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Talanx Primary Insurance Group

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Talanx Primary Insurance Group

Please note that the ratings covered by this full analysis apply only to core entities of the group, which are listed below. These ratings do not apply to any noncore or nonrated entities of the group. Ratings assigned to noncore entities of the group are published individually.

Major Rating Factors

Strengths:

- Strong competitive position.
- Strong capitalization.
- Strong enterprise risk management.

Counterparty Credit Rating

A-/Stable/--

Weaknesses:

- Earnings exposed to challenging economic environment.

Rationale

The ratings on the core operating entities of Germany-based Talanx Primary Insurance Group (TPG) reflect Standard & Poor's Rating Services' view of the group's strong competitive position, strong enterprise risk management (ERM), and strong capitalization. Those strengths are partly offset in our view by TPG's earnings' high exposure to challenging economic environments, especially to low yields in Germany.

TPG's competitive position is strong, in our view. Our assessment is mainly based on what we see as the group's sound franchise and market position in its Industrial Lines business. In this segment, we believe TPG has demonstrated competitive strength throughout cycles by defending its market position. In its Retail Germany business, we believe TPG's competitive strength stems predominantly from a number of successful bancassurance joint ventures that allow for strong distribution capabilities and diversification as well as sound growth prospects in profitable segments. In addition, we believe that TPG's expansion via acquisitions in its Retail International segment has further diversified its business profile, particularly in Poland where the group has gained a strong market position. We nevertheless continue to view as a relative weakness the lack of competitive strength at TPG's largest life operation HDI-Gerling Lebensversicherung AG (HG-LV).

We consider TPG's capitalization to be strong and supportive to the ratings. This is further underpinned by the group's very strong capital adequacy as measured by Standard & Poor's risk-based insurance capital model, which the group has maintained despite various acquisitions. Under our base-case scenario, we expect capitalization to remain strong in 2012 and 2013, taking into account TPG's acquisitions in 2011 and 2012 and adverse capital market developments.

We believe that TPG's operating performance showed increasing volatility in 2010 and 2011, reflecting one-off increases in risk provisions relating to TPG's domestic life insurance business, increasing natural catastrophe claims in its industrial business, and ongoing tough pricing pressure in German motor insurance. We also believe that TPG's life

insurance business in particular remains exposed to the challenging low interest rate environment, as does the rest of the life market, which we believe continues to be a constraint on the group's earnings.

TPG's net combined ratio decreased to 96.6% in 2011, from 104.2% in 2010 and 95% in 2009. However, TPG's return on equity (ROE) in 2011 benefitted from reserve releases, in particular in its industrial business. ROE increased to about 10% in 2011, from about 4% in 2010. Nevertheless, we continue to view operating performance as strong. This is mainly based on TPG's well-balanced non-life and life portfolios with improving underwriting earnings potential due to management's ongoing restructuring and efficiency measures. Our base-case earnings assumptions for 2012 and 2013 include earnings before interest and tax (EBIT) in 2012 of €650 million-€700 million and a ROE of 8%-10%, after €732 million and 9.6% respectively in 2011. In non-life underwriting performance, we expect improvements in 2012 toward a net combined ratio of 98%-100%. We anticipate that life underwriting performance will continue to benefit from sound margins in bancassurance distribution, with a new business margin of about 1.5%.

Outlook

The stable outlook on TPG's core operating entities reflects our expectation that the group will defend and further foster its competitive strength. We think this will be based on organic and acquisitive growth in 2012, mainly in its Industrial Lines and its Retail International businesses.

We view a positive rating action as a remote possibility at this stage.

We could consider lowering the ratings if TPG fails to perform in line with our profit forecast, or if financial flexibility or capitalization deteriorate to below what we see as strong levels as a result of further acquisitions or deteriorating capital market conditions.

