cash flow from ongoing operative activities	2,100	1,561
Cash flow from investment activities	−2,170	−1,119
Cash flow from financial activities	−106	−241
Change in cash and cash equivalents	−176	201

[1] Adjusted on the basis of IAS 8, see section "Accounting policies", subsection "Changes in accounting policies and accounting errors" in the Notes

Cash flow from operating activities, which also includes inflows from the investment income generated, increased in comparison with the same period of the previous year to EUR 2,100 (1,561) million. The calculation adjusts the net income of EUR 357 (132) million in the consolidated cash flow statement to allow for the increase in the technical provisions (net perspective) (EUR 2.2 billion). The increase of EUR 539 million in the cash flow from ongoing operative activities is therefore almost entirely attributable to the change in other non-cash expenses and income (+EUR 516 million), which is essentially due to the change in technical provisions in life insurance, insofar as the investment risk is borne by policyholders.

Cash outflow from investment activities is determined by payments made in purchasing 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 904 million, compared with EUR 4 million in the first quarter of 2011. In addition, the cash outflows are driven by payments for other invested assets (–EUR 612 million) and changes in investments for the account and risk of holders of life insurance policies (–EUR 516 million) – the latter are closely linked to the development of the corresponding liability item in the cash flow from operating activities. They increased on balance by EUR 34 million to –EUR 1,128 million. Furthermore, the acquisition of Metropolitana Compañía de Seguros, Mexico City, Mexico, led to a cash outflow in the reporting period of EUR 72 million, taking into account the funds received from the company. Please see our remarks in section V “Business combinations in the period under review”. An outflow of EUR 4 million was recorded in the period under review in connection with the sale of consolidated companies.

Cash outflow from financing activities in the period under review was shaped by the dividend paid in an amount of EUR 52 (36) million and the net changes in other financing activities amounting to –EUR 51 million, as against –EUR 205 million in the corresponding period of the previous year. Other financing activities were affected in the period under review by interest payments in the amount of EUR 41 (42) million. The corresponding period of the previous year also included the repayment of the subordinated debt called by Hannover Finance (Luxembourg) S. A. (nominal value EUR 138 million).

In the first quarter of 2012, cash and cash equivalents decreased in net terms by EUR 174 million to EUR 1.4 billion (compared with 31 December 2011). An amount of EUR 14 million was deducted from 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 (section VI).

Risk report

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

Deriving from our corporate strategy, our risk strategy formulates the objectives and structures of our risk management. Our acceptance of risks is governed by the guidelines and decisions of the Board of Management concerning the Group's risk budget. Our risk strategy is a stand-alone set of rules that provides the foundation for Group-wide risk management. Our risk strategy, in conjunction with value-oriented steering, is an integral component of our entrepreneurial activities and is reflected in the detailed strategies of the various divisions.

As an internationally operating insurance and financial services group, we consciously enter into a wide range of risks that are indivisibly bound up with our business activities. Both our corporate strategy and our risk strategy are subject to an established review process. Through this regular scrutiny and, if necessary, adjustment of the underlying assumptions, we seek to ensure that our strategic guidelines are appropriate at all times and hence that actions are based on adequate information.

The Talanx Group satisfies all currently applicable solvency requirements.

The interplay of the individual functions and bodies within the overall system is vital to an efficient risk management system. Talanx has defined the roles and responsibilities as follows.

Controlling elements	Key risk management tasks
Supervisory Board	■ 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	■ Overall responsibility for risk management ■ Defining the risk strategy ■ Responsible for proper functioning of risk management
Risk Committee	■ Risk-monitoring and coordinating body, charged especially with the following tasks: ▪ 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 a focus on risks that could threaten the Group's continued existence
Chief Risk Officer	■ Responsible for holistic risk monitoring across divisions (systematic identification and assessment, control/monitoring and reporting) of all risks that are material from the Group perspective
Central Risk Management	■ Group-wide, independent risk monitoring function ■ Methodological competence, inter alia for ▪ development of processes/methods for risk assessment, management and analysis ▪ risk limitation and reporting ▪ risk monitoring and quantifying the risk capital needed across the Group
Local Risk Management	■ Risk monitoring function in the divisions ■ Observance of the centrally defined guidelines, methods and processes, and systems of limits and thresholds that serve as a framework for local implementation, monitoring and reporting
Internal Auditing	■ Process-independent review of the functional areas of the Group

In addition to these (risk) functions and bodies, organisational structures have been set up to deal with special issues, e.g. task forces for managing contingencies and crises.

Risk reporting in the interim report focuses on material changes in the risk position that have occurred since the compilation of the Talanx Group Annual Report 2011. 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.

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 catalogue 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 modelling 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 prefinancing of cedants' new business acquisition costs	■ Use of secure biometric actuarial bases ■ Systematic monitoring of the MCEV

Risk category	Material risks	Major risk management measures
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
Operational risks		
	Across segments:	
	■ Risk of losses due to the failure of persons, systems or processes or on account of external events	■ 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	■ 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 stabilise 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	■ 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	■ 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 unfavourable public perception	■ Set communication channels ■ Professional approach to corporate communications ■ Tried and tested processes for defined crisis scenarios ■ Established Code of Conduct

In our assessment, the economic situation in Germany remains, if anything, robust and satisfactory. However, the global economy's weaker growth and doubts as to the long-term financial viability of some countries are fuelling forecasts of a slowdown. In the wake of the protracted stand-off between the US Administration and the opposition over national debt, the rating agency Standard & Poor's downgraded the creditworthiness of the United States from the top-level AAA to AA+ in 2011, at the same time assessing the outlook as "negative". This means that the USA could face a further downgrade within the next two years. The Moody's rating agency has marked the long-term credits of some large US banks down by one notch, as the probability of the Administration being able to provide support in a crisis was thought to be low.

Problems resulting from the Eurozone's sovereign debt crisis also remain unresolved. Greece, Ireland and Portugal are now having to refinance their debt via European and international bail-out funds. In Greece in particular, urgently needed consolidation of state-sector budgets is being impeded by the deep and persistent recession in conjunction with further increases in expenditure. The market value of the Talanx Group's holding of Greek government bonds on the balance sheet date of 31 March 2012 was EUR 3 million. The debt write-down legislation approved by the Greek Parliament in February 2012 created the risk for the Talanx Group of further write-downs on this issuer exposure. Given our very modest holding at the end of 2011, the write-downs required in the year under review will have only a minimal influence on the Group's net investment income. The rating agency Standard & Poor's downgraded the ratings of various European countries, including Italy, in the quarter under review and assessed the outlook as negative. As at 31 March 2012, the Talanx Group held government bonds with a market value of EUR 1,131 million from the GIIPS countries (including Italy at EUR 632 million, Spain at EUR 254 million, Ireland at EUR 217 million and Portugal at EUR 25 million, excluding unit-linked investments for the account and risk of holders of life insurance policies), which may give rise to rating-related impairments. Thanks to support measures at European level (the European "rescue package"), however, there is currently no elevated risk of default on the bonds – especially in the case of the GIIPS countries other than Greece.

On the international markets, the banking and economic crisis and the prospect of regulatory innovations are increasingly tending to drive supervisory authorities towards more exacting capital requirements. This trend could also affect some individual foreign Group subsidiaries and make it necessary to boost their capital.

No definite risks are as yet discernible that could have a significant negative impact on the assets, financial position or net income of the Talanx Group. Particularly with respect to the further development of the banking, economic and sovereign debt crisis, there is, however, considerable uncertainty as to whether the associated risks could take even more concrete form going forward and have a lasting impact on the assets, financial position or net income of the Talanx Group. Above all, the further unfolding of the crisis may also have lasting implications for the behaviour of policyholders. In this context, we should point out that, despite the active efforts of both European and German legislators to improve the regulatory framework for insurance groups, some important issues are still the subject of ongoing discussions and this means that there is uncertainty with regard to the legal framework that will govern our entrepreneurial activities in future and with regard to the charges associated with the implementation of this framework.

Forecast

The following remarks concerning the expected development of the Talanx Group and its member companies are based on well-founded assessments by external experts and on in-house plans and forecasts that we consider logically consistent. Nevertheless, they are our own subjective assessments, and by their nature are therefore uncertain. Although the underlying assumptions were arrived at with great diligence and to the best of our knowledge, the fundamental uncertainties applicable to all statements regarding the future, and particularly as regards future developments on the capital markets, natural catastrophes and the legal environment, make it impossible to rule out that actual events may diverge from the developments anticipated here. The uncertainties inherent in any forecasting have been aggravated still further by the global intermeshing of economic relations and capital markets. The effects of the financial and economic crisis will, in our opinion, continue to reverberate in the insurance industry.

Economic environment

The Eurozone's economy is likely to remain overshadowed by the sovereign debt crisis and we believe it is possible that it may also contract in the coming quarter. However, developments are very mixed. In particular, the countries on the Eurozone periphery that have opted for fiscal consolidation are struggling with negative growth effects. Spain will play a key part in overcoming the euro debt crisis, owing to its size and its importance within the Eurozone. The easing of the sovereign debt crisis is therefore likely to depend on Spain's further economic development and on how this is perceived on the market. Although the USA has recently been able to distance itself from the Eurozone to its own advantage, we expect it to implement a cost-cutting programme in the next few quarters, which is likely to have a negative impact on growth. Stronger economic growth in the US is also needed in order to bring about a lasting improvement in its labour market. Despite recent positive figures, economic activity in the USA remains well below its pre-crisis levels, while the housing market is still weak.

Ongoing expansive monetary policy should not in our view lead to a further increase in inflation rates in the year under review, as the liquidity provided by the central banks has not yet entered the real economy. Nevertheless, it is thought that the first signs of inflation are appearing in some asset classes. Developments remain tense in emerging markets, where the upturn has recently lost considerable momentum. However, growth rates are expected to remain high in future.

Capital markets

The fact that the debt problems in the EU are still unresolved despite Greek debt write-downs, continuing substantial challenges in the banking sector with regard to liquidity, equity and earnings and severely dampened expectations as regards the economy, mean that we can expect interest rates to remain low at least for the first half of 2012. At present, there are no fundamental reasons for an increase in interest rates. Following the decrease in interest rates in November and December, we believe that a further reduction of 25 basis points is possible in the Eurozone in the first half of the year. The USA has effectively committed itself to keeping base rates down for the next two years. The general situation will presumably stabilise only if the world's politicians manage to push through measures that are widely accepted and establish a playing field that restores lasting confidence among the market players.

With regard to issuing activity, demand for refinancing is likely to remain high even after the activity at the beginning of 2012, particularly in the government bond segment.

We expect the stock markets to move sideways in 2012 overall but with high volatility. Positive factors include profit expectations slowly returning to normal and fundamental valuations remaining low. However, the European sovereign debt crisis and weak economic environment are likely to lead to repeated setbacks on the markets in the coming months. Furthermore, stock markets may well continue to be controlled by a focus on short-term dealing.

Likely Group development

In view of the current uncertainty on the capital markets, it is naturally very difficult to make a profit forecast for the 2012 financial year. The current sovereign debt and financial market crisis is one of the main challenges in the short term. For the Talanx Group on a consolidated basis, we are striving for organic growth in gross booked premiums on a par with the improvement rates of the past two years. The Industrial Lines, Retail International and Reinsurance divisions are expected to play a major part in achieving this aim. Further contributions will be made by acquisitions such as the purchases of the Europa Group and Warta in Poland, which have already been announced and are expected to be concluded this year after the completion of the approval procedures.

Industrial Lines

HDI-Gerling Industrie Versicherung AG is one of the biggest insurers in Europe. Rising premium income and expanding international business underline its strong position among global competition. This allows us to anticipate further encouraging premium growth.

Domestically we are expecting long-term pressure on premiums as a result of essentially constant demand for cover in times of increasing insurance capacities. Building upon the good capital base of our Industrial Lines segment, one of our strategic aims is also to successively increase our retentions in the coming years.

The best opportunities for growth are, in our opinion, still to be found outside Germany. For this reason, we intend to reinforce our efforts to become a global player in 2012 and 2013. Europe-wide, we are striving to expand our industrial insurance business for local business, small and medium enterprises and international insurance programmes. Our target regions outside Europe continue to be Latin America, (South-) East Asia and the Arabian peninsula. We are well on the way thanks to the expansion of HDI Seguros Madrid into a hub for industrial insurance solutions in Latin America and our strategic partnership with PVI Holdings, the leading Vietnamese industrial insurer. The launch of our joint venture with Magma in India is scheduled for 2012. A new branch will open in Singapore, and we are also looking at setting up a presence on the Arabian peninsula.

Retail Germany

We are aiming for a slight increase in gross premium income in the Retail Germany segment for 2012. Due to our relatively high market penetration, we do not expect any major quantitative impact on premium growth in property insurance. Price levels on the market could improve slightly in motor insurance, which accounts for a high proportion of premium income in property.

This Group segment is set to undergo further structural changes. The aim here is to align our business processes and organisation with the wishes of our clients and sales partners in order to emerge as a particularly efficient and strongly client-focused insurer in Germany. Another focus in the next two years will be on eliminating cost disadvantages. A further step on the way to reducing complexity in the company and at the same time enhancing client focus is to bundle the property insurance product range in a single company. Accordingly, the plan is to merge the risk carriers HDI Direkt Versicherung AG and HDI-Gerling Firmen und Privat Versicherung AG in the second half of 2012; the merged company is to operate under the name HDI Versicherung AG.

Retail International

In our international retail business, we are pursuing a clear expansionary strategy with an emphasis on premium growth and adequate profitability. We are concentrating on the further build-up of business in our target regions of Latin America, Central and Eastern Europe and Turkey through both organic and inorganic growth. Investment in these regions is also at the centre of our collaboration with our strategic partner Meiji Yasuda. We want to continue to take advantage of market opportunities here in order to grow together internationally. A further focus of this segment is on optimising our activities in existing markets. We will consider acquisitions outside our target regions only if they generate added value clearly in excess of the parameters we have set as our benchmark.

We are expecting premium volume to grow in the international markets in which we operate in retail business. The purchase of the Polish insurers Europa Group and Warta will contribute additional premium income. In the Polish market, where up to now we have mainly transacted motor liability business, we will be the second-largest insurance group in terms of premium volume once the acquisitions have been concluded. The most dynamic driver of growth in international retail business up to now has been HDI Seguros in Brazil. We are expecting the upward trend in the Brazilian economy to continue and to work in favour of our local company in the future.

