

Notes

General information

As a financial and management holding company Talanx AG heads Germany's third-largest insurance group, with premium income of EUR 19.0 (19.1) billion in 2008. Talanx transacts business worldwide in more than 150 countries in the areas of property/casualty insurance, non-life reinsurance, life insurance, life/health reinsurance and financial services.

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

At the end of 2008 the companies belonging to the Talanx Group employed a total global workforce* of 16,541 (15,996). Talanx AG is a joint-stock company and has its registered office in Hannover, Germany. It is entered in the commercial register of Hannover County Court under the number HR Hannover B 52546 with the address "Riethorst 2, 30659 Hannover".

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

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

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

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

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

*Full-time equivalents as at 31 December

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

Newly adopted standards

In November 2006 the IFRIC (International Financial Reporting Interpretation Committee) published IFRIC 11 “IFRS 2 – Group and Treasury Share Transactions”. The interpretation provides guidance on the application of IFRS 2 “Share-based Payment” to share-based payments involving an entity’s own equity instruments or rights to such equity instruments granted within the group. IFRIC 11 is mandatory for financial years beginning on or after 1 March 2007. Application of the interpretation had no implications for the consolidated financial statement.

In March 2007 the IASB published changes to IAS 23 “Borrowing Costs”. The major change compared to the version currently in force is the abolition of the option of immediately expensing borrowing costs directly attributable to a qualifying asset. The revised standard is to be applied to financial years beginning on or after 1 January 2008. The change has no significant implications for the assets, financial position or net income or the presentation of segments of the Talanx Group.

In July 2007 the IFRIC published IFRIC 14 “IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction”. The interpretation provides general guidance inter alia for determining the limit on the amount of a surplus in a pension plan that may be recognized as an asset pursuant to IAS 19. IFRIC 14 is to be applied to financial years beginning on or after 1 July 2008. The change has no significant implications for the assets, financial position or net income or the presentation of segments of the Talanx Group.

In October 2008, in response to the turmoil on international financial markets, the IASB published amendments to IAS 39 “Financial Instruments: Recognition and Measurement” and IFRS 7 “Financial Instruments: Disclosures”. The amendments permit, in particular circumstances, reclassifications of (1.) non-derivative financial assets out of the fair value through profit or loss category and (2.) financial assets classified in the available-for-sale category to the loans and receivables category, and provide for additional disclosures in this regard. The Talanx Group did not avail itself of these facilities.

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

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

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

The IASB published an amendment of IAS 1 “Presentation of Financial Statements” in September 2007. The revised standard contains new requirements regarding the consolidated statement of changes in shareholder’s equity. In addition, it grants the option of presenting income and expense items and the components of comprehensive income either in one statement with a subtotal or in two separate statements. The revised standard is to be applied to financial years beginning on or after 1 January 2009. In this connection we are currently drawing up the amended presentation of the consolidated statement of income and consolidated statement of changes in shareholders’ equity.

In January 2008 the IASB published revised versions of IFRS 3 “Business Combinations” and IAS 27 “Consolidated and Separate Financial Statements”. The new provisions primarily cover the recognition of minority interests, measurement issues in connection with successive acquisition, changes in a participating interest with or without a loss of control and adjustments to acquisition costs depending upon future events and their effects on goodwill. The revised standards are mandatory for financial years beginning on or after 1 July 2009. Neither of the revised standards had been ratified by the European Union as at the balance sheet date.

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

In February 2008 the IASB published amendments to IAS 32 “Financial Instruments: Disclosure and Presentation” and IAS 1 “Presentation of Financial Statements” with regard to so-called “puttable instruments and obligations arising on liquidation”. The revised version will permit the balance sheet classification of puttable financial instruments as equity in the future under certain conditions. The changes are applicable to financial years beginning on or after 1 January 2009. We do not expect the amendments of IAS 32 and IAS 1 to have any implications for the consolidated financial statement.

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

No other amended or new IFRS or IFRIC of material relevance to the Talanx Group needed to be taken into consideration.

Summary of major accounting policies

Changes in accounting policies

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

- a) In the second quarter of 2008 we correctly recognized an investment in the Group segment of Property/Casualty Primary Insurance previously classified as such on the basis of IAS 39 as an associated company due to the existence of a significant influence pursuant to IAS 28.7. The previous year's figures for 2006 were adjusted directly in equity in an amount of EUR 18 million. Shareholders' equity in the comparative period consequently increased by EUR 3 million as at 31 December 2007.
- b) A total amount of EUR 50 million was reclassified from shareholders' equity excluding minorities to minority interests with implications for previous years. This booking is connected with the sale of interests in E+S Rückversicherung AG by HDI V.a.G. to Hannover Re in 1995. In the subsequent year Hannover Re was included in the predecessor company of Talanx AG. The consolidated financial statements of the subsequent Talanx AG were not drawn up as subgroup accounts (accounts of entities under common control). The reallocation within shareholders' equity brings uniformity to the principles used in preparing the accounts of all entities under the common control of the parent company HDI V.a.G.
- c) In the second quarter of 2008 we modified the recognition of internal loan receivables and liabilities within the Group. In the previous year we had eliminated intra-group loans to other Group segments from the segment reporting pursuant to IAS 14.16. Contrary to this approach, from the second quarter of 2008 onwards we are no longer eliminating these loans, but are instead consolidating them. The current approach also reflects the requirements of IFRS 8, which are to be applied with effect from 1 January 2009 onwards. The effects of this change are only visible in the segmental balance sheet as at the balance sheet date; we have adjusted the comparative figures as at 31 December 2007.
- d) With effect from 31 December 2008 we have recognized all interest expenses for other capital borrowed for financing purposes separately from the operating profit (EBIT) – previously only the interest on hybrid capital had been separated. This did not have any effects on the balance sheet or Group net income. In our assessment, the modified presentation represents the operating profit (EBIT) more accurately.