Factors Specific To The Holding Company

The 'A-' rating on Talanx AG, the parent company of Germany-based Talanx Primary Insurance Group (TPG; core operating entities rated A+/Stable/--) reflects its position as the majority intermediate management holding company of TPG and its 50.2% stake in Hannover Rueckversicherung AG (Hannover Re; AA-/Stable/--). In turn, mutual parent HDI Haftpflichtverband der Deutschen Industrie VaG (A+/Stable/--) remains Talanx AG's single shareholder. The two-notch differential between the counterparty credit rating on Talanx AG and the financial strength ratings on its core primary insurance subsidiaries reflects that Talanx AG, as the holding company, has no operating characteristics in its own right and relies on profit transfers and dividend payments from its primary insurance and reinsurance subsidiaries. Control agreements linked to the profit-and-loss transfer agreements enable Talanx AG to exercise strong control over the respective operating entities.

Corporate Profile: TPG Is A Leading Industrial And Group Life Insurance Player

Talanx AG is the intermediate management holding company of the Germany-based Talanx Group, which includes TPG and Hannover Re. Talanx Group is the third-largest insurance group in Germany when including the reinsurance

business, with €23.7 billion in gross premiums written (GPW) at year-end 2011. In 2011, TPG reported GPW of €12.3 billion with an almost equal split between non-life and life insurance lines. In 2011, TPG performed a number of acquisitions, including that of Polish insurer Towarzystwo Ubezpieczeń i Reasekuracji WARTA S.A. (A/Stable/--). In 2006, Talanx AG acquired the primary insurance operations of Germany-based Gerling group and merged various HDI and Gerling operations.

The group's structure favors a customer-based focus over a business line approach. The group's segments are: Industrial Lines, Retail Germany, Retail International, Non-life Reinsurance, Life and Health Reinsurance, and Corporate Operations. The group's primary insurance business (TPG) is contained in the first three segments.

Within Talanx AG we take a segmented rating approach toward the primary insurance operations (TPG) and re-insurance (Hannover Re) operations. We regard both entities as core to Talanx AG. Despite its operational independence, Hannover Re is, in our view, core to Talanx because of its strategic role and size. The ratings on Hannover Re are therefore underpinned by the financial strength of the core primary insurance entities of the Talanx group. The combination of Hannover Re's core status and its relative operating independence means that, under our current rating methodology, the ratings on Hannover Re will not fall below those on the core operating entities of the Talanx group and could remain up to two notches higher.

Competitive Position: Strong, Particularly In Industrial Lines And Domestic Bancassurance Life, Constrained By Still Relatively Low Competitive Strength Of HG-LV

Table 1

Talanx Primary Insurance Group/Business Statistics					
	--Year ended Dec. 31--				
(Mil. €)	2011	2010	2009	2008	2007
Consolidated (Primary group)					
Total assets	74,011	73,210	68,822	64,878	64,539
Total gross premiums written	11,194	10,976	10,527	10,507	10,422
Annual change (%)	2.0	4.3	0.2	0.9	9.5
Non-life					
Gross premiums written	6,428	5,978	5,853	5,905	6,011
Annual change (%)	7.5	2.1	(0.9)	(1.8)	6.7
Life					
Gross premiums written	4,790	5,015	4,674	4,610	4,410
Annual change (%)	(4.5)	7.3	1.4	4.5	13.5

TPG's competitive position is strong, in our view, and benefits from scale as well as from diverse operations in terms of business lines, distribution, and customers. Competitive strength is mainly based on the group's strong position in Industrial Lines insurance and in its Retail Germany life bancassurance business. In our view, HG-LV's competitive position remains relatively low and needs to demonstrate a sustainable turnaround in competitive strength. Retail

International bears the largest growth potential within TPG, in our view, which has been demonstrated by a number of acquisitions, including the Warta acquisition in early 2012. However, we believe TPG will need to gain meaningful scale in its various Retail International markets to contribute visibly to the group's earnings.

Industrial Lines

In Industrial Lines we believe TPG gains competitive strength through excellent expertise and customer relationships. The group has built a strong franchise in the Industrial Lines business, which accounts for about 26% of its total GPW in 2011. In this segment, we believe that TPG benefits from its standing as a reliable provider with essential market capacity. TPG claims to maintain business relationships with 70% of the Euro Stoxx firms and 97% of DAX-listed industrial companies, with a high proportion of lead and exclusive mandates. We expect TPG to continue to defend its market-leading position in industrial line business and generate moderate premium growth rates of 2%-3% in 2012, based on our assumption of at least stabilized industrial rates.

Retail Germany

In our view, TPG's competitive position in Retail Germany is mainly influenced by its life business, in which we see mixed competitive strength.