Non-Life Reinsurance

Market conditions in non-life reinsurance are very positive. The positive results of the renewals at the beginning of the year were confirmed in the contract renewals on 1 April 2012, and in some cases were even exceeded. For Japan in particular, the rate increases – following the rises seen last year – were once again substantial. Significant increases in rates were also noted in Korea. Likewise, rates rose in natural catastrophe business in the USA; in particular, substantial price increases were recorded for the programmes affected by the series of tornadoes. Overall, we believe that there is an opportunity to achieve additional good results in the coming mid-year renewals and expect the price increases to continue in the medium term. For 2012 as a whole, it should therefore be possible to increase gross premium income slightly in this Group segment.

Life/Health Reinsurance

Life/health reinsurance continues to offer attractive business opportunities, giving us a positive outlook for the 2012 financial year. This is based partly on demographic trends in industrial nations such as the USA, Japan, the UK, France and Germany. In a large proportion of these markets, demographic change is leading to a steady rise in demand for pension solutions and nursing care insurance products. On the other hand, a middle class with high purchasing power is growing in major emerging countries such as the People's Republic of China, India and Russia. Against this backdrop, the issue of financial security in old age is becoming increasingly important, which is reflected in growing demand for appropriate life insurance products. Moreover, the imminent introduction of Solvency II means that made-to-measure reinsurance solutions that will optimise solvency and ease the pressure on the equity base of primary insurers are increasing in importance. The current year could therefore offer us organic growth in gross premiums.

Corporate Operations

One of the most important key figures in this segment is the assets under own management. In line with our efforts to expand our insurance business, an increase in these is also intended, based on anticipated positive cash flow and new acquisitions in Poland. As a result of the ongoing sovereign debt and financial market crisis, however, there is still uncertainty as regards the future development of investments.

Our strategic partnership with the Austrian asset manager C-QUADRAT Investment AG, in which Talanx Asset Management GmbH holds a share of 25.1%, is to be further strengthened. One of the elements of this cooperation is an exchange of services between the partners along the lines of their respective skills profiles – especially AmpegaGerling's expertise in the management of annuity funds and C-QUADRAT's management of umbrella funds with an absolute-return profile. A further step in this partnership is the establishment, scheduled for the first half of 2012, of a joint venture that will be geared specifically towards institutional sales partners such as banks and savings banks, asset managers, family offices, umbrella fund managers, pension funds and professional associations, which will thus be able to open up new sales channels. Ampega C-QUADRAT Fondsmarketing GmbH, Frankfurt/Main, is to begin operating on 1 June 2012. The bundling of capacity will not only strengthen our sales, but will also make our range of funds considerably more attractive. Both companies will benefit from this, as will existing and potential customers.

Consolidated financial statements

Consolidated balance sheet of Talanx AG as at 31 March 2012

Assets	Notes			31.3.2012	31.12.2011
Figures in EUR million					
A. Intangible assets	1				
a. Goodwill			738		690
b. Other intangible assets			1,482		1,520
				2,220	**2,210**
B. Investments					
a. Investment property			1,219		1,100
b. Investments in affiliated companies and participating interests			89		78
c. Investments in associated companies			209		209
d. Loans and receivables	2		32,383		32,961
e. Other financial instruments					
i. Held to maturity	3	4,122			4,294
ii. Available for sale	4	34,339			32,141
iii. At fair value through profit or loss	5	1,224			1,000
f. Other invested assets		4,479			3,967
Investments under own management			**78,064**		**75,750**
g. Funds withheld by ceding companies			11,790		11,717
Investments				**89,854**	**87,467**
C. Investments for the account and risk of holders of life insurance policies				6,589	6,067
D. Reinsurance recoverables on technical provisions				6,729	6,462
E. Accounts receivable on insurance business				5,899	4,729
F. Deferred acquisition costs				4,140	4,013
G. Cash				1,396	1,570
H. Deferred tax assets				307	320
I. Other assets				1,813	1,865
J. Non-current assets and assets of disposal groups classified as held for sale				578	565
Total assets				**119,525**	**115,268**

Liabilities	Notes			31.3.2012	31.12.2011
Figures in EUR million					
A. Shareholders' equity	6				
a. Common shares		260			260
Nominal value: 260 Contingent capital: 26					
b. Reserves		5,610			5,161
Shareholders' equity excluding non-controlling interests			**5,870**		**5,421**
c. Non-controlling interests			3,454		3,285
Total shareholders' equity				**9,324**	**8,706**
B. Subordinated liabilities	7		2,614		2,615
C. Technical provisions	8				
a. Unearned premium reserve		6,387			4,677
b. Benefit reserve		45,986			45,739
c. Loss and loss adjustment expense reserve		31,610			31,420
d. Provision for premium refunds		1,468			1,008
e. Other technical provisions		260			256
			85,711		**83,100**
D. Technical provisions in the area of life insurance insofar as the investment risk is borne by policyholders			6,589		6,067
E. Other provisions					
a. Provisions for pensions		1,349			1,343
b. Provisions for taxes		584			557
c. Sundry provisions		652			689
			2,585		**2,589**
F. Liabilities					
a. Notes payable and loans		747			762
b. Funds withheld under reinsurance treaties		5,109			5,039
c. Other liabilities		4,715			4,411
			10,571		**10,212**
G. Deferred tax liabilities			1,628		1,488
Total liabilities/provisions				**109,698**	**106,071**
H. Liabilities of disposal groups classified as held for sale				503	491
Total liabilities				**119,525**	**115,268**

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

Consolidated statement of income of Talanx AG
for the period from 1 January to 31 March 2012

	Notes	1.1.–31.3.2012	1.1.–31.3.2011[1)]
Figures in EUR million			
1. Gross written premium including premium from unit-linked life and annuity insurance		7,605	7,039
2. Savings elements of premium from unit-linked life and annuity insurance		251	308
3. Ceded written premium		1,090	959
4. Change in gross unearned premium		–1,695	–1,527
5. Change in ceded unearned premium		–396	–402
Net premium earned	9	**4,965**	**4,647**
6. Claims and claims expenses (gross)		4,668	5,050
Reinsurers' share		559	788
Claims and claims expenses (net)	12	**4,109**	**4,262**
7. Acquisition costs and administrative expenses (gross)		1,210	1,082
Reinsurers' share		112	94
Acquisition costs and administrative expenses (net)	13	**1,098**	**988**
8. Other technical income		14	14
Other technical expenses		59	75
Other technical result		**–45**	**–61**
Net technical result		**–287**	**–664**
9. a. Income from investments		994	950
b. Expenses for investments		107	183
Net income from investments under own management		**887**	**767**
Income/expense on funds withheld and contract deposits		74	68
Net investment income	10/11	**961**	**835**
thereof attributable to profit/loss from investments in associated companies using the equity method		1	2
10. a. Other income		146	243
b. Other expenses		274	268
Other income/expenses	14	**–128**	**–25**
Profit before goodwill impairments		**546**	**146**
11. Goodwill impairments		—	—
Operating profit/loss (EBIT)		**546**	**146**
12. Financing costs		41	42
13. Taxes on income		148	–28
Net income		**357**	**132**
thereof attributable to non-controlling interests		146	55
thereof attributable to shareholders of Talanx AG		211	77
Earnings per share			
Basic earnings per share (in EUR)		811.23	297.25
Diluted earnings per share (in EUR)		811.23	297.25

1) Adjusted on the basis of IAS 8, see section "Accounting policies", subsection "Changes in accounting policies and accounting errors" of the Notes

The following 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 31 March 2012

	1.1.–31.3.2012	1.1.–31.3.2011
Figures in EUR million		
Net income	**357**	**132**
1. Unrealised gains and losses on investments		
Gains (losses) recognised directly in other income/expenses during the period	883	–179
Reclassification of net realised gain (loss)	–53	2
Tax income (expense)	–140	34
	690	**–143**
2. Currency translation		
Gains (losses) recognised directly in other income/expenses during the period	–36	–172
Reclassification of net realised gain (loss)	—	—
Tax income (expense)	8	14
	–28	**–158**
3. Changes from cash flow hedges		
Gains (losses) recognised directly in other income/expenses during the period	50	7
Reclassification of net realised gain (loss)	—	—
Tax income (expense)	–4	–7
	46	**—**
4. Changes in policyholder participation/shadow accounting		
Gains (losses) recognised directly in other income/expenses during the period	–416	71
Reclassification of net realised gain (loss)	—	—
Tax income (expense)	18	–4
	–398	**67**
5. Changes from the equity measurement of associated companies		
Gains (losses) recognised directly in other income/expenses during the period	—	—
Reclassification of net realised gain (loss)	—	—
Tax income (expense)	—	—
	—	**—**
6. Other changes		
Gains (losses) recognised directly in other income/expenses during the period	9	–6
Reclassification of net realised gain (loss)	—	—
Tax income (expense)	–3	1
	6	**–5**
Income and expense after taxes recognised in other income/expenses during the period	**316**	**–239**
Total recognised income and expense during the period	**673**	**–107**
thereof attributable to non-controlling interests	224	–61
thereof attributable to shareholders of Talanx AG	449	–46

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

Consolidated statement of changes in shareholders' equity

				Cumulative other comprehensive income (other reserves)						
	Common shares	Additional paid-in capital	Retained earnings	Unrealised gains/ losses on invest-ments	Gains/ losses from currency translation	Other changes in share-holders' equity	Measure-ment gains and losses from cash flow hedges	Equity attribut-able to share-holders of Talanx AG	Non-controlling interests	Total share-holders' equity
Figures in EUR million										
As at 31.12.2010	**260**	**630**	**3,678**	**522**	**4**	**–15**	**–123**	**4,956**	**3,035**	**7,991**
Adjusted on the basis of IAS 8 [1]	—	—	–10	—	–1	—	—	–11	—	–11
As at 31.12.2010	**260**	**630**	**3,668**	**522**	**3**	**–15**	**–123**	**4,945**	**3,035**	**7,980**
As at 1.1.2011	**260**	**630**	**3,668**	**522**	**3**	**–15**	**–123**	**4,945**	**3,035**	**7,980**
Result for the period	—	—	77	—	—	—	—	77	55	132
Income and expenses recognised in other income/ expenses	—	—	—	–82	–94	53	—	–123	–116	–239
thereof attributable to currency translation	—	—	—	—	*–94*	—	—	*–94*	*–64*	*–158*
thereof attributable to unrealised gains and losses on investments	—	—	—	*–82*	—	—	—	*–82*	*–61*	*–143*
thereof attributable to change from cash flow hedges	—	—	—	—	—	—	—	—	—	—
thereof attributable to change from equity measurement	—	—	—	—	—	—	—	—	—	—
thereof attributable to sundry changes [2]	—	—	—	—	—	*53*	—	*53*	*9*	*62*
Investments including income and expenses	—	—	77	–82	–94	53	—	–46	–61	–107
Dividends paid to shareholders	—	—	—	—	—	—	—	—	–36	–36
As at 31.3.2011 [1]	**260**	**630**	**3,745**	**440**	**–91**	**38**	**–123**	**4,899**	**2,938**	**7,837**
As at 1.1.2012	**260**	**630**	**4,188**	**416**	**46**	**–59**	**–60**	**5,421**	**3,285**	**8,706**
Result for the period	—	—	211	—	—	—	—	211	146	357
Income and expenses recognised in other income/ expenses	—	—	—	568	–5	–366	41	238	78	316
thereof attributable to currency translation	—	—	—	—	*–5*	—	—	*–5*	*–23*	*–28*
thereof attributable to unrealised gains and losses on investments	—	—	—	*568*	—	—	—	*568*	*122*	*690*
thereof attributable to change from cash flow hedges	—	—	—	—	—	—	*41*	*41*	*5*	*46*
thereof attributable to change from equity measurement	—	—	—	—	—	—	—	—	—	—
thereof attributable to sundry changes [2]	—	—	—	—	—	*–366*	—	*–366*	*–26*	*–392*
Investments including income and expenses	—	—	211	568	–5	–366	41	449	224	673
Dividends paid to shareholders	—	—	—	—	—	—	—	—	–52	–52
Capital reduction	—	—	—	—	—	—	—	—	–3	–3
As at 31.3.2012	**260**	**630**	**4,399**	**984**	**41**	**–425**	**–19**	**5,870**	**3,454**	**9,324**

[1] Adjusted on the basis of IAS 8, see section "Accounting policies", subsection "Changes in accounting policies and accounting errors" of the Notes
[2] The sundry changes consist of the policyholder participation/shadow accounting as well as other changes

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

Consolidated cash flow statement of Talanx AG
for the period from 1 January to 31 March 2012

Figures in EUR million	1.1.–31.3.2012	1.1.–31.3.2011[1]
I. 1. Net income	357	132
I. 2. Changes in technical provisions	2,155	2,483
I. 3. Changes in deferred acquisition costs	–145	–226
I. 4. Changes in funds withheld and in accounts receivable and payable	–1,020	–1,070
I. 5. Changes in other receivables and liabilities	369	353
I. 6. Changes in financial assets held for trading	–45	–14
I. 7. Net gains and losses on investments	–62	–72
I. 8. Other non-cash expenses and income	491	–25
I. Cash flows from operating activities	**2,100**	**1,561**
II. 1. Cash inflow/outflow from the sale of consolidated companies	–4	—
II. 2. Cash inflow/outflow from the purchase of consolidated companies	–72	—
II. 3. Cash inflow from the sale of real estate	11	11
II. 4. Cash outflow from the purchase of real estate	–19	–26
II. 5. Cash inflow from the sale and maturity of financial instruments	5,364	5,204
II. 6. Cash outflow from the purchase of financial instruments	–6,268	–5,200
II. 7. Changes in investments for the account and risk of holders of life insurance policies	–516	–15
II. 8. Changes in other invested assets	–612	–1,079
II. 9. Cash outflows from the acquisition of tangible and intangible assets[2]	–55	–47
II. 10. Cash inflows from the sale of tangible and intangible assets[2]	1	33
II. Cash flows from investing activities	**–2,170**	**–1,119**
III. 1. Cash inflow from capital increases	—	—
III. 2. Cash outflow from capital reductions	–3	—
III. 3. Dividends paid	–52	–36
III. 4. Net changes from other financing activities	–51	–205
III. Cash flows from financing activities	**–106**	**–241**
Change in cash and cash equivalents (I.+II.+III.)	**–176**	**201**
Cash and cash equivalents at the beginning of the financial year	**1,599**	**1,290**
Cash and cash equivalents – exchange-rate differences on cash	**–12**	**–26**
Cash and cash equivalents of companies no longer recognised in the consolidated financial statement	**–1**	**—**
Cash and cash equivalents at the end of the financial year	**1,410**	**1,465**
Cash and cash equivalents of disposal groups	**14**	**21**
Cash and cash equivalents at the end of the financial year excluding disposal groups	**1,396**	**1,444**
Additional information		
Taxes paid	86	—
Interest paid	122	102
thereof attributable to financing activities	41	42
thereof attributable to operating activities	81	60

[1] Adjusted on the basis of IAS 8, see section "Accounting policies", subsection "Changes in accounting policies and accounting errors" of the Notes
[2] Since 2011 we have been reporting cash inflows and outflows from the sale and acquisition of tangible and intangible assets separately in accordance with DRS 2-20; the previous year has been adjusted accordingly

The following 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 reporting period 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 precisely by DRS 2-20 for insurance enterprises.