- e) In the context of the implementation of our new consolidation system in the third quarter of 2008, the reconciliation of equity items led to reallocations within the Group reserves and minority interests in shareholders' equity. As a result, the Group reserves were reduced by EUR 2 million, while minority interests in shareholders' equity increased by the same amount.
- f) In the year under review we also continued to implement the definition of segments according to areas of responsibility on the Board of Management of the Group holding company Talanx AG. In this regard, Euro International Reinsurance S.A., Luxembourg, was allocated to the Non-Life Reinsurance segment (previously: Property/Casualty Primary Insurance segment). This reallocation between the two Group segments only had implications at the level of the segmental balance sheet and the segmental statement of income. The figures for the previous year were adjusted accordingly.
- g) In the context of uniform Group accounting, we adjusted the present value of future profits (PVFP) on acquired insurance portfolios with respect to a Group company in the Life Primary Insurance segment. This retrospective change – standardization of the calculation of amortization and of the treatment of the tax portion of the PVFP attributable to the shareholder – gave rise to an increase of EUR 15 million in total assets and liabilities for the previous year (items: “Other intangible assets” and “Provision for premium refunds”). There were no effects on the statement of income.

The adjustments made in the 2008 financial year pursuant to IAS 8 have the following effects on the Group balance sheets as at 31 December 2006 and 2007. Reflecting the explanatory remarks provided above, the specific circumstances are labeled with the letters a), b), d), e) and g):

Consolidated balance sheet		31.12.2006 as reported	Changes from adjustments pursuant to IAS 8 in 2006		31.12.2006
			Re a)	Re b)	
Figures in EUR million					
Assets					
B. c.	Investments in associated companies	148	26	—	174
B. f. ii.	Other invested assets	2,786	–45	—	2,741
H.	Deferred tax assets	577	1	—	578
Liabilities					
A. b.	Reserves	3,238	–18	–50	3,170
A. d.	Minority interests	1,990	—	50	2,040

Consolidated balance sheet	31.12.2007 as reported	Changes from adjustments pursuant to IAS 8 in 2006	Changes from adjustments pursuant to IAS 8 in 2007			31.12.2007
			Re a)	Re e)	Re g)	
Figures in EUR million						
Assets						
A. b. Other intangible assets	2,490	—	—	—	15	2,505
B. c. Investments in associated companies	152	26	—	—	—	178
B. f. ii. Other invested assets	3,261	–45	23	—	—	3,239
H. Deferred tax assets	237	1	–2	—	—	236
Liabilities						
A. b. Reserves	3,521	–68	21	–2	—	3,472
A. d. Minority interests	2,379	50	—	2	—	2,431
C. d. Provision for premium refunds	1,388	—	—	—	15	1,403

The effects on the consolidated statement of income for the 2007 financial year were as follows:

Consolidated statement of income	31.12.2007 as reported	Changes from adjustments pursuant to IAS 8	31.12.2007
Figures in EUR million			
10. Other expenses	1,608	–11	1,597
12. Financing costs (previously: Interest on hybrid capital)	123	11	134

Recognition of insurance contracts

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

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

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

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

Shadow accounting

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

Categorization of life insurance products

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

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

Coinsurance contracts in life insurance business

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

Types of surplus distribution in life insurance

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

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

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

Surplus distribution in life reinsurance

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

Funds held and contracts without sufficient technical risk

Insurance contracts that transfer a significant technical risk from the ceding company to the reinsurer are to be differentiated from contracts under which the risk transfer is of merely subordinate importance. In connection with insurance contracts that satisfy the requirements of both IFRS 4 and SFAS 113, we show the cash and securities deposits that we furnished to our cedants under funds held by ceding companies. The funds held under reinsurance treaties represent the cash and securities deposits furnished to us by our retrocessionaires. Neither of these items triggers any cash flows and the funds cannot be used without the consent of the other party.

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

Major discretionary decisions and estimates

The preparation of the consolidated financial statement in accordance with IFRS to some extent necessitates discretionary decisions and estimates which affect the disclosure, recognition and measurement of some items in the balance sheet and statement of income as well as the information on contingent claims and liabilities as at the balance sheet date. This is especially true of the establishment and amortization of insurance-related intangible assets, the provisions which are calculated on the basis of biometric assumptions or assumptions regarding the loss incidence in the future (technical provisions, provisions for pensions and other post-employment benefit obligations), the calculation of fair values and impairment losses on financial instruments which are not based on publicly accessible prices of an active market, the categorization of financial assets as held to maturity, the calculation of goodwill and the assessment of the realizability of deferred tax assets.

Insofar as estimates played a major role, these are described in the accounting policies and in the Notes (cf. inter alia information in the Notes on technical provisions, provisions for pensions and the description of the impairment test pursuant to IAS 36). The actual amounts may diverge from the estimated amounts.

Currency translation

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

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

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

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

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

Exchange rates	Balance sheet (balance sheet date)		Statement of income (average)	
	31.12.2008	31.12.2007	2008	2007
1 EUR corresponds to:				
AUD Australia	2.0257	1.6775	1.7437	1.6385
BHD Bahrain	0.5312	0.5530	0.5563	0.5176
BRL Brazil	3.2843	2.6205	2.6829	2.6722
CAD Canada	1.7160	1.4440	1.5561	1.4700
CLP Chile	900.4000	—	774.4462	—
CNY China	9.6090	10.7400	10.2693	10.4308
GBP United Kingdom	0.96000	0.7346	0.7985	0.6861
HKD Hong Kong	10.8323	11.4760	11.4733	10.7171
HUF Hungary	264.5050	252.3250	251.0727	251.3804
KRW South Korea	1,775.0000	1,377.0000	1,602.6923	1,274.6923
MYR Malaysia	4.8700	4.8652	4.9064	4.7131
PLN Poland	4.1823	3.5928	3.5425	3.7879
SEK Sweden	10.9150	9.4350	9.6662	9.2458
UAH Ukraine	10.8000	—	7.7981	—
USD United States	1.3977	1.4716	1.4739	1.3743
ZAR South Africa	13.1698	10.030	11.9514	9.6499

Assets

Intangible assets and property, plant and equipment

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

The following useful lives were taken as a basis:

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

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

Goodwill

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

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

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

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

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

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

The capitalization rate used to perform the impairment test of the Property/Casualty Primary Insurance and Financial Services CGUs as at the 2008 balance sheet date remained unchanged from the previous year since a sufficiently valid forecast of the longer-term implications of the turmoil on capital markets is not yet available. In addition, a second calculation was performed for the Property/Casualty Primary Insurance segment, allowing for a risk loading of 9%. This expresses an increased risk to the accomplishment of targets with respect to the underlying earnings forecasts. The risk-free discount rate was not changed. The capitalization rate for this calculation thus amounted to altogether 13.75% before taxes. In this scenario, too, there would have been no need to take impairments.