In Retail Germany's bancassurance life business we believe TPG has built up a consistent and stringent approach with a dedicated risk carrier for every bancassurance partner. We believe TPG has proven its ability to manage these partnerships toward profitable growth. TPG has partnerships with TARGOBANK, Deutsche Postbank AG (A/Positive/A-1), and close to 100 members of the widespread network of independent German savings banks. These partnerships make TPG one of Germany's largest bancassurers, a segment that contributes positively to the group's revenue and earnings diversification. We expect further growth to emanate from bancassurance within Retail Germany.

In Retail Germany's non-bancassurance life business, TPG operates mainly with HG-LV. We believe competitive strength still remains relatively low given the company's market share losses in the last few years, and this segment still needs to demonstrate a sustainable turnaround in competitive strength. The management of Retail Germany is nevertheless actively addressing HG-LV's weaknesses through the offering of unit-linked and disability products and improvements in service levels. In addition, management is taking initiatives to improve resources within the group to strengthen the competitiveness of HG-LV's group life products. We believe HG-LV will continue to focus on unit-linked products, in which it has gained some market share.

Retail International

Retail International reported GPW of €2.5 billion in 2011, about 20% of TPG's GPW. We believe this segment continues to bear the largest growth potential in view of acquisitions in this segment, which have mainly taken place in Latin America and Central and Eastern Europe. However, we believe that competitive strength still needs to be built up in most international markets in order for this segment to successfully contribute to TPG's earnings diversification. Nevertheless, in Poland, TPG has gained a meaningful No. 2 position after its acquisitions of Warta and TU Europa, and when consolidating its existing Polish operation HDI Asekuraja TU S.A.

Management And Corporate Strategy: Ongoing Restructuring Measures

Strategy

Management follows a profit-oriented growth strategy to sustainably strengthen its capital base and enhance value. This strategy includes the willingness to temporarily lose market share during cyclical downturns and to acquire companies in target markets when applicable. TPG's acquisitions in 2011 and 2012 in our view follow this strategy, but we believe management's public statements on further bolt-on acquisitions indicate an increased risk appetite.

Strategy implementation, in our view, has been most effective within TPG's Industrial Lines segment. However, management acknowledges the need to improve and exploit potential synergies, in particular in the group's Retail Germany business. Thus, in 2009, TPG announced a comprehensive restructuring program and in our view has made good progress in particular in reducing the complexity of the corporate structure. We believe, however, that the restructuring program will continue to require some of management's attention in 2012, in order to further cut competitive disadvantages from the group's relatively cost-inefficient structure.

Operational management

We believe operational management and operational effectiveness have improved since the launch of TPG's current structure, benefitting from lower complexity and a more customer group-oriented approach. We also believe the management team for Retail Germany is well placed to address the challenges in this segment, based on the team members' experiences in the market.

Financial management

We consider TPG's financial management to be conservative with regard to investment, group capital, and reserving strategy. Capital management at the subsidiary level, however, is significantly tighter. Management's objective for Talanx Group and TPG is to be sustainably more profitable than the average of the 20 largest European insurance groups, based on the return on IFRS (International Financial Reporting Standards) equity. The entire group's targeted ROE is a minimum of 750 basis points above the average risk-free return over the past five years for 10-year German government bonds.

Management's conservative financial policy has, in our view, comfortably preserved TPG's resilient capitalization at the group level and financial leverage in line with the current rating. We expect TPG's underwriting, investment, and reserving strategies to remain conservative. We also expect TPG to remain committed to maintaining its target capital adequacy within the 'AA' rating level according to Standard & Poor's capital model, despite potential further acquisitions. At the beginning of 2012, Talanx Group AG announced its long-planned initial public offering (IPO), before postponing it, announcing again at the beginning of September, postponing it again a week later, and restarting it on Sept. 20. We believe this uncertainty around the IPO plans did not help to strengthen capital markets' perception of the TPG, although in our view the IPO proceeds should strengthen TPG's capitalization.