Following the recommendations of DRS 5-20 for insurance companies 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 reported separately 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 recognised here.

Income taxes paid are allocated to the cash flows from operating activities (IAS 7.35). In the reporting period, interest received amounted to EUR 782 million; dividends received amounted to EUR 9 million.

Cash outflows for the acquisition of companies totalled EUR 77 million. As part of these purchases, cash and cash equivalents totalling EUR 5 million were acquired; making allowance for these net cash outflows amounted to EUR 72 million. In the context of disposals, an inflow of EUR 4 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

Talanx AG is a wholly owned subsidiary of HDI Haftpflichtverband der Deutschen Industrie V. a. G. (HDI V. a. G.) and is the parent company for all Group companies belonging to HDI V. a. G. 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 31 March 2012 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 statement, 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 select explanatory notes, reflects in particular the requirements of IAS 34 "Interim Financial Reporting".

We have observed all new or revised IFRS whose application is mandatory as at 31 March 2012, as well as the interpretations thereof issued by the IFRS Interpretations Committee (IFRS IC, formerly known as the International Financial Reporting Interpretation Committee [IFRIC]) and the previous Standing Interpretations Committee (SIC) (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 2011.

In conformity with IAS 34.41, in our preparation of the consolidated quarterly financial statement we draw on estimates and assumptions to a greater extent than is the case with 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 did not arise. The tax expenditure (domestic income taxes, comparable taxes on income at foreign subsidiaries and changes in deferred taxes) is calculated during 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 during the 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 recognised 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

In October 2010, the IASB published amendments to IFRS 7 "Financial Instruments", which are applicable to financial years beginning on or after 1 July 2011. The amendments relate to information in connection with the transfer of financial assets. Special disclosures are now required for the following two categories: For transferred financial assets that are not derecognised in their entirety (e.g. with typical repo transactions), the entity must describe, inter alia, the nature of the relationship between the transferred assets and the associated liabilities, as well as the nature of the risks and rewards of ownership to which the entity is exposed. For certain transferred financial assets that are derecognised in their entirety (e.g. with the sale of receivables), the entity must disclose the nature and risk of any continuing involvement in the derecognised financial assets. The amendments were ratified by the EU on 22 November 2011. They had no effect on the consolidated financial statement during the reporting period.

In addition, the Group for the first time applied the rules of IAS 33 "Earnings per Share" for the reporting period, including prior-year figures. With respect to the required information, please see section IX "Other information", subsection "Earnings per share".

Standards, interpretation and changes to published standards, application of which was not yet mandatory in 2012 and which were not applied early by the Group

In December 2010 the IASB published amendments to IFRS 1 "First-time Adoption of International Financial Reporting Standards" concerning the abolition of fixed transition dates and the effects of severe hyperinflation. Reference to 1 January 2004 as the fixed date of transition was replaced by more general wording. In addition, this standard for the first time provides guidance for cases in which an entity was unable to comply with IFRSs for a period prior to the date of transition because its functional currency was subject to severe hyperinflation. The amendment is applicable to reporting years beginning on or after 1 July 2011. We do not expect these amendments, which are awaiting ratification by the EU and therefore are not yet being applied by the Group, to have any implications for the consolidated financial statement.

In December 2010 the IASB published amendments to IAS 12 "Income Taxes". 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, although it has yet to be ratified by the EU. As a result, the Group is not yet applying the amendments, which are not expected to have any implications for the consolidated financial statement.

In November 2009 the IASB published a new standard on the classification and measurement of financial instruments. IFRS 9 "Financial Instruments" is the first step in a three-phase project intended to replace IAS 39 "Financial Instruments: Recognition and Measurement". IFRS 9 introduces new provisions for classifying and measuring financial assets. This standard was expanded in October 2010 to include rules governing the accounting of financial liabilities and derecognition of financial instruments, the latter having been imported 1:1 from IAS 39. The Group has still to analyse the full implications of IFRS 9. It is already becoming clear, however, that the revised rules will have an influence, inter alia, on the accounting of financial assets within the Group. In addition, on 16 December 2011 the IASB published further amendments to IFRS 9 and IFRS 7 "Financial Instruments: Disclosures" under the heading "Mandatory effective date and transition disclosures". Accordingly, the mandatory effective date of IFRS 9 has been deferred to financial years beginning on or after 1 January 2015. Also in this context, the IASB incorporated in IFRS 7 detailed disclosures related to transition to IFRS 9. The standard and its amendments have still to be ratified by the EU.

On 12 May 2011 the IASB published three new and two revised standards governing consolidation, the accounting of investments in associated companies and joint ventures and the related disclosures in the notes.

IFRS 10 "Consolidated Financial Statements" replaces the regulations previously contained in IAS 27 "Consolidated and Separate Financial Statements" and SIC-12 "Consolidation – Special-purpose Entities"; it defines the principle of control as the universal basis for establishing the existence of a parent-subsidiary relationship. We are currently examining the implications of the new IFRS 10 for the consolidated financial statement.

In the future, the revised IAS 27 will contain only provisions on the accounting requirements for interests in subsidiaries, associated entities and joint ventures disclosed in the parent company's separate financial statement. Apart from several minor changes, the wording of the previous standard was retained.

IFRS 11 "Joint Arrangements" addresses the accounting requirements in cases where an entity shares management control over a joint venture or joint operation. The new standard replaces the pertinent regulations in IAS 31 "Interests in Joint Ventures" and SIC-13 "Jointly Controlled Entities – Non-Monetary Contributions by Venturers". According to IFRS 11, proportionate consolidation of the assets of a joint venture is no longer admissible, and the "equity method" must be applied in future in the event of classification as a joint venture. As things currently stand, the amendment affects us with regard to one case only (Credit Life International Services GmbH).

The revised IAS 28 "Investments in Associates" will be expanded to include rules governing accounting for investments in joint ventures. The "equity method" must be applied as standard in future.

The disclosure obligations in connection with the consolidation and accounting of interests in associated entities and joint ventures will in future be collated in IFRS 12 “Disclosure of Interests in Other Entities”. To some extent, the duties of disclosure in the new standard for subsidiaries, associated companies, joint arrangements, and all other participating interests extend far beyond what was previously the case, the aim being to provide users of financial statements with a clearer picture of the nature of the company’s interests in other entities and the effects on the assets, financial position and net income.

The provisions of IFRS 10, 11 and 12 and the amended IAS 27 and 28 are applicable to financial years beginning on or after 1 January 2013. All these standards have yet to be ratified by the EU. We are currently reviewing the implications of these amendments for the consolidated financial statement.

The IASB also published on 12 May 2011 its new IFRS 13 “Fair Value Measurement”, which standardises the definition of fair value and sets down a framework of applicable methods for measuring fair value. Fair value is defined as the price that would be received to sell an asset, the measurement of this price being based as far as possible on observable market parameters. In addition, the quality of the fair-value measurement is to be described by way of comprehensive explanatory and quantitative disclosures. We are currently examining the implications of the new IFRS 13, but we do not expect application to result in significant changes to our accounting practices. IFRS 13 is applicable to financial years beginning on or after 1 January 2013 and has yet to be ratified by the EU.

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

IAS 1 stipulates that in future, items in the Statement of Other Comprehensive Income must be disclosed separately according to whether or not they can be carried in the income statement through profit and loss. If certain items in Other Comprehensive Income are presented “before tax”, corresponding tax entries must be disclosed separately for each group featured in the Statement of Other Comprehensive Income. The amendments to IAS 1 are applicable to financial years beginning on or after 1 July 2012.

The key amendment to IAS 19 is the abolishment of the option available to companies to recognise future actuarial gains and losses either immediately (with no impact on profit and loss) under “Other Comprehensive Income” in their equity capital or on a deferred basis using the “corridor method”. Future actuarial gains and losses must now be accounted for fully under “Other Comprehensive Income” in equity capital, the corridor method no longer being admissible. Moreover, calculation of the net interest income from so-called plan assets will be determined based on the discount rate rather than on the expected rate of return. The stated objective of the amended standard is also to introduce far-reaching disclosure obligations. The Group currently uses the corridor method. Taking the discontinuation of the corridor method into account (already as at 1 January 2012), and with actuarial gains and losses thus being recognised directly in equity, the change would have resulted in a reduction in equity of EUR 53 million after deduction of deferred taxes and deferred premium refunds. Initial application of the amended IAS 19 is intended for financial years beginning on or after 1 January 2013.

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

The IASB has adapted the provisions governing the presentation of financial assets and liabilities and published changes on 16 December 2011 in the form of amendments to IAS 32 "Financial Instruments: Presentation" and IFRS 7 "Financial Instruments: Disclosures". The presentation requirements set down in IAS 32 were retained more or less in their entirety and were merely clarified by additional guidelines on application. The amendment is applicable retrospectively to financial years beginning on or after 1 January 2014. IFRS 7 contains new disclosure requirements with regard to specific netting arrangements. These requirements must be observed regardless of whether the netting arrangement actually resulted in offsetting of the relevant financial assets and liabilities. The amendment is applicable retrospectively to financial years beginning on or after 1 January 2013. We are currently reviewing the implications of these two amendments for the consolidated financial statement.

On 13 March 2012, the IASB published amendments to IFRS 1 "First-time Adoption of International Financial Reporting Standards". The amendments stipulate how first-time adopters of IFRSs are, on transition, to account for loans received from governments at a below market rate of interest. The EU has yet to ratify them. The amendments are mandatory for financial years beginning on or after 1 January 2013. We do not expect these amendments to have any implications for the consolidated financial statement.

II. Accounting policies

Changes in accounting policies and accounting errors

The adjustments described below relate solely to the changes made in accordance with the requirements of IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors" that had an effect on the figures contained in the consolidated quarterly report as at 31 March 2011. With respect to the specific adjustments, please therefore see the 2011 Annual Report (section: "Accounting policies", subsection: "Changes in accounting policies and accounting errors").

a) In the second quarter of 2011, we made a retrospective correction in the Retail International segment that concerned the recognition of deferred tax liabilities for taxable temporary differences in respect of goodwill. The differences related to an earlier company acquisition and were not attributable to the first-time recognition of goodwill. In the opening balance sheet as at 1 January 2011, deferred tax liabilities increased by EUR 11 million, while reserves decreased by the same amount, with EUR 10 million of that amount relating to retained earnings and EUR 1 million to "Other reserves" (cf. 2011 Annual Report, page 136, letter a).

b) With effect from 30 September 2011, the Group introduced uniform methods of recognising insurance-related intangible assets in respect of insurance companies acquired in previous years (PVFP) in the Retail Germany segment. As a result, the PVFP in favour of policyholders (balance sheet item: "Other intangible assets") was offset in the amount of the provision for deferred premium refunds (balance sheet item: "Provision for premium refunds") as measured and recognised upon initial consolidation. The amendment of this accounting policy, along with the associated adjustment of amortisation patterns, was applied retrospectively and had no effect on either Group net income or shareholders' equity in any of the preceding reporting periods. As at 31 March 2011, the balance sheet items "Other intangible assets" and "Provision for premium refunds" were reduced by a total of EUR 263 million compared with the amounts previously recognised. In the opening balance sheet as at 1 January 2011, each of these balance sheet items was reduced by EUR 268 million (cf. 2011 Annual Report, page 136, letter b).

c) In the fourth quarter of 2011, the Group harmonised the recognition of technical provisions in the balance sheet. In accordance with the applicable US GAAP standards (FASB ASC 944–40; formerly FAS 97), unearned revenue liabilities for life insurance contracts classified according to the "universal life" model are recognised in the "Benefit reserve" (previously recognised in the "Unearned premium reserve"). The change in the method of recognition had no implications for Group net income or shareholders' equity in any of the previous reporting periods. The unearned premium reserve was consequently reduced by EUR 1,159 million as at 31 March 2011, while the benefit reserve rose by the same amount. This modification resulted in a shift of EUR 20 million in the consolidated statement of income between net premium earned and claims and claims expenses (net). In the opening balance sheet as at 1 January 2011, this reclassification amounted to EUR 1,144 million in both cases (cf. 2011 Annual Report, page 136, letter c).

d) As at 31 December 2011, we retrospectively corrected the recognition of certain items of real estate held in a special fund as investment property. In accordance with IAS 40 “Investment Property”, these assets are measured at amortised cost and thus correctly posted under the balance sheet item “Investment property” (previously: “Available-for-sale investments”; variable-yield securities, investment funds). At no time did this change in the recognition of investments have any effect on shareholders’ equity or income/expenses. On the contrary, the increase of EUR 235 million in investment property as at the balance sheet date of 31 March 2011 was balanced out by an identical decline in available-for-sale financial instruments. As at 1 January 2011, the amount of investment property recognised in the balance sheet rose by EUR 235 million, while the amount recognised for financial instruments declined by EUR 235 million.