The Life Primary Insurance segment is divided into two CGUs:

- the group of companies combined under HDI-Gerling Leben Serviceholding AG, comprised of HDI-Gerling Lebensversicherung AG and its subsidiaries as well as the Aspecta Group
- the bancassurance group, composed of the PB, PBV and CiV insurers as well as the Neue Leben Group. Due to the similarity of its distribution structure, the Neue Leben Group was allocated to the bancassurance CGU in the year under review; it had previously been treated as a separate CGU.

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

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

Insurance-related intangible assets

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

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

Software

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

Investments including income and expenses

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

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

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

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

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

Subsequent measurement of financial instruments is carried out either at amortized costs or at fair value. The amortized costs are determined from the historical costs after allowance for amounts repayable, premiums or discounts deducted or added within the statement of income using the effective interest rate method and any unscheduled depreciation due to impairment. Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

The fair value of financial instruments is established on the basis of market prices or observable market data on the balance sheet date and recognized valuation models. Priority attaches to market prices realized on organized markets. A precondition in this regard is that the financial instruments are traded with adequate liquidity on active markets. Financial assets are measured at bid prices, while financial liabilities are measured at asked prices. If these conditions are not satisfied, reference is made to models of mathematical finance, the measurement basis of which consists of observable market data on the balance sheet date. The Talanx Group uses a number of different valuation models:

Financial instrument	Price	Parameter	Pricing model
OTC equity (index) options	Theoretical price	Listing of the underlying Implicit volatilities Money-market interest rate Dividend yield	Black-Scholes
Insurance derivatives	Theoretical price	Fair values of the cat bonds	Present-value method
Credit default swaps	Theoretical price	Credit spreads Recovery rates Interest-rate curve	Present-value method

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

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

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

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

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

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

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

Securities held for trading are carried at their fair value on the balance sheet date. If stock market prices are not available for use as fair values, the carrying values are determined using generally acknowledged measurement methods. All unrealized gains or losses from this valuation are recognized in net investment income.

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

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

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

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

Reversals on debt instruments are recognized in income up to the level of the amortized costs. Any further amount is recognized directly in equity. Reversals on securities with the character of equity, on the other hand, are recognized directly in equity.

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

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

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

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

Reinsurance recoverables on technical provisions

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

Deferred acquisition costs

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

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

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

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

Deferred tax assets

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

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

Deferred taxes are based on the current country-specific tax rates. In the event of a change in the tax rates on which the calculation of the deferred taxes is based, appropriate allowance is made in the year in which the change in the tax rate is adopted in law. Deferred taxes at the Group level are booked using the Group tax rate of 31.6%, unless they can be allocated to specific companies.

Other assets

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

Disposal groups pursuant to IFRS 5

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

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

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

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

Liabilities

Shareholders' equity

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

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

Technical provisions (gross)

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Other provisions

This item includes inter alia the **provisions for pensions and other post-employment benefit obligations**. The companies belonging to the Talanx Group normally grant their employees pension commitments based on defined contributions or defined benefits. The type and amount of the commitments depends on the pension plans in force at the time when the commitment was given. They are based principally on an employee’s length of service and salary level.

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

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

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

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

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

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

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

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

Other provisions are established on the basis of best estimates in the amount that is likely to be used. The provisions are discounted if the interest rate effect of is material significance. The carrying amount of the provisions is reviewed as at each balance sheet date. Provisions in foreign currencies are translated at the exchange rate on the balance sheet date.

Liabilities and subordinated liabilities

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

Deferred tax liabilities

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

Consolidation

Consolidation principles

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

The capital consolidation is compiled in accordance with the requirements of IAS 27 “Consolidated and Separate Financial Statements”. Subsidiaries are consolidated as soon as Talanx AG acquires a majority voting interest or de facto controlling influence. The same is true of the inclusion of special purpose entities.

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

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

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

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

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

Consolidation of special purpose entities

Investments

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

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

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

Securitization of reinsurance risks

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

Since November 2000 Hannover Re had held voting equity interests of 33.3% in the special purpose entity Mediterranean Re PLC for the securitization of reinsurance risks in France and Monaco. The securitization ended as per the contractual agreement on 18 November 2005. The bonds issued as security were repaid in full to investors and the additional paid-in capital was repaid to the partners. The special purpose entity was liquidated effective 5 February 2008.

Under a transaction designated “K5” Hannover Re uses the capital market to securitize reinsurance risks. The transaction was increased to USD 540 million in January 2008 and had a volume of EUR 386 (360) million as at the balance sheet date. The securitization was placed with institutional investors in North America, Europe and Asia. The portfolio assembled for the securitization consists of non-proportional reinsurance treaties in the natural catastrophe, aviation and marine lines, including offshore business. Kaith Re Ltd., a special purpose entity domiciled in Bermuda, is used for the transaction. The planned term of the transaction runs until 31 December 2008. In accordance with SIC 12 Kaith Re Ltd. is included in the consolidated financial statement.

In the previous year Hannover Re placed on the capital market a protection cover on its worldwide natural catastrophe business in an amount of USD 200 million with a term of two years. It provides the company with aggregate excess of loss coverage. The special purpose entity Kepler Re, a separate cell within Kaith Re Ltd., was used for the transaction. The volume as at the balance sheet date totaled EUR 143 (136) million. The underlying portfolio consists of the natural catastrophe business retained under the existing K5 securitization. The cover attaches upon occurrence of an aggregated 83-year-event for K5 and is fully utilized upon occurrence of a 250-year accumulation. Within this spread the outside investors in this and the K5 transaction combined assume 90% of the K5 losses, while the remaining 10% remain with Hannover Re. Kepler Re is not included in the consolidated financial statement.

In 2007 Hannover Re also transferred risks from reinsurance recoverables to the capital market. By way of this securitization in a nominal amount of EUR 95 million, which has a term of five years, Hannover Re reduces the default risk associated with reinsurance recoverables. The portfolio of recoverables underlying the transaction has a nominal value of EUR 1 (1) billion and is comprised of exposures to retrocessionaires. The securities serving as collateral are issued through the special purpose entity Merlin CDO I BV. A payment to Hannover Re is triggered by the insolvency of one or more retrocessionaires as soon as Hannover Re's contractually defined cumulative deductible of EUR 60 (60) million over the term of the contract is exceeded. In the months of May and November 2008 Hannover Re purchased securitizations issued by Merlin with a nominal value of altogether EUR 10 million on the secondary market, which it holds in its asset portfolio. The special purpose entity is not included in the consolidated financial statement.