Enterprise Risk Management: Further Progress Made And Now Viewed As Strong

We now consider TPG's ERM to be strong following the recent developments toward a harmonized ERM framework at group level. We think it is unlikely that TPG will experience losses that are in excess of its risk tolerance. ERM is of very high importance to the rating on TPG, which operates in complex and potentially volatile business lines and is highly exposed to the competitive German insurance market. The major factors supporting our overall ERM assessment are the group's strong risk management culture, strong risk controls for the main risks, strong risk models, and strong strategic risk management.

We have raised our assessment of the ERM framework from adequate and recognize a positive trend due to the TPG's significant progress in developing a group-wide strategic risk management framework. This framework includes increased centralized risk management responsibilities and the development of a more sophisticated, holistic, and consistent economic capital model "TERM," which has been deployed across the group to support the risk budgeting allocation process, the limit and threshold system, and business planning by a value-based management approach.

We believe that TPG's risk management culture is strong, supported by enlarged chief risk officer competencies and overall larger risk management resources. These include a newly created group risk management team and a clear risk management structure between group risk management and risk management at a local operating entity level. A consistent group-wide risk management framework is in place. In line with the group strategy, Talanx has clearly defined its overall risk appetite and risk tolerances at the group and entity level. For the most significant risks, Talanx has implemented central management and control through its group risk management team and we believe that the sound limit and threshold system will support a consistent risk approach across all local operating entities going forward.

Credit risk and market risk controls relating to investments are strong. These risks are centrally monitored, reported, and controlled by Talanx's internal asset manager Talanx Asset Management, based on group and entity-specific investment guidelines. In addition, group risk management manages and controls credit risk accumulations centrally. We also consider asset-liability management (ALM) risk controls to be strong. ALM committees are in place at all of Talanx's major entities and at the Talanx group level. They are responsible for defining the framework for strategic asset allocation, monitoring asset allocation and risk exposures, and for implementing ALM measures. Central oversight of ALM risk exposure is performed at the group level. Investment monitoring has been strengthened by the two newly developed ALM-Value at Risk (ALM-VaR) and Credit-VaR metrics, which are very important tools for the group's risk management controls.

Non-life underwriting risk controls are adequate, in our view. Risk monitoring, controlling, and reporting processes are performed locally, based on entity-specific underwriting guidelines and within central risk management's guidelines.

Reserving risk controls are strong. Talanx's risk management team monitors the group's claims reserves, which are set up by the actuaries at the local level using multiple actuarial methods. Claims reserves are also regularly reviewed by external actuaries.

Controls for natural catastrophe risk, including those relating to risk accumulation, are strong, in our view. Talanx uses a variety of external models as well as its own data to monitor and assess this type of risk. In addition, group risk management closely monitors and controls risk accumulation, one of Talanx's most significant risks.

We consider reinsurance risk controls to be strong because of the centralized management of reinsurance placements through Talanx's in-house reinsurance broker Talanx Reinsurance Broker AG. Reinsurance credit risk, one of Talanx's most important risks, is subject to close monitoring and control through the group risk management.

We consider emerging risk management to be strong. Talanx has defined its emerging risk guidelines that include, in particular, a larger scope of emerging risk under supervision, regular semiannual assessment of emerging risks, and an aggregation at group level.

We regard the group's risk model as strong. Talanx has developed its holistic group internal model "TERM." The model has been deployed largely and consistently within the group, with the support of the risk management function, which demonstrates a strong involvement in the risk model validation process.

We have revised upward to strong our assessment of the group's strategic risk. The development of a group risk model has in our view strengthened the group's strategic use of risk capital considerations in its value-based management and performance-measurement approach. The group has also made significant progress toward a group-wide, consistent risk tolerance framework through an optimized risk budgeting process.

Accounting: Good, And Improved

Talanx Group reported its consolidated 2011 financial statements, including the relevant subsidiaries of TPG and Hannover Re, in accordance with IFRS. In addition, Talanx and its German subsidiaries prepare separate financial statements under German generally accepted accounting principles. Furthermore, Hannover Re establishes and discloses its own consolidated financial statements based on IFRS. Accounting policies conform to industry standards and are conservative.

We consider financial communication to be good. However, disclosure at the group level does not yet include market-consistent embedded-value information. Nevertheless, we believe TPG's financial reporting has improved since it started reporting quarterly profit and loss statements for the aggregated primary segments.