These adjustments had the implications for the following items in the consolidated balance sheet:

Consolidated balance sheet as at 1 January 2011	As reported at 1.1.2011	Changes due to adjustments in accordance with IAS 8				1.1.2011
Figures in EUR million		Re a)	Re b)	Re c)	Re d)	
A. b. Other intangible assets	1,851	—	–268	—	—	1,583
B. a. Investment property	860	—	—	—	235	1,095
B. e.ii. Financial assets available for sale	30,635	—	—	—	–235	30,400
A. b. Reserves	4,696	–11	—	—	—	4,685
C. a. Unearned premium reserve	5,411	—	—	–1,144	—	4,267
C. b. Benefit reserve	42,466	—	—	1,144	—	43,610
C. d. Provision for premium refunds	1,113	—	–268	—	—	845
G. Deferred tax liabilities	1,433	11	—	—	—	1,444

Consolidated balance sheet as at 31 March 2011	As reported at 31.3.2011	Changes due to adjustments in accordance with IAS 8				31.3.2011
Figures in EUR million		Re a)	Re b)	Re c)	Re d)	
A. b. Other intangible assets	1,824	—	–263	—	—	1,561
B. a. Investment property	782	—	—	—	235	1,017
B. e.ii. Financial assets available for sale	30,137	—	—	—	–235	29,902
A. b. Reserves	4,650	–11	—	—	—	4,639
C. a. Unearned premium reserve	6,832	—	—	–1,159	—	5,673
C. b. Benefit reserve	42,607	—	—	1,159	—	43,766
C. d. Provision for premium refunds	1,094	—	–263	—	—	831
G. Deferred tax liabilities	1,446	11	—	—	—	1,457

The effects on the consolidated statement of income for the 2011 financial year are as follows:

Consolidated statement of income	As reported at 31.3.2011	Changes due to adjustments in accordance with IAS 8	31.3.2011
Figures in EUR million		zu c)	
4. Change in gross unearned premium	–1,545	18	–1,527
5. Change in ceded unearned premium	–400	–2	–402
6. Claims and claims expenses (gross)	5,032	18	5,050
Reinsurers' share	790	–2	788

Changes in the presentation of the consolidated statement of income

The described changes to recognition from the previous year (cf. 2011 Annual Report, page 139) had the following effects on the comparable 2011 period (to the extent ascertainable):

Reinstatement premiums, which until 30 September 2011 had been booked under the reinsurers' portion of "Other technical provisions", were recognised as from the fourth quarter under illiquid reinsurance premiums written. Overall, this approach results in a more appropriate form of presentation since, in economic terms, reinstatement premiums are nothing more than reinsurance premiums, even though their amount and the time of their payment are still uncertain. In the 2012 reporting period, this reclassification resulted in a reduction of EUR 20 million in "Net premium earned" and an improvement in "Other technical result". After a cost-benefit analysis, it was decided not to adjust the figures of prior years.

The expenditure for administration of third-party investment portfolios is posted, like the associated income, in "Other income/expenses" (item: "Sundry expenses", previously "Expenditures on investments"). The previous year's figure was adjusted accordingly (EUR 18 million).

Currency translation

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

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 as at the balance sheet date. All resulting currency translation differences – including those arising out of capital consolidation – are recognised as a separate item within "Other reserves" in shareholders' equity. Goodwill is treated as an asset of the foreign entity and translated accordingly.

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

Exchange rates		Balance sheet (balance sheet date) 31.3.2012	31.12.2011	Statement of income (average) 1.1.–31.3.2012	1.1.–31.3.2011
1 EUR corresponds to					
ARS	Argentina	5.8417	5.5731	5.7476	5.5202
AUD	Australia	1.2830	1.2723	1.2585	1.3545
BHD	Bahrain	0.5031	0.4881	0.4988	0.5182
BRL	Brazil	2.4326	2.4153	2.3542	2.2810
CAD	Canada	1.3298	1.3198	1.3234	1.3558
CHF	Switzerland	1.2046	1.2169	1.2077	1.2796
CLP	Chile	651.7334	672.4126	651.7794	656.5163
CNY	China	8.4046	8.1489	8.3337	9.0448
GBP	United Kingdom	0.8330	0.8362	0.8369	0.8639
HKD	Hong Kong	10.3609	10.0565	10.2679	10.7043
HUF	Hungary	295.1025	313.5951	297.8993	272.7704
KRW	South Korea	1,512.0326	1,500.6009	1,497.8491	1,537.7077
MXN	Mexico	17.0327	18.0413	17.3210	16.6754
MYR	Malaysia	4.0882	4.1038	4.0576	4.1990
PLN	Poland	4.1589	4.4652	4.2435	3.9691
SEK	Sweden	8.8463	8.9063	8.8613	8.8938
TRY	Turkey	2.3775	2.4320	2.3714	2.1652
UAH	Ukraine	10.7212	10.3695	10.6117	10.9362
UYU	Uruguay	26.0891	25.8267	25.9786	26.9107
USD	USA	1.3345	1.2946	1.3231	1.3745
ZAR	South Africa	10.2419	10.4800	10.2426	9.4824

III. Segment reporting

Identification of reportable segments

In conformity with IFRS 8 "Operating Segments", the reportable segments were determined in accordance with the internal reporting and management structure of the Group, on the basis of which the Group Board of Management regularly assesses the performance of the segments and decides on the allocation of resources to the segments. The Group splits its business activities into the areas of insurance and corporate operations. The insurance activities are further 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.

Since they are managed according to customer groups and geographical regions (domestic versus international) – and therefore span various lines of business – insurance activities in the **primary sector** are organised into three reportable segments: "Industrial Lines," "Retail Germany" and "Retail International." This segmentation also corresponds to the responsibilities of the members of the Board of Management.

Reinsurance business is handled solely by the Hannover Re Group and is divided into the two segments Non-Life Reinsurance and Life/Health Reinsurance in accordance with that group's internal reporting system. In a departure from the segmentation used in the group financial statements of Hannover Re, however, we allocate that group's holding functions to its Non-Life Reinsurance segment. By contrast, cross-segment loans within the Hannover Re Group are allocated to the two reinsurance segments in the consolidated financial statement of the Talanx Group (in the consolidated financial statement of Hannover Re, these loans are shown in the consolidation column). Deviations between the segment results for reinsurance business as presented in the consolidated financial statement of Talanx AG and those reported in the financial statement of Hannover Re are thus unavoidable.

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 is provided in various classes of insurance.

Retail Germany: Insurance activities serving German retail and commercial customers that span the various lines of business, including 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 pension insurance.

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 Reinsurance*: The segment comprises the international activities of the Hannover Re Group in the life, health, annuity and accident lines.

Corporate Operations: In contrast to the five operating segments, the Corporate Operations segment encompasses management and other functional activities that support the business conducted by the Group, primarily relating to asset management and, in the primary insurance sector, the run-off and placement of portions of reinsurance cessions, as well as Group financing. Asset management for private and institutional investors outside the Group by AmpegaGerling Investment GmbH, Cologne, is also shown in this segment. This segment also encompasses centralised service companies that provide select billable services – such as IT, collection, personnel and accounting services – mainly to the Group's primary insurers based in Germany.

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. Cross-segment transactions within the Group are consolidated in the consolidation column, whereas income from dividend payments and profit/loss transfer agreements accruing to the Group holding company are eliminated in the respective segment. 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 time frame of the commercial activities, various management ratios and performance indicators are used to assess the financial success of the reportable segments within the Group; however, the operating profit (EBIT) – determined from IFRS profit contributions – is 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).

Changes in segment reporting

The Group has been reporting the private-customer property insurance business of its Austrian subsidiary (HDI Versicherung AG, Vienna) in the Retail International segment (previously reported under Industrial Lines) since 31 December 2011. The same subsidiary's industrial insurance business continues to be reported under the Industrial Lines segment. After carrying out a cost-benefit analysis, we decided against making any changes to the corresponding figures for the previous year.

* With regard to the deviations between the segment results of Talanx Group and Hannover Re Group please see our explanatory remarks at the beginning of this section

Segment reporting.
Balance sheet as at 31 March 2012

	Industrial Lines		Retail Germany		Retail International	
Assets	**31.3.2012**	**31.12.2011**	**31.3.2012**	**31.12.2011**	**31.3.2012**	**31.12.2011**
Figures in EUR million						
A. Intangible assets						
a. Goodwill	153	153	403	403	166	118
b. Other intangible assets	21	24	1,241	1,275	31	28
	174	**177**	**1,644**	**1,678**	**197**	**146**
B. Investments						
a. Investment property	38	36	704	594	75	73
b. Investments in affiliated companies and participating interests	9	9	28	23	—	—
c. Investments in associated companies	77	78	37	38	22	22
d. Loans and receivables	2,481	2,606	26,668	26,877	8	7
e. Other financial instruments						
i. Held to maturity	122	118	297	293	299	269
ii. Available for sale	3,070	2,984	10,097	9,122	2,450	2,274
iii. At fair value through profit or loss	31	7	315	287	635	523
f. Other invested assets	620	774	1,462	848	310	316
Investments under own management	**6,448**	**6,612**	**39,608**	**38,082**	**3,799**	**3,484**
g. Funds withheld by ceding companies	30	29	3	2	—	—
Investments	**6,478**	**6,641**	**39,611**	**38,084**	**3,799**	**3,484**
C. Investments for the account and risk of holders of life insurance policies	—	—	5,777	5,283	812	784
D. Reinsurance recoverables on technical provisions	4,632	4,332	2,564	2,454	628	583
E. Accounts receivable on insurance business	1,758	1,004	359	423	455	424
F. Deferred acquisition costs	62	27	1,792	1,739	207	210
G. Cash	349	245	315	581	207	158
H. Deferred tax assets	25	25	35	18	66	64
I. Other assets	468	419	843	1,110	250	245
J. Non-current assets and assets of disposal groups classified as held for sale	5	5	113	111	596	572
Total assets	**13,951**	**12,875**	**53,053**	**51,481**	**7,217**	**6,670**

Non-Life Reinsurance		Life/Health Reinsurance		Corporate Operations		Consolidation		Total	
31.3.2012	31.12.2011	31.3.2012	31.12.2011	31.3.2012	31.12.2011	31.3.2012	31.12.2011	31.3.2012	31.12.2011
16	16	—	—	—	—	—	—	738	690
25	26	103	105	61	62	—	—	1,482	1,520
41	**42**	**103**	**105**	**61**	**62**	**—**	**—**	**2,220**	**2,210**
400	395	2	2	—	—	—	—	1,219	1,100
25	18	—	—	27	28	—	—	89	78
120	122	6	6	14	14	−67	−71	209	209
3,357	3,497	26	28	—	—	−157	−54	32,383	32,961
3,754	3,956	199	200	17	17	−566	−559	4,122	4,294
12,972	12,142	5,420	5,356	330	263	—	—	34,339	32,141
177	142	66	40	—	1	—	—	1,224	1,000
2,570	1,954	318	364	431	467	−1,232	−756	4,479	3,967
23,375	**22,226**	**6,037**	**5,996**	**819**	**790**	**−2,022**	**−1,440**	**78,064**	**75,750**
841	836	12,672	12,506	—	—	−1,756	−1,656	11,790	11,717
24,216	**23,062**	**18,709**	**18,502**	**819**	**790**	**−3,778**	**−3,096**	**89,854**	**87,467**
—	—	—	—	—	—	—	—	6,589	6,067
1,353	1,446	589	586	—	—	−3,037	−2,939	6,729	6,462
2,327	1,977	1,262	1,162	—	—	−262	−261	5,899	4,729
528	459	1,426	1,468	—	—	125	110	4,140	4,013
360	388	142	119	23	79	—	—	1,396	1,570
35	37	23	25	123	151	—	—	307	320
1,022	1,069	39	44	477	448	−1,286	−1,470	1,813	1,865
2	2	—	—	—	—	−138	−125	578	565
29,884	**28,482**	**22,293**	**22,011**	**1,503**	**1,530**	**−8,376**	**−7,781**	**119,525**	**115,268**

Segment reporting.
Balance sheet as at 31 March 2012

	Industrial Lines		Retail Germany		Retail International	
Liabilities	**31.3.2012**	**31.12.2011**	**31.3.2012**	**31.12.2011**	**31.3.2012**	**31.12.2011**
Figures in EUR million						
B. Subordinated liabilities	260	261	214	215	—	—
C. Technical provisions						
a. Unearned premium reserve	1,560	777	1,250	786	1,057	968
b. Benefit reserve	—	1	34,305	34,114	1,845	1,811
c. Loss and loss adjustment expense reserve	7,940	7,960	2,560	2,580	1,336	1,285
d. Provision for premium refunds	11	9	1,401	985	56	14
e. Other technical provisions	23	29	5	8	14	12
	9,534	**8,776**	**39,521**	**38,473**	**4,308**	**4,090**
D. Technical provisions in the area of life insurance insofar as the investment risk is borne by policyholders	—	—	5,777	5,283	812	784
E. Other provisions						
a. Provisions for pensions	406	405	65	64	13	11
b. Provisions for taxes	120	109	104	90	64	44
c. Sundry provisions	105	100	278	313	41	37
	631	**614**	**447**	**467**	**118**	**92**
F. Liabilities						
a. Notes payable and loans	—	—	—	—	—	—
b. Funds withheld under reinsurance treaties	13	14	2,097	2,022	186	155
c. Other liabilities	1,646	1,456	2,129	2,242	384	249
	1,659	**1,470**	**4,226**	**4,264**	**570**	**404**
G. Deferred tax liabilities	70	71	290	263	43	26
Total liabilities/provisions	**12,154**	**11,192**	**50,475**	**48,965**	**5,851**	**5,396**
H. Liabilities of disposal groups classified as held for sale	—	—	94	99	593	565

Non-Life Reinsurance		Life/Health Reinsurance		Corporate Operations		Consolidation		Total	
31.3.2012	**31.12.2011**	**31.3.2012**	**31.12.2011**	**31.3.2012**	**31.12.2011**	**31.3.2012**	**31.12.2011**	**31.3.2012**	**31.12.2011**
1,733	1,731	98	100	508	509	–199	–201	2,614	2,615
2,500	2,110	109	106	—	—	–89	–70	6,387	4,677
—	—	10,298	10,309	—	—	–462	–496	45,986	45,739
18,085	18,030	2,859	2,739	—	—	–1,170	–1,174	31,610	31,420
—	—	—	—	—	—	—	—	1,468	1,008
152	146	67	61	—	—	–1	—	260	256
20,737	**20,286**	**13,333**	**13,215**	**—**	**—**	**–1,722**	**–1,740**	**85,711**	**83,100**
—	—	—	—	—	—	—	—	6,589	6,067
69	68	21	20	775	775	—	—	1,349	1,343
186	172	25	13	85	129	—	—	584	557
78	79	30	31	121	130	–1	–1	652	689
333	**319**	**76**	**64**	**981**	**1,034**	**–1**	**–1**	**2,585**	**2,589**
188	203	825	283	1,453	1,421	–1,719	–1,145	747	762
427	411	5,412	5,242	—	—	–3,026	–2,805	5,109	5,039
664	629	1,193	1,309	251	267	–1,552	–1,741	4,715	4,411
1,279	**1,243**	**7,430**	**6,834**	**1,704**	**1,688**	**–6,297**	**–5,691**	**10,571**	**10,212**
842	739	358	367	4	1	21	21	1,628	1,488
24,924	**24,318**	**21,295**	**20,580**	**3,197**	**3,232**	**–8,198**	**–7,612**	**109,698**	**106,071**
—	—	—	—	—	—	–184	–173	503	491