In June 2008 Hannover Re completed the first transaction as part of its extended Insurance-Linked Securities (ILS) activities. Property catastrophe risks of a number of US cedants were pooled and transferred to the capital market in several tranches. A special purpose entity named Globe Re was established in Bermuda for this transaction; it is capitalized at USD 133 million. Globe Re is funded through the issue of an equity tranche of USD 33 million and a further USD 100 million in bonds split into various rating categories. The term of the transaction is one year. Hannover Re has a stake of USD 5 million – or 15.2% – in the equity tranche. Globe Re is not included in the consolidated financial statement.

Consolidated companies

Talanx AG is the parent company of the Group. In accordance with IAS 27 "Consolidated and Separate Financial Statements" the consolidated financial statement includes Talanx AG (as the parent company) and all major domestic and foreign Group companies in which Talanx AG indirectly or directly holds a majority voting interest or de facto power of control (subsidiaries). In addition, the consolidated group includes seven companies that are valued at equity as associated companies. They are of subordinate importance for the Group's net assets, financial position and results. The consolidated financial statement does not include 34 subsidiaries, the overall influence of which on the Group's net assets, financial position and results is considered minimal.

Consolidated subsidiaries (fully consolidated)	Individual companies		Subgroups	Total
	Germany	Abroad	Abroad	
31.12.2007	92	61	3	156
Correction to included companies ¹⁾	—	1	—	1
31.12.2007 revised	92	62	3	157
Additions	5	4	—	9
Disposals	24	12	—	36
31.12.2008	73	54	3	130

¹⁾ On 31 December 2007 one company was erroneously indicated as not included in the scope of consolidation, even though it formed part of the consolidated financial statement.

The nine additions consist of the first-time inclusion of six new establishments and three acquisitions. The 36 withdrawals result from 21 deconsolidations, nine mergers, five dissolutions/liquidations and one sale.

Specifically, the scope of consolidation of the Talanx Group has changed as follows since 31 December 2007:

Establishments

In the first quarter of 2008 the Hannover-based Hannover Insurance-Linked Securities GmbH & Co. KG, which was established at the end of November 2007, was included in the consolidated financial statement for the first time.

On 9 April 2008 the Cologne-based Hannover Re Euro PE Holdings GmbH & Co. KG commenced business operations. The company's business object is to build, hold and manage a portfolio of assets. Hannover Re and E+S Rück hold interests of 75% and 25% respectively as general partners in the company. The limited partner's share of Ampega-Gerling Asset Management GmbH was paid in the second quarter.

Effective 29 May 2008 Hannover Re participated as the first investor in Secquaero ILS Fund Ltd., which is domiciled in the Cayman Islands. The fund in question is a so-called "Seed Money Fund", the business object of which is to underwrite, hold and sell insurance-linked securitizations (natural catastrophe bonds). As at the balance sheet date Hannover Re had invested altogether USD 50 million in this fund. The fund will be consolidated until such time as other investors hold the majority stake in the fund.

On 13 June 2008 DTPVO Deutsche Privatvorsorge AG, Darmstadt, was established as a marketing company by HDI-Gerling Leben Serviceholding AG. It has been included in the consolidated financial statement since the second quarter of 2008.

On 11 August 2008 PAS Service GmbH, a new company established in Hilden by Proactiv Holding AG, was entered in the commercial register. The company has been trading as Proactiv Servicegesellschaft mbH, Hilden, since 20 February 2009.

The company Inversiones HDI Limitada, Santiago (Chile), was established on 19 August 2008. The shareholders are HDI-Gerling International Holding AG (99.999%) and HDI Seguros S.A., São Paulo, Brazil (0.001%). It was included in the consolidated financial statement of Talanx in the fourth quarter following commencement of business operations.

Acquisitions

Due to the acquisition of 94.5% of the shares of HDI Strakhuvannya, Kiev (Ukraine) – previously Alcona – and 99.1% of the shares of HDI Seguros S.A., Santiago (Chile) – previously ISE Chile Compañía de Seguros Generales S.A. – the scope of consolidation of the present consolidated financial statement was enlarged in foreign markets. The companies were consolidated for the first time as at 1 July 2008. The Group's stake in HDI Strakhuvannya increased to 96.47% following a capital increase by HDI-Gerling International Holding AG and acquisition of the shares of small minority stockholders. HDI-Gerling International Holding AG also implemented a capital increase at HDI Seguros S.A., Santiago (Chile), in the fourth quarter of 2008, thereby boosting the Group's stake to 99.4%.

Effective 1 October 2008 Proactiv Holding AG acquired from BRAIN FORCE Software GmbH all shares in the IT service provider BRAIN FORCE Hamburg GmbH, Munich, which has since been renamed Proactiv IT Servicegesellschaft mbH.

Dissolutions and liquidations

Effective 1 January 2008 Hannover Re and E+S Rück, which were equal partners in GbR Hannover Rückversicherung AG/E+S Rückversicherung AG-Grundstücksgesellschaft, liquidated the company. The partnership assets of GbR were divided equally between the former partners by way of de facto splitting.

The company Société Civile Immobilière HANNOVER International France, Paris, was liquidated in the second quarter of 2008.

Siton GmbH withdrew effective 31 December 2008 as the personally liable partner of Siton Beteiligungs GmbH & Co. Vermietungs KG; the company was dissolved at the close of 31 December 2008.

In Italy HDI Finanziaria S.p.A., which was wholly owned by HDI Assicurazioni S.p.A., was liquidated and removed from the Italian register with effect from 17 December 2008.

After Hannover Re had already paid out the paid-in capital of WRH Offshore High Yield Partners L.P. in the 2007 financial year and during the third quarter of 2008 by way of two distribution resolutions, the company's application for cancellation was filed on 17 December 2008.

Disposals/deconsolidations

The company Gerling Service Nederland N.V., Amsterdam, was sold effective 31 December 2008.