The group's segmental structure consolidates life and non-life insurance in Retail Germany and Retail International on a reported basis, which makes it difficult to assess non-life and life profitability separately. We therefore split within our analysis of profitability, TPG's business into non-life and life.

According to our criteria, we adjust the reported IFRS shareholders' equity by:

- Crediting 67% of the non-life loss reserve discount and 50% of the loss reserve redundancy not included in the balance sheet;
- Crediting deferred taxes on the equalization reserve;
- Including the free and unallocated portion of the policyholder bonus reserve in life insurance; and
- Crediting 50% of the present value of future profits.

Operating Performance: Strong, But Exposed To Challenging Economic Environment

Table 2

Talanx Primary Insurance Group/Operating Statistics					
(Mil. €)	--Year ended Dec. 31--				
	2011	2010	2009	2008	2007
Consolidated (Primary group)					
Net income	537	206	620	351	175
Return on equity (%)	9.6	3.9	13.7	10.1	6.1
Earnings before interest and tax (EBIT)	732	216	874	566	382
Life: New business margin (%)	1.5	2.2	1.7	N.A.	N.A.
Life return on embedded value (%)	(8.5)	(32.2)	14.0	N.A.	N.A.
Non-life: Net loss ratio (%)	68.3	75.6	68.1	67.7	72.7
Non-life: Total net expense ratio (%)	28.3	28.6	26.8	26.0	27.3
Non-life: Net combined ratio (%)	96.6	104.2	95.0	93.7	100.1

N.A.--Not available.

We believe TPG's operating performance is strong, mainly based on TPG's well-balanced non-life and life portfolios. These segments have improving underwriting earnings potential due to management's ongoing restructuring and efficiency improvement measures.

Nevertheless, TPG's ROE recovered to about 9.6% in 2011, from 4% in 2010. We expect underwriting performance and bottom line earnings to improve in 2012, with a ROE of 8%-10%. We anticipate that investment earnings will remain under pressure, but we do not see significant downturns in view of TPG's conservative investment portfolio. We estimate a net investment yield of about 3.5%-4.0% in 2012.

TPG's bottom-line operating performance has shown increasing volatility between 2009 and 2011, reflecting one-off increases in risk provisions relating to TPG's domestic life insurance business, increasing natural catastrophe claims in its industrial business, and ongoing tough pricing pressure in German motor insurance.

Non-life insurance

Non-life underwriting performance in our view remains essential for TPG's overall performance, and following the above-mentioned challenges and volatility in 2011, the group's net combined ratio significantly decreased to 96.6% in 2011. For 2012, we expect a combined ratio of about 98%-100%, while we mainly see improvements in Retail Germany benefitting from rising motor insurance prices and in the absence of above-budget natural catastrophes. We expect non-life insurance, and in particular TPG's industrial business, to remain the main earnings contributor going forward.

Life insurance

TPG's life insurance operations in our view continue to benefit from strong and resilient margins from the bancassurance operations. This reflects high margins in credit life, in which TPG maintains a market leading position

and strong cost efficiency in these operations. The new business margin in the low-interest-rate environment decreased to 1.5% in 2011, from 2.2% in 2010.

We believe that life insurance profitability will largely depend on developments in the financial markets and on TPG's ability to continue to shift new business uptake to less-capital-market-sensitive products. Given the continued challenging operating and capital market conditions, we expect life profitability to remain challenged, with a new business margin of about 1.5% in 2012.

Investments: Very Strong And Conservative Investment Strategy Likely To Continue

Table 3

Talanx Primary insurance Group/Investment Statistics					
	--Year ended Dec. 31--				
(%)	2011	2010	2009	2008	2007
Net investment yield (%)	4.2	4.3	5.2	4.1	4.1
Net investment yield including all capital gains/ (losses) (%)	4.3	4.6	4.1	2.9	3.8
Portfolio composition (%)					
Cash & cash equivalents (%)	5.2	4.4	5.8	7.0	3.8
Bonds (%)	82.1	82.5	78.9	75.4	80.1
Common stock (%)	1.8	2.7	3.4	3.9	5.3
Real estate (%)	2.7	2.3	2.4	2.4	1.3
Mortgages and loans (%)	2.3	2.5	2.7	3.2	3.7
Investments in affiliates (%)	5.1	4.7	4.5	3.6	1.6
Other investments (%)	0.8	0.8	2.2	4.6	4.1
Total portfolio composition (%)	100.0	100.0	100.0	100.0	100.0