Shareholders' equity[1]	**9,324**	**8,706**
Total liabilities	**119,525**	**115,268**

[1] Group shareholders' equity incl. non-controlling interests

Segment reporting.
Statement of income for the period from 1 January to 31 March 2012

	Industrial Lines		Retail Germany		Retail International	
	1.1.– 31.3.2012	1.1.– 31.3.2011[1]	1.1.– 31.3.2012	1.1.– 31.3.2011[2]	1.1.– 31.3.2012	1.1.– 31.3.2011[1), 2)]
Figures in EUR million						
1. Gross written premium including premium from unit-linked life and annuity insurance	1,609	1,434	2,029	2,056	647	588
thereof attributable to other segments	15	6	14	5	—	—
to third parties	1,594	1,428	2,015	2,051	647	588
2. Savings elements of premium from unit-linked life and annuity insurance	—	—	220	237	31	71
3. Ceded written premium	744	605	134	146	93	59
4. Change in gross unearned premium	–792	–710	–475	–449	–21	–19
5. Change in ceded unearned premium	–301	–332	–47	–35	–23	–6
Net premium earned	**374**	**451**	**1,247**	**1,259**	**525**	**445**
6. Claims and claims expenses (gross)	605	510	1,355	1,349	409	372
Reinsurers' share	366	173	46	59	16	25
Claims and claims expenses (net)	**239**	**337**	**1,309**	**1,290**	**393**	**347**
7. Acquisition costs and administrative expenses (gross)	160	128	285	262	159	115
Reinsurers' share	92	48	38	41	22	1
Acquisition costs and administrative expenses (net)	**68**	**80**	**247**	**221**	**137**	**114**
8. Other technical income	9	4	1	1	3	9
Other technical expenses	11	30	27	14	12	14
thereof attributable to amortisation PVFP	4	—	25	12	—	—
Other technical result	**–2**	**–26**	**–26**	**–13**	**–9**	**–5**
Net technical result	**65**	**8**	**–335**	**–265**	**–14**	**–21**
9. a. Income from investments	69	61	452	454	85	46
b. Expenses for investments	11	9	53	94	9	5
Net income from investments under own management	**58**	**52**	**399**	**360**	**76**	**41**
Income/expense on funds withheld and contract deposits	—	1	–9	–8	—	—
Net investment income	**58**	**53**	**390**	**352**	**76**	**41**
thereof attributable to interest and similar income	55	54	388	377	44	32
impairments/depreciation on investments	—	3	5	23	1	1
write-ups on investments	—	1	—	13	—	—
profit/loss from investments in associated companies measured at equity	—	—	–1	—	—	–1
10. a. Other income	18	38	48	29	9	9
b. Other expenses	40	53	61	57	34	24
Other income/expenses	**–22**	**–15**	**–13**	**–28**	**–25**	**–15**
thereof attributable to interest and similar income	1	2	3	3	2	1
write-ups on accounts receivable and other assets	—	—	—	—	—	—
interest and similar expenses	6	8	4	3	1	1
write-downs on accounts receivable and other assets	6	3	1	8	4	3
Profit before goodwill impairments	**101**	**46**	**42**	**59**	**37**	**5**
11. Goodwill impairments	—	—	—	—	—	—
Operating profit/loss (EBIT)	**101**	**46**	**42**	**59**	**37**	**5**
12. Financing costs	3	3	3	2	—	—
13. Taxes on income	41	10	16	24	14	—
Net income	**57**	**33**	**23**	**33**	**23**	**5**
thereof attributable to non-controlling interests	—	—	1	2	—	—
thereof attributable to shareholders of Talanx AG	57	33	22	31	23	5

[1] As at 31 December 2011, private-customer property insurance business in Austria was allocated to the Retail International segment (previously shown in the Industrial Lines segment); prior-year figures (31 March 2011) were not adjusted
[2] Adjusted on the basis of IAS 8, see section "Accounting policies", subsection "Changes in accounting policies and accounting errors" of the Notes

	Non-Life Reinsurance		Life/Health Reinsurance		Corporate Operations		Consolidation		Total	
	1.1.–31.3.2012	1.1.–31.3.2011	1.1.–31.3.2012	1.1.–31.3.2011	1.1.–31.3.2012	1.1.–31.3.2011	1.1.–31.3.2012	1.1.–31.3.2011	1.1.–31.3.2012	1.1.–31.3.2011 2)
	2,117	1,924	1,394	1,219	—	—	–191	–182	7,605	7,039
	110	115	52	56	—	—	–191	–182	—	—
	2,007	1,809	1,342	1,163	—	—	—	—	7,605	7,039
	—	—	—	—	—	—	—	—	251	308
	186	234	128	104	—	—	–195	–189	1,090	959
	–418	–363	–5	–1	—	—	16	15	–1,695	–1,527
	–42	–49	—	—	—	—	17	20	–396	–402
	1,555	**1,376**	**1,261**	**1,114**	**—**	**—**	**3**	**2**	**4,965**	**4,647**
	1,237	1,916	1,144	977	—	—	–82	–74	4,668	5,050
	122	562	104	68	—	—	–95	–99	559	788
	1,115	**1,354**	**1,040**	**909**	**—**	**—**	**13**	**25**	**4,109**	**4,262**
	408	371	274	277	—	—	–76	–71	1,210	1,082
	16	20	4	16	—	—	–60	–32	112	94
	392	**351**	**270**	**261**	**—**	**—**	**–16**	**–39**	**1,098**	**988**
	—	—	—	3	—	—	1	–3	14	14
	1	1	1	4	—	—	7	12	59	75
	—	—	1	—	—	—	—	—	30	12
	–1	**–1**	**–1**	**–1**	**—**	**—**	**–6**	**–15**	**–45**	**–61**
	47	**–330**	**–50**	**–57**	**—**	**—**	**—**	**1**	**–287**	**–664**
	295	340	103	60	6	2	–16	–13	994	950
	31	76	6	5	15	13	–18	–19	107	183
	264	**264**	**97**	**55**	**–9**	**–11**	**2**	**6**	**887**	**767**
	3	3	80	73	—	—	—	–1	74	68
	267	**267**	**177**	**128**	**–9**	**–11**	**2**	**5**	**961**	**835**
	195	168	152	163	2	1	–19	–17	817	778
	6	14	1	—	—	—	—	—	13	41
	—	14	—	—	—	—	—	—	—	28
	2	2	—	—	—	1	—	—	1	2
	41	141	22	12	162	135	–154	–121	146	243
	72	95	42	15	161	145	–136	–121	274	268
	–31	**46**	**–20**	**–3**	**1**	**–10**	**–18**	**—**	**–128**	**–25**
	1	61	1	—	4	2	–3	–1	9	68
	2	3	—	—	—	—	—	—	2	3
	5	3	15	3	18	22	–7	–3	42	37
	5	9	3	3	1	2	—	—	20	28
	283	**–17**	**107**	**68**	**–8**	**–21**	**–16**	**6**	**546**	**146**
	—	—	—	—	—	—	—	—	—	—
	283	**–17**	**107**	**68**	**–8**	**–21**	**–16**	**6**	**546**	**146**
	25	27	1	1	21	20	–12	–11	41	42
	74	–77	17	19	–13	–9	–1	5	148	–28
	184	**33**	**89**	**48**	**–16**	**–32**	**–3**	**12**	**357**	**132**
	96	32	49	21	—	—	—	—	146	55
	88	1	40	27	–16	–32	–3	12	211	77

Geographical breakdown of investments and written premium

The geographical breakdown shown below is based on the regional origin of the investments and the gross written premium with respect to external clients. During the reporting period, there were no transactions with any one external client that amounted to 10% or more of total gross premium. Segmentation has been simplified to show only Primary Insurance, Reinsurance and Corporate Operations.

Above and beyond this, we show the gross written premium for each type or line of insurance at Group level.

Investments under own management by geographical origin[1]

Investments excluding funds withheld by ceding companies[1]	Primary Insurance	Reinsurance	Corporate Operations	31.3.2012 Total
Figures in EUR million				
Germany	27,400	6,024	316	33,740
United Kingdom	3,072	2,515	128	5,715
Central and Eastern Europe (CEE)	249	—	—	249
Rest of Europe	15,775	7,486	317	23,578
USA	833	6,953	2	7,788
Rest of North America	87	1,026	1	1,114
Latin America	802	110	—	912
Asia and Australia	739	3,116	2	3,857
Rest of the world	94	1,016	1	1,111
Total	**49,051**	**28,246**	**767**	**78,064**

Investments excluding funds withheld by ceding companies[1]	Primary Insurance	Reinsurance	Corporate Operations	31.12.2011 Total
Figures in EUR million				
Germany	27,374	5,850	347	33,571
United Kingdom	2,691	2,323	123	5,137
Central and Eastern Europe (CEE)	228	—	—	228
Rest of Europe	14,899	7,245	264	22,408
USA	853	6,628	3	7,484
Rest of North America	97	1,415	1	1,513
Latin America	771	634	—	1,405
Asia and Australia	448	3,100	1	3,549
Rest of the world	53	402	—	455
Total	**47,414**	**27,597**	**739**	**75,750**

[1] After elimination of internal transactions within the Group across segments; this can lead to deviations from the figures shown in the management report

Gross written premium by geographical origin (by domicile of customer)[1]

Gross written premium[1]	Primary Insurance	Reinsurance	1.1.–31.3.2012 Total
Figures in EUR million			
Germany	3,000	314	3,314
United Kingdom	36	597	633
Central and Eastern Europe (CEE)	210	53	263
Rest of Europe	645	589	1,234
USA	77	792	869
Rest of North America	1	134	135
Latin America	266	124	390
Asia and Australia	17	537	554
Rest of the world	5	208	213
Total	**4,257**	**3,348**	**7,605**

Gross written premium[1]	Primary Insurance	Reinsurance	1.1.–31.3.2011 Total
Figures in EUR million			
Germany	2,941	290	3,231
United Kingdom	43	659	702
Central and Eastern Europe (CEE)	214	45	259
Rest of Europe	591	467	1,058
USA	50	693	743
Rest of North America	—	108	108
Latin America	209	83	292
Asia and Australia	15	408	423
Rest of the world	4	219	223
Total	**4,067**	**2,972**	**7,039**

[1] After elimination of internal transactions within the Group across segments; this can lead to deviations from the figures shown in the management report

Gross written premium by type and line of insurance at Group level[1]

	1.1.–31.3.2012	1.1.–31.3.2011
Figures in EUR million		
Property/casualty primary insurance	2,905	2,646
Life primary insurance	1,352	1,421
Non-life reinsurance	2,006	1,809
Life/health reinsurance	1,342	1,163
Total	**7,605**	**7,039**

[1] After elimination of internal transactions within the Group across segments; this can lead to deviations from the figures shown in the management report

IV. Consolidation

As at the balance sheet date 115 individual companies, 24 special purpose entities, and three foreign subgroups – collectively as a group (incl. associated companies) – were included in full in the Talanx consolidated financial statement; one company was consolidated proportionately, and eight associated companies (figures are exclusive of foreign subgroups) were included at equity.

The major changes in the scope of consolidation relative to year-end 2011, including significant relations with special purpose entities, are set out below.

Scope of consolidation

Acquisitions and establishments

By way of an agreement dated 24 June 2011, Talanx International AG, Hannover, and HDI Seguros S.A. de C.V., León, Mexico (both Retail International segment), acquired all of the shares of the Mexican insurance company Metropolitana Compañía de Seguros, Mexico City, Mexico, for the purchase price of USD 100 million. Closing took place on 1 January 2012. Further information on the initial consolidation of this acquisition can be found in the Notes to section V "Business combinations".

Disposals

By way of an agreement dated 29 December 2011, HDI-Gerling Vertrieb Firmen und Privat AG, Hannover, sold all its shares in its subsidiary PARTNER OFFICE AG, Cologne (PO) (both Retail Germany segment) to Kapitalwerk Beteiligungsgesellschaft mbH, Bonn, for the purchase price of EUR 1. The transaction closed in the first quarter of 2012; the deconsolidation gave rise to income of EUR 2 million, which was recognised in Other Income and Expenses (cf. our remarks in the section "Non-current assets held for sale and disposal groups").

Other changes to the scope of consolidation

HDI-GERLING Financial Service GmbH, Vienna, Austria (Retail Germany segment), which until now had been fully consolidated, is no longer included in the consolidated financial statement with effect from the first quarter of 2012, since based on its total assets and result it is immaterial to the assessment of the Group's assets, financial position and net income. The deconsolidation gave rise to a loss of EUR 0.2 million, which was recognised in Other Income and Expenses.

On 15 March 2012, AmpegaGerling Investment GmbH, Cologne, and C-QUADRAT Investment AG, Vienna, Austria (both Corporate Operations segment) established Ampega C-QUADRAT Fondsmarketing GmbH with registered office in Frankfurt. Each of the two members holds 50% of the interests in the new limited liability company; equity capital amounts to EUR 25,000. The company's purpose is to provide marketing services in connection with fund products offered by the two members and their affiliated companies. At the time of its establishment, the company was immaterial to the assessment of the Group's assets, financial position and net income and not included in the consolidated financial statement.

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

Consolidated subsidiaries (fully consolidated)	Individual companies		Subgroups	
	Domestic	Foreign	Foreign	Total
31.12.2011	66	50	3	**119**
Additions	—	1	—	**1**
Retirements	1	1	—	**2**
31.3.2012	**65**	**50**	**3**	**118**

Consolidation of special purpose entities

With regard to the consolidation of special purpose entities, in the following the Group makes a distinction between special funds, investments, securitisation of reinsurance risks, retrocessions and insurance-linked securities (ILS). Relations with such special purpose entities are to be examined, inter alia, in accordance with SIC-12 "Consolidation – Special Purpose Entities" with respect to their consolidation requirement. In cases where IFRS do not currently contain any specific standards, our analysis also based – in application of IAS 8 – on the relevant standards of US GAAP.

Special funds

Within the scope of SIC-12 are, among other things, special investment funds that are created to serve a narrowly defined purpose. As such the Group must assess whether economic control according to IAS 27.13 in conjunction with SIC-12 exists for its special investment funds. Economic control exists e.g. when the majority of the economic benefits or risks arising out of the activities of the special fund is attributable to a Group company.