On 30 September 2008 21 companies whose assets and net income are of subordinate importance for the Talanx Group were deconsolidated. The companies are as follows:

- Bureau für Versicherungswesen Robert Gerling & Co. GmbH,
- CiV Immobilien GmbH,
- GERLING Sustainable Development Project-GmbH,
- HDI Direkt Service GmbH,
- HDI-Gerling Autohaus Service GmbH,
- HDI-Gerling Beschäftigungs- und Qualifizierungsgesellschaft mbH,
- HDI-Gerling Sicherheitstechnik GmbH,
- Kommanditgesellschaft Trans Leben Grundstücksverwaltungs-GmbH & Co.,
- Paetau Sports Versicherungsmakler GmbH,
- Shamrock Marine-Insurance Agency GmbH,
- SSV Schadensschutzverband GmbH,
- THS Services Versicherungsvermittlungs GmbH,
- THV Versicherungsmakler GmbH,
- VES Gesellschaft für Mathematik, Verwaltung und EDV mbH,
- Gerling Norge A/S,
- Gerling-Konzern Belgique S.A.,
- Gerling-Konzern Panamericana Ltda.,
- H.J.Roelofs Assuradeuren B.V.,
- Hannover Risk Consultants B.V.,
- HDI-Gerling Versicherungs-Service AG and
- Scandinavian Marine Agency AS.

Mergers

AmpegaGerling Financial Services GmbH was merged into AmpegaGerling Investment GmbH effective 1 January 2008.

The following mergers also took place effective 1 January 2008: Gerling GI Verwaltungs GmbH into Gerling GIS Verwaltungs-GmbH, Gerling GIS Verwaltungs-GmbH into Gerling GFP Verwaltungs-AG as well as the companies Gerling GFP Verwaltungs-AG, Gerling GKZ Verwaltungs-GmbH and Gerling GKI Verwaltungs-GmbH into GERLING Beteiligungs-GmbH.

HDI-Gerling Sicherheitstechnik GmbH was merged into Gerling Consulting Gruppe GmbH with retroactive effect from 1 January 2008. The merged company was renamed back to HDI-Gerling Sicherheitstechnik GmbH with registered office in Hannover.

Effective 30 June 2008 the Polish life insurer Aspecta Zycie Towarzystwo Ubezpieczen Spolka Akcyjna, Warsaw (Poland), was merged into Gerling Polska Towarzystwo Ubezpieczen na Zycie S.A. The company was subsequently renamed HDI-Gerling Zycie Towarzystwo Ubezpieczen S.A., also with registered office in Warsaw.

With effect from 1 October 2008 HDI-Gerling Zentrale Verwaltung GmbH was merged into HDI-Gerling Sach Serviceholding AG.

Further corporate changes

Effective 3 March 2008 Hannover Rück Beteiligung Verwaltungs-GmbH (HRBV), which is wholly owned by Hannover Re, reached agreement with a third party outside the Group on the sale of 1% of its stake in E+S Rück – by way of a share reduction without a change of control status – in order to intensify the business relations. HRBV has held 62.8% of the shares in E+S Rück since the closing of the transaction.

In the 2007 financial year Hannover Re acquired the remaining 50% stake in Hannover Life Re of Australasia Ltd., Sydney, from E+S Rück and thus held all shares in the company; full allowance was made for transaction costs. All intercompany profits arising out of this transaction were eliminated. Effective 31 March 2008 Hannover Re transferred its shares in the company at book value by way of a capital increase for a non-cash contribution to the former Zweite Hannover Rück Beteiligung Verwaltungs-GmbH, all shares of which were held by Hannover Re. Effective 1 July 2008 Zweite Hannover Rück Beteiligung Verwaltungs-GmbH was converted to Hannover Life Re AG, the registered office of which is in Hannover. The change in corporate form came into effect upon entry in the commercial register on 7 August 2008.

On 19 May 2008 the Shanghai-based Hannover Rückversicherung AG Shanghai Branch commenced business operations as a permanent establishment of Hannover Re. The business object of the branch is the writing of life and health reinsurance business.

On 23 May 2008 the Seoul-based Hannover Rückversicherung AG Korea Branch commenced business operations as a permanent establishment of Hannover Re. The business object of the branch is the writing of life and health reinsurance business.

In the second quarter our Italian subsidiary HDI Assicurazioni S.p.A. sold 23% of the shares in InLinea S.p.A., Rome (Italy), to a third party outside the Group. The sale of this interest has no implications for the status of control over the company.

In the fourth quarter of 2008 HDI Informations-Systeme Gesellschaft für Anwendungsentwicklung mbH, Hannover, was renamed HDI-Gerling Rechtsschutz Schadenregulierungs-GmbH, Hannover. The company now settles claims arising out of legal protection insurance contracts for the HDI-Gerling insurers.

Effective 31 December 2008 Hannover Re sold its shares in ITAS Assicurazioni S.p.A., which had previously been included in the consolidated financial statement as an associated company. In the context of the sale Hannover Re acquired from the purchaser 1.41% of the shares in E+S Rück, an interest which was transferred to Hannover Rück Beteiligung Verwaltungs-GmbH (HRBV) on 30 December 2008 by way of a capital increase for a non-cash contribution. As at the end of 2008 HRBV held 64.2% of the shares in E+S Rück (proportionate holding of the Group: 32.2%). The acquisition of this interest has no implications for the status of control over the company.

In addition to Talanx AG as the parent company, the following major companies are included in the consolidated financial statement:

Name and registered office of the company	Participation		Capital and reserves		Result for the last financial year
Figures in currency units of 1,000	%		EUR ¹⁾		EUR ¹⁾
Property/Casualty Primary Insurance					
HDI Asekuracja Towarzystwo Ubezpieczen S.A., Warsaw/Poland	100.00	PLN	251,006	PLN	31,200
HDI Assicurazioni S.p.A., Rome/Italy	100.00		124,580		-27,015
HDI Direkt Versicherung AG, Hannover	100.00		162,000		70,685
HDI HANNOVER International España, Cia de Seguros y Reaseguros S.A., Madrid/Spain	100.00		39,338		5,608
HDI Seguros S.A., São Paulo/Brazil	99.99	BRL	440,234	BRL	28,694
HDI Versicherung AG (formerly: HDI Hannover Versicherung AG), Vienna/Austria	100.00		34,410		7,153
HDI-Gerling Firmen und Privat Versicherung AG, Hannover	100.00		174,906		17,424
HDI-Gerling Industrie Versicherung AG, Hannover	100.00		287,493		150,094
HDI-Gerling Rechtsschutz Versicherung AG, Hannover	100.00		18,951		645
HDI-Gerling Sach Serviceholding AG, Hannover	100.00		1,056,000		180,073
HDI-Gerling Verzekeringen N.V., Rotterdam/Netherlands	100.00		61,124		15,249
Life Primary Insurance					
ASPECTA Assurance International Luxembourg S.A., Luxembourg/Luxembourg	100.00		10,508		-595
ASPECTA Lebensversicherung AG, Cologne	100.00		42,243		—
CiV Lebensversicherung AG, Hilden	100.00		33,515		31,796
CiV Versicherung AG, Hilden	100.00		6,342		15,900
HDI-Gerling Leben Serviceholding AG, Cologne	100.00		955,965		25,145
HDI-Gerling Lebensversicherung AG, Cologne	100.00		208,339		35,000
HDI-Gerling Pensionskasse AG, Cologne	100.00		27,737		1,000
Neue Leben Lebensversicherung AG, Hamburg	67.50		58,581		13,200
Neue Leben Unfallversicherung AG, Hamburg	67.50		3,596		2,872
PB Lebensversicherung AG, Hilden	100.00		24,786		8,839
PB Versicherung AG, Hilden	100.00		9,790		3,320
PBV Lebensversicherung AG (formerly: BHW Lebensversicherung AG), Hamelin	100.00		51,819		8,405
Proactiv Holding AG, Hilden	100.00		934,484		51,723
Non-Life Reinsurance					
E+S Rückversicherung AG, Hannover	32.23		542,281		52,000
Hannover Re (Bermuda) Ltd., Hamilton/Bermuda	50.22		930,790		86,339
Hannover Reinsurance (Ireland) Ltd., Dublin/Ireland	50.22		430,704		18,395
Hannover Reinsurance Group Africa (Pty) Ltd., Johannesburg/South Africa	50.22	ZAR	156,133	ZAR	33,712
Hannover Rückversicherung AG, Hannover	50.22		1,376,816		-209,627
International Insurance Company of Hannover Ltd., Bracknell/United Kingdom	50.22	GBP	104,621	GBP	1,916

Name and registered office of the company	Participation		Capital and reserves		Result for the last financial year
Figures in currency units of 1,000	%		EUR ¹⁾		EUR ¹⁾
Life/Health Reinsurance					
Hannover Life Re of Australasia Ltd, Sydney/Australia	50.22	AUD	191,844	AUD	39,337
Hannover Life Reassurance (Ireland) Ltd., Dublin/Ireland	50.22		291,689		-3,030
Hannover Life Reassurance (UK) Ltd., Virginia Water/United Kingdom	50.22	GBP	43,958	GBP	-4,275
Hannover Life Reassurance Bermuda Ltd., Hamilton/Bermuda	50.22		131,355		9,214
Hannover Life Reassurance Company of America, Orlando/USA	50.22	USD	128,073	USD	-11,357
Financial Services					
AmpegaGerling Asset Management GmbH, Cologne	100.00		83,600		27,256
AmpegaGerling Investment GmbH, Cologne	100.00		16,936		3,912
Protection Reinsurance Intermediaries AG, Hannover	100.00		287		12,572

¹⁾ Differing currencies are specified

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

Business combinations in the reporting period

Under a purchase agreement reached at the end of January 2008 HDI-Gerling International Holding AG acquired a stake of 94.5% in the Ukrainian property/casualty insurer Alcona – now trading as HDI Strakhuvannya, Kiev (Ukraine). Following approval from the Ukrainian supervisory authority the purchase agreement came into effect on 1 July 2008 (date of acquisition). The Ukrainian primary insurer transacts principally private and routine business in property/casualty (first and foremost motor products) and accident insurance.

In addition, under a contract dated 29 May 2008 HDI-Gerling International Holding AG acquired 99.1% of the shares in the Chilean insurer ISE Chile Compania de Seguros Generales S.A. – renamed HDI Seguros S.A., Santiago (Chile) effective 1 January 2009. The agreement was closed (date of acquisition) on 1 July 2008. The focus of this company's business activities is on private and routine business in property and casualty insurance lines. The cost of acquisition, including transaction costs, amounted to altogether EUR 11 million.

On 25 August 2008 – with execution date 30 September/1 October 2008 – Proactiv Holding AG acquired all shares of BRAIN FORCE Hamburg GmbH, Munich – renamed Proactiv IT Servicegesellschaft mbH in December 2008 – from BRAIN FORCE Software GmbH for a purchase price of EUR 0.3 million. The company, which conducts applications development for PBV Lebensversicherung, was included for the first time in the Talanx consolidated financial statement on 1 October 2008. The additional disclosures required pursuant to IFRS 3 "Business combinations" have been omitted after weighing up cost/benefit considerations.

The following disclosures refer to the first-time recognition of the two insurance companies HDI Strakhuvannya and HDI Seguros S.A. acquired in 2008:

Both acquisitions meet the required criteria of a business combination as defined by IFRS 3. As part of the preparation of the acquisition balance sheets (in each case as at 1 July 2008), the assets and liabilities of the two acquired companies were revalued and recognized at fair values (purchase price allocation). In so doing, the IFRS values as at 1 July 2008 (date of transfer of control) were established from the local financial statements as at 30 June 2008 in one step. Additional preparation of an IFRS financial statement at the point in time directly prior to acquisition would have entailed a disproportionately high effort and was therefore omitted. To this extent, the disclosures provided in accordance with IFRS 3.67 (f) are not complete.

Altogether, the opening balance sheets of the two insurance companies include the following IFRS values as at the date of acquisition: intangible assets EUR 2 million, investments EUR 9 million, reinsurance recoverables on technical provisions EUR 3 million, accounts receivable on insurance business EUR 12 million, deferred tax assets EUR 1 million, other assets EUR 6 million, technical provisions EUR 14 million, other provisions EUR 3 million, liabilities EUR 5 million, deferred tax liabilities EUR 1 million. In the acquisition balance of HDI Seguros S.A. we capitalized a PVFP of EUR 1 million.

The two transactions gave rise to goodwill of altogether EUR 12 million, divided as follows between the companies:

Acquired units	
Figures in EUR million	
HDI Strakhuvannya	8
HDI Seguros S.A.	4
Total goodwill	12

The goodwill reflects our expectations in relation to the profitability and growth potential of the acquired companies, which are associated with the entry into the dynamically growing insurance markets of Ukraine and South America.

The expenses and income of the two companies have been included in this consolidated financial statement since their initial consolidation as at 1 July 2008. The following table shows the premium volume of the acquired units since the date of initial consolidation. The “as if” presentation refers to the gross premium income recognized at the beginning of the year under review in accordance with local accounting principles. The profit contributions since 1 January 2008 are not presented on an “as if” basis on account of the unreasonably high effort that would have been needed to determine them.