TPG's investment strategy is very strong and conservative, in our view, founded on a high-quality investment portfolio, good level of diversity, and a conservative management approach. More than 82% of TPG's total investments are held in fixed income investments and the group has comparably small exposures to equities and property investments. TPG's investments mainly consist of government and semi-government bonds, as well as covered bonds. Moreover TPG's exposure Southern European government debt is in our view manageable and not a rating concern at this stage. This comprises a direct exposure in Greece of about €3 million, Portugal €23 million, Spain €196 million, Ireland €228 million, and Italy €606 million as of June 30, 2012.

Credit risk

In our view, TPG's credit risk is low and the quality of its fixed-income portfolio is very strong: 88% of TPG's fixed income portfolio is rated 'A' or higher, and 68% is rated 'AA' or higher.

Market risk

Market risk from equities is low. At year-end 2011, TPG held only about 2% of total investments in equities. We believe TPG will continue to maintain a low equity investment exposure of not more than 5% in 2012. Equity investments focus on European blue-chip shares. Market risk also relates to interest rate risk in life business, which is

highlighted in high embedded value sensitivities to a downward shock in interest rates. Strong ALM management, effective hedging transactions, and the relatively tighter asset liability matching in non-life insurance mitigate this risk.

Liquidity: Strong, Fueled By Sound Operating Cash Flows In Non-Life Insurance

TPG's liquidity is strong, in our view. TPG has delivered a track record of sustainable positive operating cash flows in recent years. In addition, TPG's investment portfolio is highly liquid. Liquidity is further supported by 5% of investments in cash and bank deposits.

Capitalization: Strong At The Group Level

We consider TPG's capitalization to be strong and in line with the current rating level. Capital adequacy is very strong, based on our capital model, and quality of capital is also strong, in our view. Capitalization in 2011 continued to benefit from retained earnings. The statutory group solvency position also remained strong at 202% at year-end 2011. We also expect capitalization to remain strong in 2012, when taking into account current year financial market developments and TPG's acquisitions made so far in 2011 and 2012, with potential goodwill depreciations. The finally announced IPO should, in our view, strengthen TPG's capitalization.

However, we believe that HG-LV's stand-alone capitalization remains lower than that of the overall group. Our assessment of the company as a core operating entity within Talanx Group reflects our view that TPG will remain committed to ensuring HG-LV's capitalization and will take recapitalization measures if the need arises, as demonstrated in 2011. Our assumption of HG-LV's "core" group status reflects a reported Solvency I ratio of at least 130% and capital adequacy based on Standard & Poor's capital model in the 'BBB' range in 2012.

Reserves

We consider non-life reserving to be very strong. In our view, the confidence level in TPG's loss reserves is very conservative.

Reinsurance

TPG has maintained its conservative reinsurance policy. We estimate that the net retention for the non-life segment will remain at about 68%. TPG channels almost all business ceded from primary insurance operations through its in-house reinsurance broker, Talanx Reinsurance Broker AG, although Hannover Re still maintains its position as TPG's main reinsurer. Other contracting reinsurers remain of high quality and have a minimum rating of 'A'.

Financial Flexibility: Strong, Backed By Ample Access To External Funding

Table 4

Talanx Primary Insurance Group/Financial Statistics					
	--Year ended Dec. 31--				
(Mil. €)	2011	2010	2009	2008	2007
Consolidated (Primary group)					
Total equity	5,925	5,426	5,081	3,974	2,959
Reinsurance utilization (%)	21.3	20.8	24.5	24.0	27.8
Consolidated Group					
Financial leverage (%)	19.1	20.5	17.3	19.2	18.0
Fixed-charge coverage (x)	4.2	4.0	7.0	3.8	5.7

In our view, TPG's financial flexibility--defined as the ability to source capital relative to capital requirements--is strong, given TPG's strong capitalization, ample liquidity, and robust earnings. Moreover, we believe that at the end of 2011, TPG has successfully demonstrated its access to external funding resources in its hybrid issuance with strategic investor Meiji Yasuda Life Insurance Co. (A/Stable/A-1). We believe that TPG's access to external funding will remain sound. We also believe that, following the announcement of the offer period of TPG's IPO on Sept. 20, the probability of the group completing its long-term plan of an IPO has increased (although we note the various previous postponements of the IPO). TPG intends to generate proceeds of about €500 million from the IPO and the convertible bond of €300 million from strategic partner Meiji Yasuda will convert into shares with the IPO. A successful IPO would in our view confirm our assessment of TPG's financial flexibility as strong.