In this connection, 21 special funds and one public fund were included as at the balance sheet date in the consolidated financial statement due to the existence of a controlling relationship in the special fund; of these, 14 were domestic funds. Two special equity funds (HG-I Aktien VC Strategie and TAL-Corp Rentenspezial) were set up in the first quarter of 2012; as at the balance sheet date, the funds had assets of EUR 40 million and EUR 33 million, respectively.

Investments

Within the scope of its asset management activities, our subsidiary Hannover Re 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 that 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 – by investing in disaster bonds (or "CAT" bonds) in a number of special purpose entities for the securitisation of catastrophe risks. Since Hannover Re does not exercise a controlling influence in any of these transactions either, there is no consolidation requirement for the special purpose vehicles in question.

Securitisation of reinsurance risks

The securitisation 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 necessitated the involvement of a special purpose entity, namely Delaware-based Maricopa LLC. The special purpose entity carries extreme mortality risks securitised 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 equivalent to EUR 375 million; an amount equivalent to EUR 187 million of this was taken up upon contract closing and as at the balance sheet date. 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 recognised at fair value as a financial guarantee. To this end we use 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 recognised at the point in time when utilisation is considered probable. This was not the case as at the balance sheet date. In this case the reimbursement claims from the compensation agreement are to be capitalised 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 winter storm events. The term of the CAT bond, which had a volume of nominally EUR 150 million, ran until 31 March 2012; it had been placed with institutional investors from Europe and North America by Eurus II Ltd., a special purpose entity domiciled in the Cayman Islands. Hannover Re did not exercise a controlling influence over this special purpose entity. Under IFRS this transaction is to be recognised as a financial instrument.

Within the scope of its "K" transactions, Hannover Re raised further underwriting capacity for catastrophe risks on the capital market. The "K" cession, 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. Its volume was increased several times and was equivalent to EUR 265 (259) million as at the balance sheet date. The transaction has an indefinite term and can be cancelled annually by the investors. Kaith Re Ltd., a special purpose entity domiciled in Bermuda, is being used for the transaction.

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)

As part of its extended insurance-linked securities (ILS) activities, Hannover Re has written so-called collateralised fronting arrangements since 2010, under which risks assumed from ceding companies are 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.

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 exercises neither indirect nor direct control over it, there is no requirement to consolidate this special purpose entity.

Associated companies valued at equity

Relative to year-end 2011, there were no material changes in the first quarter of 2012; four domestic and four foreign associated companies therefore continue to be consolidated at equity as at the balance sheet date. The figures are exclusive of foreign subgroups.

Joint ventures consolidated proportionately

As in the 2011 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

Business combinations in the reporting period

By agreement dated 24 June 2011, Talanx International AG, Hannover, and HDI Seguros S.A. de C.V., León, Mexico (both Retail International segment) acquired all of the shares of the Mexican insurance company Metropolitana Compañía de Seguros, Mexico City, Mexico, for the purchase price of USD 100 million (equivalent to EUR 77 million). Closing took place on 1 January 2012. The Mexican company transacts primarily motor business. In addition, business is conducted in the life and property lines. Premium volume amounted to EUR 75 million in 2011. The sales organisation concentrates on Mexico City and the centre of the country.

The purpose of this acquisition is to move forward with further internationalisation in the Retail International segment. The Group has enhanced its presence in Latin America through the acquisition and is thus able to make the most of the available opportunities in local markets. Goodwill from the acquisition amounts to EUR 43 million and reflects the growth expected primarily in motor business, as well as considerable synergistic and cross-selling effects. Goodwill is not tax-deductible.

The amounts recognised under IFRS as at the acquisition date for each main group of acquired assets and assumed liabilities are as follows: We acquired assets in the form of intangible assets (EUR 5 million), investments (EUR 77 million), accounts receivable on insurance business (EUR 34 million), reinsurance recoverables on technical provisions (EUR 2 million), cash (EUR 5 million), deferred tax assets (EUR 9 million) and other assets (EUR 16 million) as well as liabilities in the form of technical provisions (EUR 84 million), other provisions (EUR 12 million), funds withheld under reinsurance treaties (EUR 2 million), other liabilities (EUR 6 million) and provisions for deferred taxes (EUR 10 million). The assets include intangible and tangible assets of EUR 17 million. The IFRS equity amounted to EUR 34 million as at the acquisition date.

The amount recognised for accounts receivable corresponds to the fair value. No further payment defaults are anticipated. Moreover, pursuant to IFRS 3.23, contingent liabilities of (EUR 2 million) were brought to account, which are primarily attributable to continent tax liabilities. The obligation depends on a pending decision by the local authorities, which is expected in the short to medium term. A claim to indemnification exists for these contingent liabilities, for which a corresponding indemnification asset of the same amount was brought to account. In addition, contingent liabilities of approximately EUR 1.7 million were identified, recognition of which was omitted due to lack of reliable measurement of fair value. Other conditional payments, indemnification assets and separate transactions as defined by IFRS 3 were not brought to account. The premium volume (net premium earned) amounted to EUR 19 million for the first quarter of 2012. The result generated by the company before tax and interest on hybrid capital stood at EUR 3 million as at 31 March 2012.

Business combinations after the reporting period

In its press statement of 14 December 2011, Talanx International AG (Retail International segment) announced that it was launching a long-term strategic insurance partnership in Poland jointly with our Japanese strategic partner Meiji Yasuda Life Insurance Company and the Polish company Getin Holding Group. To this end Talanx International AG and Meiji Yasuda Life Insurance Company together with Getin Holding Group are taking over the insurance companies TU Europa Life (Towarzystwo Ubezpieczeń na Życie Europa S. A.) and TU Europa Non-Life (Towarzystwo Ubezpieczeń Europa S. A.) (Euro Group). Talanx International AG is assuming a majority interest of 50% plus one share at a price equivalent to EUR 200 million (as at 31 December 2011). In addition, a public tender offer will be made to all shareholders of the Europa Group, which is publicly traded on the Warsaw stock exchange. After closing this transaction Getin Holding Group and Meiji Yasuda will each hold a significant minority interest. On 8 May 2012, the Polish regulatory authority approved the transaction. Closing is expected to take place in the second quarter of 2012, after preparation of this consolidated interim report for publication. For this reason, further disclosures required by IFRS 3 were omitted.

In its press statement of 20 January 2012, our subsidiary Talanx International AG, Hannover, announced that it was acquiring all of the shares of TUiR Warta S. A. (Towarzystwo Ubezpieczeń i Reasekuracji Warta S. A.) from the Belgian company KBC Group for the purchase price of EUR 770 million. The acquisition is subject to approval by the responsible authorities. In connection with the acquisition, our Japanese strategic partner Meiji Yasuda Life Insurance Company is to assume 30% of the shares. The Warta Group includes the life insurance company Warta Towarzystwo Ubezpieczeń na Życie S. A. Closing is expected to take place in the second half of 2012, after approval of the release for publication of this consolidated interim report. For this reasons, further disclosures required by IFRS 3 were omitted.

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

PARTNER OFFICE AG, Cologne, which was sold by HDI-Gerling Vertrieb Firmen und Privat AG, Hannover, under a contract dated 29 December 2011 and which we measured and recognised as a disposal group in the consolidated financial statement as at 31 December 2011, was sold during the reporting period and thus deconsolidated.

Contracts dated 20 April 2012 and 2 May 2012 resulted in the execution of an agreement for the sale of, respectively, 70% and 30% of the holdings of Talanx International AG (TINT), Hannover, in the subsidiary ASPECTA Assurance International AG, Vaduz, Liechtenstein (A-Lie; Retail International segment). All shares are held by TINT. The agreed purchase price amounts to EUR 2.7 million. This transaction is part Talanx International AG's strategy of corporate focus.

Pursuant to IFRS 5 "Non-current Assets Held for Sale and Discontinued Operations", A-Lie continues to constitute a disposal group, which is to be measured at the lower of the carrying amount and fair value less costs to sell. During the current reporting period, measurement of the disposal group led to an expense amounting to EUR 0.6 million, which is recognised in "Other income and expenses".

In compliance with IFRS 5, the assets and liabilities of disposal groups are recognised in a balance sheet item distinct from continuing operations. Transactions between a 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 A-Lie with regard to their major components are as follows:

Figures in EUR million	31.3.2012	31.12.2011
Assets		
Investments	5	1
Investments for the account and risk of holders of life insurance policies	276	261
Reinsurance recoverables on technical provisions	25	24
Accounts receivable on insurance business	2	3
Deferred acquisition costs	97	99
Cash	40	46
Deferred tax assets	1	1
Other assets	5	5
Assets held for sale	451	440
Liabilities		
Technical provisions	81	81
Technical provisions in the area of life insurance insofar as the investment risk is borne by policyholders	276	261
Sundry provisions	5	4
Funds withheld under reinsurance treaties	18	16
Other liabilities	23	24
Liabilities related to assets held for sale	403	386

The cumulative comprehensive income as at the balance sheet date amounted to EUR 0 (–1) million.

Consistent with the consolidated financial statement as at 31 December 2011, the Group continues to bring to account as disposal groups the intended disposals of the life insurance portfolios of PB Pensionskasse AG, Cologne (Retail Germany segment) and HDI Seguros S. A. de C. V., León, Mexico (Retail International segment). These transactions involve selling not only insurance-related assets and liabilities but also investments for covering obligations to the purchaser.

PB Pensionskasse AG technical provisions amount to EUR 88 (86) million plus EUR 3 (3) million in technical provisions in the area of life insurance insofar as the investment risk is borne by policyholders, as well as EUR 2 (2) million in provisions for deferred taxes that are offset by assets of EUR 99 (96) million. These relate to EUR 6 (6) million in intangible assets, EUR 88 (85) million in investments, EUR 3 (3) million in investments for the account and risk of holders of life insurance policies and EUR 2 (2) million in other assets.

HDI Seguros S. A. de C. V. reports technical provisions in the amount of EUR 7 (6) million, investments in the amount of EUR 6 (5) million and accounts receivable on insurance business of EUR 1 (1) million.

As at the balance sheet date, the cumulative income and expenses recognised directly in shareholders' equity amount to EUR 2 (1) million.

Both transactions are part of the corporate focusing strategy and will lead – particularly for our Mexican company – to cost optimisation in the area of IT and personnel expenses. We anticipate the completion of both portfolio transfers in the second quarter of 2012.

Moreover, HDI-Gerling Industrie Versicherung AG (Industrial Lines segment), HDI-Gerling Lebensversicherung AG, neue leben Lebensversicherung AG (both Retail Germany segment) and E+S Rückversicherung AG (Non-Life Reinsurance segment) intend to sell real estate portfolios with book values amounting to a total of EUR 21 (15) million and have classified these as "held for sale." The sale prices of the various properties have not yet been set. The reasons for the intention to sell are, next to the poor rental situation, high administrative costs. Based on current developments, we anticipate that the transfers will take place in the first half of 2012.

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

	31.3.2012	31.12.2011
Figures in EUR million		
a. Goodwill	738	690
b. Other intangible assets	1,482	1,520
thereof attributable to:		
Insurance-related intangible assets	1,295	1,333
Software	141	145
Other	46	42
Total	**2,220**	**2,210**

The increase in goodwill of EUR 48 million resulted mainly from the acquisition of the Mexican insurance company Metropolitana Compañía de Seguros recognised in the reporting period in the Retail International segment. Please see our presentation in section V "Business combinations".

"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 792 million) and the portfolios of the former BHW Lebensversicherung AG (formerly PBV Lebensversicherung, now PB Lebensversicherung AG) (EUR 312 million) purchased in 2007, as well as from neue leben Lebensversicherung AG (EUR 93 million). In addition, an amount of EUR 94 million is apportionable to Hannover Life Reassurance (Ireland) Ltd. (Life/Health Reinsurance segment).

The PVFP is composed of a shareholders' portion – on which deferred taxes are established – and a policyholders' portion. It is capitalised 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 amortisation. Only the amortisation of the shareholders' portion results in a charge to future earnings. The PVFP in favour of policyholders is recognised 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.

The allocation of the PVFPs for life insurance companies is depicted in the following table:

PVFPs for life insurance companies	**31.3.2012**	**31.12.2011**
Figures in EUR million		
Shareholders' portion	634	659
Policyholders' portion	566	574
Total	**1,200**	**1,233**

Of the amortisation on insurance-related intangible assets totalling EUR 30 (31 March 2011: 22) million, an amount of EUR 30 (31 March 2011: 12) million was attributable to the shareholders' portion and EUR 0 (31 March 2011: 10) million to the policyholders' portion and relates mainly to the Retail Germany segment. The amortisation on the shareholders' portion is recognised in the statement of income in the item "Other technical expenses".

(2) Loans and receivables

	Amortised cost		Unrealised gains/losses		Fair value	
	31.3.2012	**31.12.2011**	**31.3.2012**	**31.12.2011**	**31.3.2012**	**31.12.2011**
Figures in EUR million						
Mortgage loans	1,056	1,100	144	132	1,200	1,232
Loans and prepayments on insurance policies	190	191	—	—	190	191
Loans and receivables due from governmental or semi-governmental entities[1]	9,772	10,216	881	876	10,653	11,092
Corporate securities	6,507	6,674	274	162	6,781	6,836
Covered bonds, asset-backed securities	14,534	14,453	1,317	1,112	15,851	15,565
Participation rights	324	327	2	–19	326	308
Total	**32,383**	**32,961**	**2,618**	**2,263**	**35,001**	**35,224**

[1] The debt securities issued by semi-governmental entities include securities of EUR 2,372 (2,389) million that 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 14,510 (14,428) million, which corresponds to 99 (99)%.

(3) Financial assets held to maturity

	Amortised cost		Unrealised gains/losses		Fair value	
	31.3.2012	31.12.2011	31.3.2012	31.12.2011	31.3.2012	31.12.2011
Figures in EUR million						
Government debt securities of EU member states	491	426	26	24	517	450
US treasury notes	900	927	37	44	937	971
Other foreign government debt securities	82	81	—	1	82	82
Debt securities issued by semi-governmental entities [1]	707	851	40	36	747	887
Corporate securities	534	574	14	6	548	580
Covered bonds, asset-backed securities	1,408	1,435	67	36	1,475	1,471
Total	**4,122**	**4,294**	**184**	**147**	**4,306**	**4,441**

[1] The debt securities issued by semi-governmental entities include securities of EUR 166 (230) million that 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 1,395 (1,424) million, which corresponds to 99 (99)%.