Gross premium, profit contribution	
Figures in EUR million	
Gross premium from 01.07.2008	16
Gross premium on as if basis from 01.01.2008	
HDI Strakhuvannya (“as if” under local GAAP)	2
HDI Seguros S.A. (“as if” under local GAAP)	13
As if from 01.01.2008 total	31
Profit contribution from 01.07.2008	1

Disposal groups

Under the item “Assets of disposal groups classified as held for sale” a book amount of EUR 43 million was shown in the Life Primary Insurance segment as at 31 December 2008.

This amount refers primarily to real estate held for sale by Neue Leben Lebensversicherung AG (EUR 27 million) and HDI-Gerling Lebensversicherung AG (EUR 14 million).

The carrying amount of a real estate portfolio – consisting of 16 mixed properties (residential properties, commercial use) in Northern Germany – held by Neue Leben Lebensversicherung AG, which was combined into a disposal group in the fourth quarter of 2008, was written down by EUR 3 million as at the balance sheet date. This real estate, the sale of which has been initiated for 2009, was carried with a book value of EUR 27 million as at 31 December 2008 and classified as “held for sale”.

Under a purchase agreement dated 4 December 2008 HDI-Gerling Lebensversicherung sold land with an office building in Hamburg. The purchase price of EUR 19 million for the property is payable in two installments, the first of which was paid in the first quarter of 2009 in an amount of roughly EUR 4 million. The transfer of beneficial ownership is to take place no later than 31 October 2009 upon payment of the second installment of the purchase price in an amount of EUR 15 million, although the buyer may bring forward the date of payment – and hence also the date of transfer. The transaction is being effected with an eye to the strategic objective of reducing the real estate assets.

Nature of risks associated with insurance contracts and financial instruments

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

Classes of financial instruments

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

Essentially, the following classes of financial instruments were established:

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

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

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

The focus of the Talanx Group's business activities is on the sale and administration of insurance products in all standard lines of property/casualty and life insurance in both primary and reinsurance business.

General risk management

Risk capital as part of our value-based management approach is a key parameter used to steer business operations within the Talanx Group. It is calculated using our internal Talanx risk model. This facilitates the analysis and measurement of individual risks as well as the overall risk position of an insurance undertaking. The purpose of the risk quantification is to calculate the risk capital on the basis of a 99,5% Value at Risk. The time horizon considered under the model is one calendar year (single periodicity). For further details of the structure and refinement of the risk model please see the description provided in the risk report.

For the purposes of the Talanx risk capital model an insurance undertaking is adequately capitalized if the available capital is greater than the calculated risk capital. The establishment of the risk capital as at 31 December 2008 shows that the Talanx Group is adequately capitalized despite the considerable fall in market interest rates.

Risks from insurance contracts

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

Management of technical risks in property/casualty insurance

Insurance risks in non-life business (primary insurance and reinsurance) derive primarily from the premium/loss risk and the reserving risk.

Insurance business is based upon the assumption of individual risks from policyholders (in primary insurance) or cedants (in reinsurance) and the equalization of these risks in the community of (re)insureds and over time. For the insurer, the fundamental risk lies in providing insurance benefits, the amount and due date of which are unknown, from premiums calculated in advance that cannot be changed. The reserving risk arises out of the potentially insufficient establishment of reserves in the balance sheet and the resulting strain on the technical result.

We counter the assumed premium/loss risk inter alia through appropriate reinsurance protection. The volume of reinsurance protection relative to the gross written premium can be measured according to the level of retained premium; shown below broken down by segments, this indicates the proportion of written risks retained for our risk.

Retention by segments	31.12.2008	31.12.2007 ²⁾	31.12.2006	31.12.2005 ¹⁾	31.12.2004 ¹⁾
%					
Property/Casualty Primary Insurance	66.7	61.2	61.6	62.0	42.3
Non-Life Reinsurance	89.0	82.2	82.0	76.1	83.9
Total Non-Life Insurance	76.9	71.4	73.0	71.5	64.3

¹⁾ Due to changes in segment allocation the years 2005 and 2004 are of only limited comparability

²⁾ Adjusted on the basis of IAS 8

The sharp rise in the level of retained premium from 2007 to 2008 in the Property/Casualty Primary Insurance segment can be attributed principally to industrial business. It resulted principally from the single premium payment for a stop loss contract in US casualty business, altered reinsurance structures and a special effect in 2007. Modifications made to the segment definition in 2006, 2007 and 2008 were a further reason for the increase in the retention in this segment. In 2006 moves were initiated to align the segments with the responsibilities of the Talanx Board of Management. In the first instance, reallocations were made between the Property/Casualty Primary Insurance and Non-Life Reinsurance segments. In 2007 the implementation of the revised segment definition moved forward with the reallocation of the life insurance business of the Italian subsidiary HDI Assicurazioni to the Property/Casualty Primary Insurance segment. The life insurance business written by the Italian company traditionally has a higher retention than that carried by the non-life insurers. In 2008 Euro Re International was reallocated from the Property/Casualty Primary Insurance segment to the Non-Life Reinsurance segment. The immediately previous year was adjusted accordingly in each case.

The level of retained premium in non-life reinsurance increased sharply as a consequence of appreciable savings on the segment's own protection covers and reduced proportional cessions relative to the previous year.

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

Net loss ratios by segment	2008	2007 ²⁾	2006	2005 ¹⁾	2004 ¹⁾
%					
Property/Casualty Primary Insurance	69.1	73.5	73.7	69.4	77.2
Non-Life Reinsurance	70.5	73.6	71.3	82.4	76.3
Total Non-Life Insurance	69.9	73.6	72.2	78.8	76.6

¹⁾ Due to changes in segment allocation the years 2005 and 2004 are of only limited comparability

²⁾ Adjusted on the basis of IAS 8

The moderate level of the loss ratios in past years reflects our prudent underwriting policy and successes in active claims management. In the Non-Life Reinsurance segment we were able to reduce the loss ratio despite a major loss situation overshadowed by a number of devastating natural disasters. In primary insurance business, on the other hand, the actuarially calculated loss ratio for the financial year was significantly better than in the previous year due to a below-average burden of major losses in 2008. As a further factor, following the experience of winter storm “Kyrill” in 2007 and the subsequent modification of the reinsurance structure, windstorm losses are subject to significantly higher participations on the part of reinsurers.