TPG's capital requirements will in our view continue to emanate from international expansion. The group's financial leverage remains in line with the current rating level at about 19% in 2011, although it increased following the hybrid issuance. The fixed charge coverage of 4.2x in 2011 represented a slight increase on the previous year, reflecting the effects of the group's one-off earnings. We expect the group's fixed charge coverage to improve, based on our forecast of increased earnings in 2012, to become more commensurate with the current rating level.

Related Criteria And Research

All articles listed below are available on RatingsDirect on the Global Credit Portal, unless otherwise stated.

- Nonsovereign Ratings That Exceed EMU Sovereign Ratings: Methodology And Assumptions, June 14, 2011
- Principles Of Credit Ratings, Feb. 16, 2011
- Rating Government-Related Entities: Methodology And Assumptions, Dec. 9, 2010
- Refined Methodology And Assumptions For Analyzing Insurer Capital Adequacy Using The Risk-Based Insurance Capital Model, June 7, 2010
- Use Of CreditWatch And Outlooks, Sept. 14, 2009
- Hybrid Capital Handbook: September 2008 Edition, Sept. 15, 2008
- Group Methodology, April 22, 2009
- Interactive Ratings Methodology, April 22, 2009
- Criteria Update: Factoring Country Risk Into Insurer Financial Strength Ratings, Feb. 11, 2003

Ratings Detail (As Of September 28, 2012)

Talanx AG

Counterparty Credit Rating	A-/Stable/--
Junior Subordinated	BBB

Counterparty Credit Ratings History

02-Oct-2009	<i>Foreign Currency</i>	A-/Stable/--
20-Jun-2006	<i>Local Currency</i>	A-/Stable/--
07-Nov-2005		A/Watch Neg/--
27-May-2005		A/Stable/--

Related Entities**HDI Direkt Versicherung AG**

Financial Strength Rating	
<i>Local Currency</i>	A+/Stable/--
Issuer Credit Rating	
<i>Local Currency</i>	A+/Stable/--

HDI Haftpflichtverband der Deutschen Industrie VaG

Financial Strength Rating	
<i>Local Currency</i>	A+/Stable/--
Issuer Credit Rating	
<i>Local Currency</i>	A+/Stable/--

HDI-Gerling America Insurance Co.

Financial Strength Rating	
<i>Local Currency</i>	A+/Stable/--
Issuer Credit Rating	
<i>Local Currency</i>	A+/Stable/--

HDI-Gerling Firmen und Privat Versicherung AG

Financial Strength Rating	
<i>Local Currency</i>	A+/Stable/--
Issuer Credit Rating	
<i>Local Currency</i>	A+/Stable/--

HDI-Gerling Industrie Versicherung AG

Financial Strength Rating	
<i>Local Currency</i>	A+/Stable/--
Issuer Credit Rating	A+/Stable/--
Subordinated	A-

HDI-Gerling Lebensversicherung AG

Financial Strength Rating	
<i>Local Currency</i>	A+/Stable/--
Issuer Credit Rating	A+/Stable/--
Junior Subordinated	A-

HDI-Gerling Welt Service AG

Financial Strength Rating	
<i>Local Currency</i>	A+/Stable/--
Issuer Credit Rating	
<i>Local Currency</i>	A+/Stable/--

Ratings Detail (As Of September 28, 2012) (cont.)**Neue Leben Lebensversicherung AG**

Financial Strength Rating

Local Currency

A+/Stable/--

Issuer Credit Rating

Local Currency

A+/Stable/--

TARGO Lebensversicherung AG

Financial Strength Rating

Local Currency

A+/Stable/--

Issuer Credit Rating

Local Currency

A+/Stable/--

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