(4) Financial assets available for sale

	Amortised cost		Unrealised gains/losses		Fair value	
	31.3.2012	31.12.2011	31.3.2012	31.12.2011	31.3.2012	31.12.2011
Figures in EUR million						
Government debt securities of EU member states	4,165	4,205	96	3	4,261	4,208
US treasury notes	1,013	1,224	40	56	1,053	1,280
Other foreign government debt securities	1,318	1,320	29	35	1,347	1,355
Debt securities issued by semi-governmental entities [1]	5,201	5,126	234	208	5,435	5,334
Corporate securities	12,854	12,153	460	86	13,314	12,239
Investment funds	716	675	28	2	744	677
Covered bonds, asset-backed securities	6,435	5,657	291	72	6,726	5,729
Participation rights	203	188	14	–1	217	187
Total fixed-income securities	**31,905**	**30,548**	**1,192**	**461**	**33,097**	**31,009**
Equities	437	422	170	97	607	519
Investment funds	546	541	49	32	595	573
Participation rights	40	40	—	—	40	40
Total variable-yield securities	**1,023**	**1,003**	**219**	**129**	**1,242**	**1,132**
Total	**32,928**	**31,551**	**1,411**	**590**	**34,339**	**32,141**

[1] The debt securities issued by semi-governmental entities include securities of EUR 2,467 (2,484) million that 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 5,928 (5,052) million, which corresponds to 88 (88)%.

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

Figures in EUR million	31.3.2012	31.12.2011
Government debt securities of EU member states	6	5
Other foreign government debt securities	210	137
Debt securities issued by semi-governmental entities [1]	31	50
Corporate securities	464	412
Investment funds	68	90
Covered bonds, asset-backed securities	106	78
Participation rights	94	84
Total fixed-income securities	**979**	**856**
Investment funds (variable-yield securities)	17	16
Other variable-yield securities	25	—
Total financial assets classified at fair value through profit or loss	**1,021**	**872**
Government debt securities of EU member states	9	4
Other foreign government debt securities	—	—
Debt securities issued by semi-governmental entities	—	—
Corporate securities	—	—
Other securities	1	1
Total fixed-income securities	**10**	**5**
Investment funds (variable-yield securities)	93	70
Derivatives	100	53
Total financial assets held for trading	**203**	**128**
Total	**1,224**	**1,000**

[1] The debt securities issued by semi-governmental entities include securities of EUR 5 (4) million that 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 11 (11) million, which corresponds to 10 (14)%.

(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: 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 recognised 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 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 authorised 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.

By virtue of a resolution adopted by the General Meeting on 12 November 2011, the Board of Management is authorised, subject to the approval of the Supervisory Board, to increase the capital stock by 18 November 2016 in one or more tranches, but up to a total amount of EUR 130 million, through the issuance of new registered no-par shares in exchange for cash or contribution in kind. With the approval of the Supervisory Board, shareholders may be precluded from exercising subscription rights. With the approval of the Supervisory Board, EUR 1 million of this may be used to issue employee shares.

Non-controlling interests in shareholders' equity	**31.3.2012**	**31.12.2011**
Figures in EUR million		
Unrealised gains and losses from investments	393	270
Non-controlling interest in net profit	146	377
Other shareholders' equity	2,915	2,638
Total	**3,454**	**3,285**

Non-controlling interests in shareholders' 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	Coupon	Maturity	Rating 2)	31.3.2012	31.12.2011
	Figures in EUR million				*Figures in EUR million*	*Figures in EUR million*
Hannover Finance (Luxembourg) S.A.	500	fixed (5%), then floating rate	2005/no final maturity	(a; A)	487	486
Hannover Finance (Luxembourg) S.A.	500	fixed (5.75%), then floating rate	2010/2040	(a; A)	498	498
Hannover Finance (Luxembourg) S.A.	750	fixed (5.75%), then floating rate	2004/2024	(a; A)	748	748
HDI-Gerling Industrie Versicherung AG	250	fixed (7%), then floating rate	2004/2024	(bbb+; A–)	260	261
HDI-Gerling Lebensversicherung AG	110	fixed (6.75%)	2005/no final maturity	(—; A–)	113	113
Talanx AG	300	fixed, then floating rate	2010/no final maturity	(—; BBB)	300	300
Talanx Finanz 1)	208	fixed (4.5%)	2005/2025	(bbb; BBB)	208	209
Total					**2,614**	**2,615**

1) In the first quarter of 2012, a Group company purchased portions of the debt in a nominal amount of EUR 1 million; the remaining volume was reduced accordingly
2) (Debt rating A. M. Best; debt rating S&P)

With respect to other features, please see the published 2011 Annual report, page 241.

(8) Technical provisions

	31.3.2012			31.12.2011		
	Gross	Re	Net	Gross	Re	Net
Figures in EUR million						
a. Unearned premium reserve	6,387	759	5,628	4,677	389	4,288
b. Benefit reserve	45,986	971	45,015	45,739	988	44,751
c. Loss and loss adjustment expense reserve	31,610	4,806	26,804	31,420	4,915	26,505
d. Provision for premium refunds	1,468	2	1,466	1,008	1	1,007
e. Other technical provisions	260	7	253	256	9	247
Total	**85,711**	**6,545**	**79,166**	**83,100**	**6,302**	**76,798**

Of the technical provisions where the investment risk is borne by policyholders amounting to EUR 6,589 (6,067) million, an amount of EUR 184 (160) 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.–31.3.2012[1]	Industrial Lines	Retail Germany	Retail International	Non-Life Reinsurance	Life/Health Reinsurance	Total
Figures in EUR million						
Gross written premium including premium from unit-linked life and annuity insurance	1,595	2,015	647	2,006	1,342	**7,605**
Savings elements of premium from unit-linked life and annuity insurance	—	220	31	—	—	**251**
Ceded written premium	646	88	60	180	116	**1,090**
Change in gross unearned premium	–786	–475	–22	–407	–5	**–1,695**
Change in ceded unearned premium	–287	–48	–21	–39	–1	**–396**
Net premium earned	**450**	**1,280**	**555**	**1,458**	**1,222**	**4,965**

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

1.1.–31.3.2011[1]	Industrial Lines	Retail Germany[2]	Retail International[2]	Non-Life Reinsurance	Life/Health Reinsurance	Total
Figures in EUR million						
Gross written premium including premium from unit-linked life and annuity insurance	1,428	2,051	588	1,809	1,163	**7,039**
Savings elements of premium from unit-linked life and annuity insurance	—	237	71	—	—	**308**
Ceded written premium	507	98	26	226	102	**959**
Change in gross unearned premium	–707	–450	–19	–350	–1	**–1,527**
Change in ceded unearned premium	–322	–37	1	–43	–1	**–402**
Net premium earned	**536**	**1,303**	**471**	**1,276**	**1,061**	**4,647**

[1] After elimination of internal transactions within the Group across segments
[2] Adjusted on the basis of IAS 8, see section “Accounting policies”, subsection “Changes in accounting policies and accounting errors” of the Notes

(10) Net investment income

1.1. – 31.3.2012 [1]	Industrial Lines	Retail Germany	Retail International	Non-Life Reinsurance	Life/Health Reinsurance	Corporate Operations	Total
Figures in EUR million							
Income from real estate	1	14	—	12	—	—	27
Dividends [2]	2	3	2	2	—	—	9
Current interest income	51	384	44	182	58	1	720
Other income	1	1	—	2	1	—	5
Ordinary investment income	**55**	**402**	**46**	**198**	**59**	**1**	**761**
Appreciation	—	—	—	—	—	—	—
Realised gains on investments	9	31	16	39	7	2	104
Unrealised gains on investments	2	15	23	51	37	1	129
Investment income	**66**	**448**	**85**	**288**	**103**	**4**	**994**
Realised losses on investments	5	27	3	7	1	—	43
Unrealised losses on investments	2	5	2	2	2	2	15
Total	**7**	**32**	**5**	**9**	**3**	**2**	**58**
Impairments/depreciation on investment property							
Scheduled	—	3	—	3	—	—	6
Unscheduled	—	1	—	—	—	—	1
Impairments on equity securities	—	1	—	—	1	—	2
Impairments on fixed-income securities	—	—	—	—	—	—	—
Impairments on other investments	—	—	1	3	—	—	4
Expenses for the administration of investments [3]	1	2	2	2	—	13	20
Other expenses	1	6	—	8	1	—	16
Other investment expenses/ impairments	**2**	**13**	**3**	**16**	**2**	**13**	**49**
Investment expenses	**9**	**45**	**8**	**25**	**5**	**15**	**107**
Net income from investments under own management	**57**	**403**	**77**	**263**	**98**	**–11**	**887**
Interest income on funds withheld and contract deposits	—	—	—	5	92	—	97
Interest expense on funds withheld and contract deposits	—	7	—	2	14	—	23
Net interest income on funds withheld and contract deposits	**—**	**–7**	**—**	**3**	**78**	**—**	**74**
Net investment income	**57**	**396**	**77**	**266**	**176**	**–11**	**961**

[1] After elimination of internal transactions within the Group across segments
[2] The profit or loss on investments in associated companies using the equity method amounts to EUR 1 (2) million and is recognised under dividends
[3] Expenses for the administration of non-Group investments are recognised under "Other expenses" with effect from the current reporting period. The previous year was adjusted accordingly (EUR 18 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 no material significance to the Group's assets, financial position or net income.

1.1.–31.3.2011[1]	Industrial Lines	Retail Germany	Retail International	Non-Life Reinsurance	Life/Health Reinsurance	Corporate Operations	Total
Figures in EUR million							
Income from real estate	1	13	—	9	—	—	23
Dividends[2]	—	3	—	4	—	1	8
Current interest income	50	372	32	157	48	1	660
Other income	1	2	—	3	1	—	7
Ordinary investment income	**52**	**390**	**32**	**173**	**49**	**2**	**698**
Appreciation	1	13	—	14	—	—	28
Realised gains on investments	5	44	4	81	3	—	137
Unrealised gains on investments	—	2	11	66	8	—	87
Investment income	**58**	**449**	**47**	**334**	**60**	**2**	**950**
Realised losses on investments	2	44	1	43	2	—	92
Unrealised losses on investments	1	12	1	3	2	—	19
Total	**3**	**56**	**2**	**46**	**4**	**—**	**111**
Impairments/depreciation on investment property							
Scheduled	—	—	—	3	—	—	3
Unscheduled	1	15	—	—	—	—	16
Impairments on equity securities	1	7	1	—	—	—	9
Impairments on fixed-income securities	—	—	—	5	—	—	5
Impairments on other investments	—	1	—	7	—	—	8
Expenses for the administration of investments[3]	1	2	—	4	—	12	19
Other expenses	1	4	1	6	—	—	12
Other investment expenses/ impairments	**4**	**29**	**2**	**25**	**—**	**12**	**72**
Investment expenses	**7**	**85**	**4**	**71**	**4**	**12**	**183**
Net income from investments under own management	**51**	**364**	**43**	**263**	**56**	**–10**	**767**
Interest income on funds withheld and contract deposits	—	1	—	4	113	—	118
Interest expense on funds withheld and contract deposits	—	6	—	1	43	—	50
Net interest income on funds withheld and contract deposits	**—**	**–5**	**—**	**3**	**70**	**—**	**68**
Net investment income	**51**	**359**	**43**	**266**	**126**	**–10**	**835**

[1] After elimination of internal transactions within the Group across segments
[2] The profit or loss on investments in associated companies using the equity method amounts to EUR 1 (2) million and is recognised under dividends
[3] Expenses for the administration of non-Group investments are recognised under "Other expenses" with effect from the current reporting period. The figures were adjusted accordingly (EUR 18 million)

Of the impairments totalling EUR 7 (38) million, an amount of EUR 2 (9) million was attributable to equity securities and EUR 4 (6) million to private equity. Impairments on structured and other fixed-income securities in the amount of EUR 0.5 (5) million were taken to only an insignificant extent. In addition, the comparable period was particularly influenced by impairments on investment property in the amount of EUR 16 million. This contrasted with appreciation of EUR 0.2 (28) million on investments that had been written down in previous periods; total volume in the comparable period was attributable principally to real estate (EUR 13 million) and fixed-income securities (EUR 15 million).

The Group had only insignificant investments in Greek sovereign bonds as at the closing date. Nominal amounts totalling EUR 15 million (0.02% of the portfolio of assets under own management) contrast with a fair value of EUR 3 million. Since we recognised a value of on average 20% for the securities, there were no material impairments as at 31 March 2012.

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

	31.3.2012	31.3.2011
Figures in EUR million		
Investments in affiliated companies and participating interests	1	—
Loans and receivables	345	345
Financial assets held to maturity	43	33
Financial assets available for sale		
Fixed-income securities	355	304
Variable-yield securities	28	9
Financial assets at fair value through profit or loss		
Financial assets classified at fair value through profit or loss		
Fixed-income securities	36	18
Variable-yield securities	2	—
Financial assets held for trading		
Fixed-income securities	—	1
Variable-yield securities	—	—
Derivatives	43	15
Other invested assets, insofar as they are financial assets	–3	8
Other [1]	73	65
Investments under own management	**923**	**798**
Funds withheld by ceding companies/funds withheld under reinsurance treaties	74	68
Total	**997**	**866**

[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 20 [19] million) and “Other expenses” (EUR 16 [12] million), the total net investment income as at the balance sheet date amounted to EUR 961 (835) million.

(12) Claims and claims expenses

1.1.–31.3.2012 [1]	Industrial Lines	Retail Germany	Retail International	Non-Life Reinsurance	Life/Health Reinsurance	Total
Figures in EUR million						
Gross						
Claims and claims expenses paid	543	911	384	873	877	3,588
Change in loss and loss adjustment expense reserve	46	–24	22	305	143	492
Change in benefit reserve	–1	264	–4	—	120	379
Expenses for premium refunds	8	194	7	—	—	209
Total	**596**	**1,345**	**409**	**1,178**	**1,140**	**4,668**
Reinsurers' share						
Claims and claims expenses paid	261	41	13	206	84	605
Change in loss and loss adjustment expense reserve	65	–4	–17	–95	12	–39
Change in benefit reserve	—	–9	–1	—	—	–10
Expenses for premium refunds	1	—	2	—	—	3
Total	**327**	**28**	**–3**	**111**	**96**	**559**
Net						
Claims and claims expenses paid	282	870	371	667	793	2,983
Change in loss and loss adjustment expense reserve	–19	–20	39	400	131	531
Change in benefit reserve	–1	273	–3	—	120	389
Expenses for premium refunds	7	194	5	—	—	206
Total	**269**	**1,317**	**412**	**1,067**	**1,044**	**4,109**

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

1.1. – 31.3.2011[1]	Industrial Lines	Retail Germany[2]	Retail International[2]	Non-Life Reinsurance	Life/Health Reinsurance	Total
Figures in EUR million						
Gross						
Claims and claims expenses paid	592	995	306	729	732	3,354
Change in loss and loss adjustment expense reserve	–90	–72	17	1,130	110	1,095
Change in benefit reserve	—	261	47	—	127	435
Expenses for premium refunds	1	162	3	—	—	166
Total	**503**	**1,346**	**373**	**1,859**	**969**	**5,050**
Reinsurers' share						
Claims and claims expenses paid	231	123	7	118	73	552
Change in loss and loss adjustment expense reserve	–118	–60	—	436	–7	251
Change in benefit reserve	—	–15	–1	—	—	–16
Expenses for premium refunds	—	—	1	—	—	1
Total	**113**	**48**	**7**	**554**	**66**	**788**
Net						
Claims and claims expenses paid	361	872	299	611	659	2,802
Change in loss and loss adjustment expense reserve	28	–12	17	694	117	844
Change in benefit reserve	—	276	48	—	127	451
Expenses for premium refunds	1	162	2	—	—	165
Total	**390**	**1,298**	**366**	**1,305**	**903**	**4,262**

[1] After elimination of internal transactions within the Group across segments
[2] Adjusted on the basis of IAS 8, see section "Accounting policies", subsection "Changes in accounting policies and accounting errors" of the Notes

(13) Acquisition costs and administrative expenses

1.1.–31.3.2012[1]	Industrial Lines	Retail Germany	Retail International	Non-Life Reinsurance	Life/Health Reinsurance	Total
Figures in EUR million						
Gross						
Acquisition costs and reinsurance commissions	173	260	106	408	187	1,134
Change in deferred acquisition costs and change in reserves for commissions	–65	–56	14	–67	10	–164
Total acquisition costs	**108**	**204**	**120**	**341**	**197**	**970**
Administrative expenses	50	77	39	41	33	240
Total acquisition costs and administrative expenses	**158**	**281**	**159**	**382**	**230**	**1,210**
Reinsurers' share						
Acquisition costs and reinsurance commissions	96	15	11	14	—	136
Change in deferred acquisition costs and change in reserves for commissions	–25	–1	–1	1	2	–24
Total acquisition costs	**71**	**14**	**10**	**15**	**2**	**112**
Net						
Acquisition costs and reinsurance commissions	77	245	95	394	187	998
Change in deferred acquisition costs and change in reserves for commissions	–40	–55	15	–68	8	–140
Total acquisition costs	**37**	**190**	**110**	**326**	**195**	**858**
Administrative expenses	50	77	39	41	33	240
Total acquisition costs and administrative expenses	**87**	**267**	**149**	**367**	**228**	**1,098**

[1] Presentation after elimination of intra-Group relations

1.1.–31.3.2011 [1]	Industrial Lines	Retail Germany	Retail International	Non-Life Reinsurance	Life/Health Reinsurance	Total
Figures in EUR million						
Gross						
Acquisition costs and reinsurance commissions	144	273	95	351	212	1,075
Change in deferred acquisition costs and change in reserves for commissions	–66	–67	–12	–51	–16	–212
Total acquisition costs	**78**	**206**	**83**	**300**	**196**	**863**
Administrative expenses	49	56	32	47	35	219
Total acquisition costs and administrative expenses	**127**	**262**	**115**	**347**	**231**	**1,082**
Reinsurers' share						
Acquisition costs and reinsurance commissions	53	17	9	21	–17	83
Change in deferred acquisition costs and change in reserves for commissions	–24	–1	4	–1	33	11
Total acquisition costs	**29**	**16**	**13**	**20**	**16**	**94**
Net						
Acquisition costs and reinsurance commissions	91	256	86	330	229	992
Change in deferred acquisition costs and change in reserves for commissions	–42	–66	–16	–50	–49	–223
Total acquisition costs	**49**	**190**	**70**	**280**	**180**	**769**
Administrative expenses	49	56	32	47	35	219
Total acquisition costs and administrative expenses	**98**	**246**	**102**	**327**	**215**	**988**

[1] Presentation after elimination of intra-Group relations

(14) Other income/expenses

Figures in EUR million	31.3.2012	31.3.2011
Other income		
Foreign exchange gains	33	89
Income from services, rents and commissions	55	31
Reversals of impairments on receivables	2	3
Income from contracts recognised in accordance with the deposit accounting method	14	11
Income from the release of other non-technical provisions	1	5
Interest income	9	68
Income from the repurchase of own securities	—	3
Sundry income	32	33
Total	**146**	**243**
Other expenses		
Foreign exchange losses	58	127
Other interest expenditures	42	37
Depreciation and impairments	20	28
Expenses for the company as a whole [1]	50	54
Expenses for personnel	6	7
Other taxes	9	5
Sundry expenses	89	10
Total	**274**	**268**
Other income/expenses	**–128**	**–25**

[1] In the previous year a portion of the expenses for the company as a whole was erroneously recognised under expenses for services. We have adjusted the comparable figures accordingly (reclassification of EUR 19 million)

The funded provisions for restructuring gave rise to only immaterial amounts released. The provisions for restructuring amounted to EUR 87 million, a figure unchanged from 31 December 2011.

Other income/expenses does not in general include personnel expenses of our insurance companies, in as far as these expenses are attributed according to function units by means of cost object accounting and allocated to expenses for investments, claims and claims expenses as well as acquisition costs and administrative expenses. In the same way, this also applies to depreciation and impairments of intangible and other assets of our insurance companies.

The high amount of interest income in 2011 stems primarily from the interest portion of the tax refund as a result of the fiscal court (BFH) ruling in connection with the additional taxation of investment income generated by the Group's reinsurance subsidiaries domiciled in the Republic of Ireland pursuant to the Foreign Transactions Tax Act.

IX. Other information

Staff

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

	31.3.2012	31.12.2011
Industrial Lines	2,738	2,610
Retail Germany	5,517	5,810
Retail International	5,424	5,013
Reinsurance companies	2,223	2,210
Corporate Operations	2,456	2,176
Total excluding apprentices and student trainees	**18,358**	**17,819**
Apprentices and student trainees	459	475
Total	**18,817**	**18,294**

The increase in the Retail International segment is due mainly to the acquisition of the Mexican insurance company Metropolitana Compañía de Seguros.

As at the balance sheet date, a total workforce of 17,641 (17,061) was employed by the Talanx Group; this figure refers to full-time equivalents (FTEs).

Related-party disclosures

The related entities within the Talanx Group comprise HDI Haftpflichtverband der Deutschen Industrie Versicherungsverein auf Gegenseitigkeit (HDI V. a. G.), which directly holds all shares of Talanx AG, and all unconsolidated subsidiaries – essentially comprising subsidiaries not included in the consolidated financial statement due to their insubstantial contributions – and the associated companies recognised at equity. In addition, there are the provident funds that pay benefits in favour of employees of Talanx AG or one of its related entities after termination of their employment.

Transactions between Talanx and its subsidiaries and among subsidiaries are eliminated through consolidation and hence not discussed in the Notes. During the reporting period, there were outstanding loans to HDI V. a. G. in the amount of EUR 110 million, due for repayment in October 2013. In addition, HDI V. a. G. conducts primary insurance business in the form of co-insurance, with HDI-Gerling Industrie Versicherung AG (HG-I) and HDI-Gerling Firmen und Privat Versicherung AG (HG-FP) being the lead insurance companies. Pursuant to the Articles of Association of HDI V. a. G., insurance business is split in the ratio 0.1% (HDI V. a. G.) to 99.9% (HG-I/HG-FP). Business relations with unconsolidated companies and with associated companies are of minor importance overall.

There were no significant changes in related-party disclosures in the course of the 2012 reporting period relative to the position as at 31 December 2011.

Lawsuits

In September 2011, the Italian anti-trust authority imposed a fine of EUR 6 million on HDI-Gerling Industrie Versicherung AG on the grounds of alleged cartel agreements in the Campania region. The company has appealed against this ruling.

Apart from the aforesaid proceedings, there were no significant court cases pending during the reporting period or as at the balance sheet date, with the exception of proceedings in connection with ordinary insurance and reinsurance business.

Earnings per share

Earnings per share are calculated by dividing the Group profit attributable to the shareholders of Talanx AG by the average number of shares outstanding. Dilutive effects, which have to be presented separately when calculating earnings per share, were not present either as at the balance sheet date or in the previous year. In the future, earning per share may be diluted as a result of the issuance of shares or subscription rights from authorised or conditional capital.

	1.1.–31.3.2012	1.1.–31.3.2011
Net income attributable to shareholders of Talanx AG for calculating earnings per share (in EUR million)	211	77
Weighted average number of ordinary shares outstanding (in units)	260,000	260,000
Basic earnings per share (in EUR)	811.23	297.25
Diluted earnings per share (in EUR)	811.23	297.25

The amendment to the Articles of Association adopted by the General Meeting of Talanx AG on 30 March 2012 became effective upon its entry in the commercial register on 2 May 2012. Pursuant to the amendment, the share capital amounts to EUR 260 million, divided into 208,000,000 registered no-par shares. The conditional capital (EUR 26 million; see our remarks on No. 6 “Shareholders’ equity”) is divided into up to 20,800,000 registered no-par shares.

If the stock split had been effective as at the balance sheet date of 31 March 2012, earnings per share would have amounted to EUR 1.01 and, for the comparable period (2011), EUR 0.37.

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:

	31.3.2012	31.12.2011
Figures in EUR million		
Sureties in the form of letters of credit furnished by various financial institutions as security for technical liabilities	3,326	3,164
Trust accounts in the United States (master trust funds, supplemental trust funds and single trust funds) as security for technical liabilities to US clients; the securities held in the trust accounts are largely recognised in the investment portfolio as "financial instruments available for sale" [1]	3,278	3,136
Blocked custody accounts and other trust accounts as collateral in favour of reinsurers and ceding companies; generally outside the US	2,145	2,071
Guarantees for the subordinated debts issued: the guarantees cover the relevant bond volumes as well as interest due	1,958	1,959
Other financial commitments in connection with envisaged acquisitions	758	277
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	695	648
Commitments arising out of rental/lease agreements [2]	477	477
Funding commitments and contribution payments pursuant to §§124 et seq. Insurance Supervision Act (VAG) as a member of the Security Fund for Life Insurers	391	410
Collateral for liabilities to various banks in connection with participating interests in real estate companies and real estate transactions	327	309
Commitments based on service agreements – primarily in connection with IT outsourcing contracts	184	165
Assets in blocked holdings as collateral for existing derivative transactions: we have received collateral with a fair value of EUR 30 (5) million for existing derivative transactions [1]	26	37
Obligations in connection with structured securities through issuers' rights to take delivery: the potential amounts that could be drawn upon totalled EUR 0 million for 2012 (31 December 2011: EUR 10 million for 2012)	—	10
Other commitments	54	63
Total	**13,619**	**12,726**

[1] The amount stated refers primarily to the current value/book value
[2] 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.

The amounts stated are nominal amounts.

Events after the end of the reporting period

Talanx AG, via its subsidiary Talanx Finanz (Luxemburg) S. A., Luxembourg, issued new debt on 28 March 2012 primarily to European investors – with admission to the regulated market on 4 April. This subordinated fixed to floating rate debt with a nominal value of EUR 500 million has a 30-year term and cannot be called for ten years. The debt, which has been guaranteed by Talanx AG, bears fixed interest for the first ten years at the rate of 8.3673% p.a. and thereafter at a rate equal to the 3-month EURIBOR rate plus 7.056%.

Contracts dated 20 April 2012 and 2 May 2012 resulted in the execution of an agreement for the sale of, respectively, 70% and 30% of the holdings of Talanx International AG in ASPECTA Assurance International AG, Vaduz, Liechtenstein. The purchase price amounts to EUR 2.7 million. For further details, please see section VI "Non-current assets held for sale and disposal groups".

On 25 April 2012, our subsidiaries HDI-Gerling Assurance S. A., Brussels (Belgium) and HDI-Gerling Industrie Versicherung AG, Hannover (both Industrial Lines segment) signed an agreement to purchase all of the shares of the Belgian insurance company Assurances Mutuelles d'Europe Lux S. A., Luxembourg (A. M. E. Lux S. A.), which offers property/casualty and accident insurance on the Luxembourg market. The purchase price for the company is EUR 6 million. We expect closing to take place in the third quarter of 2012. The acquisition is still subject to local regulatory approval. In 2011 gross written premium amounted to EUR 8 million.

In late April 2012, management and the Group Labour Council of Talanx AG reached agreement that will now enable the Talanx division Retail Germany to take further decisive steps to realign this Group segment, such as bundling corporate functions in order to achieve cost savings.

In its news release of 3 May 2012, Hannover Rückversicherung AG announced that at its General Meeting on 3 May 2012, it was resolved to convert the company into a European Company (SE). Hannover Re is thus modernising its legal form and at the same time giving greater expression to its international reach. In addition, it will become more flexible, enabling it to react to future legal and regulatory requirements.

In its news release of 14 December 2011, Talanx International AG (Retail International segment) announced that it was launching a long-term strategic bancassurance cooperation in Poland jointly with our Japanese strategic partner Meiji Yasuda Life Insurance Company and the Polish company Getin Holding Group. To this end Talanx International AG and Meiji Yasuda Life Insurance Company together with Getin Holding Group are taking over the insurance companies TU Europa Life (Towarzystwo Ubezpieczeń na Życie Europa S. A.) and TU Europa Non-Life (Towarzystwo Ubezpieczeń Europa S. A.) (Euro Group). Talanx International AG is assuming a majority interest of 50% plus one share at a price equivalent to EUR 200 million (as at 31 December 2011). On 8 May 2012, the Polish regulatory authority approved the transaction.

Drawn up and released for publication in Hannover, 10 May 2012.

Hannover, 10 May 2012

Board of Management

Haas	Dr. Hinsch	Leue	Dr. Noth
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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.

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www.talanx.com ► Investor Relations

Financial calendar 2012

13 August
Interim Report as at 30 June 2012

14 November
Interim Report as at 30 September 2012

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