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

Loss reserves in the reinsurance sector are calculated using actuarial methods, principally on the basis of information provided by our cedants, supplemented where necessary by additional reserves that may seem appropriate in light of our own loss estimations. Especially in casualty business, IBNR (incurred but not reported) reserves – differentiated by risk classes and regions – are constituted in view of the long run-off of such claims.

The adequate measurement of loss reserves for asbestos-related claims and pollution damage is a highly complex matter, since in some cases several years or even decades may elapse between the causation of the loss or injury and its notification. The exposure of the Talanx Group to asbestos-related claims and pollution damage is, however, relatively slight. The adequacy of these reserves is normally measured using the so-called “survival ratio”. This ratio expresses how many years the reserves would cover if the average level of paid claims over the past three years were to continue. At the end of the year under review our survival ratio in the reinsurance sector stood at 25.0 years; the reserves for asbestos-related claims and pollution damage amounted to EUR 150 million.

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

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

Accumulation scenarios	2008	2007
Figures in EUR million		
250-year loss US windstorm	628	537
250-year loss California earthquake	560	443
250-year loss European windstorm	582	318
250-year loss Tokyo earthquake	602	542
250-year loss Japanese windstorm	212	103
250-year loss Sydney earthquake	195	209

Peak exposures from accumulation risks are protected against through the use of carefully and individually selected reinsurance covers. In this way we are able to effectively limit – and hence render plannable – large individual losses and the impact of accumulation events.

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

An increase of five percentage points in the net loss ratio in both these segments of non-life insurance would reduce the net profit after tax by EUR 268 (274) million.

Management of market risks in life insurance

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

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

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

The volume of reinsurance protection relative to the gross written premium can be measured according to the level of retained premium; shown below broken down by segments, this indicates the proportion of written risks retained for our risk:

Retention by segments	31.12.2008	31.12.2007	31.12.2006	31.12.2005	31.12.2004
%					
Life Primary Insurance	87.9	86.9	86.0	85.2	78.7
Life/Health Reinsurance	89.3	90.8	85.4	92.8	91.2
Total	84.9	82.0	81.0	80.8	76.5

We measure sensitivity to these risks using an embedded value analysis. The Market-Consistent Embedded Value (MCEV) is a key risk management tool. It refers to the present value of future shareholders' earnings plus the shareholders' equity less the cost of capital for the life insurance and life/health reinsurance portfolio after appropriate allowance for all risks underlying this business. The embedded value is market-consistent inasmuch as it is arrived at using a capital market valuation that meets certain requirements: free of arbitrage, risk-neutral, the modeling of the financial instruments provides the current market prices.

The New Business Value (NBV) is also taken into consideration. The MCEV and NBV denote the present value of future shareholders' earnings from business in life insurance and life/health reinsurance after appropriate allowance for all risks underlying the business in question.

The MCEV is calculated for our major life insurers as well as the life/health reinsurance business written by Hannover Re. Sensitivity analyses highlight the areas in which the Group's life insurers and hence the Group as a whole are exposed in the life sector, and they provide pointers to the areas which should be emphasized from a risk management standpoint. Sensitivities to mortalities, lapse rates, administrative expenses as well as interest rate and equity price levels are considered in the analyses.

Sensitivities to mortalities

The degree of exposure of the Group's life insurers varies according to the type of insurance product. Thus, a lower-than-expected mortality has a positive effect on products primarily involving a death and/or disability risk and a negative impact on products with a longevity risk – with corresponding implications for the MCEV.

Sensitivities to lapse rates

Under contracts with a right of surrender the recognized benefit reserve is at least as high as the corresponding surrender value, and hence the economic impact of the lapse pattern tends to be more influenced by the level of lapse discounts and other product characteristics. A higher-than-expected lapse rate would negatively affect the MCEV.

Sensitivities to administrative expenses

Higher-than-expected administrative expenses would result in a reduction of the MCEV.

Sensitivities to interest rate and equity price levels

The commitment to generate the minimum return for the contractually guaranteed benefits gives rise to a considerable interest guarantee risk. The fixed-income investments normally have a shorter duration than the obligations under the insurance contracts (durations mismatch). This creates a reinvestment risk for already accumulated credit balances and a new investment risk for future premiums. If the investment income generated across the remaining settlement period of the liabilities falls short of the interest due under the guarantees, this leads to a reduction in income and a decrease in the MCEV. A decline in the equity price level would also negatively impact the MCEV.

Derivatives embedded in life insurance contracts that are not recognized separately

Insurance products may include the following major options on the part of the policyholder, insofar as they were agreed upon when the contract was taken out:

- Possibility of surrender and premium waiver for the contract
- Increase in insured benefit without another medical examination – usually with the actuarial bases applicable at the time with respect to biometric risks and guaranteed interest rate (index-linked adjustment, supplementary insurance guarantees in the event of certain changes in living conditions)
- Possibility of a one-time payment of the insured benefit (lump-sum option) under deferred annuities instead of pension transition. This gives rise to a potential risk if an unexpectedly large number of policyholders were to exercise their option at an interest rate level significantly above the discount rate used to calculate the annuities. The adequacy test required by IFRS 4 makes allowance for this option.

Under unit-linked products the policyholder can opt for transfer of the relevant units upon maturity of the contract instead of payment of their equivalent value.

Management of credit risks from insurance contracts

Bad debts may arise on receivables due under insurance business. In order to limit this risk we take care to ensure the good credit quality of debtors, as measured on the basis of standard market rating categories. Accounts receivable from policyholders and insurance intermediaries are unsecured. The default risk on these receivables is subject to constant monitoring within the scope of our risk management. At stake here are a large number of receivables in relatively modest single amounts, which are due from a diversified array of debtors. Such accounts receivable are normally due from policyholders that do not have a rating. Only commercial clients in excess of certain dimensions are able to obtain external assessments of their credit status. The insurance intermediaries are either individual brokers or broker organizations, which similarly do not normally have a rating.

With a view to countering possible delays in or defaults on premium payment in collections directly from policyholders or from intermediaries, each of the Group companies operates an effective collections procedure intended to minimize outstandings. Intermediaries are also subject to credit checks.

Credit risks also arise in primary insurance business in connection with accounts receivable from reinsurers and in reinsurance business from recoverables due from retrocessionaires on account of the fact that the gross business written is not always fully retained, but instead portions are (retro)ceded as necessary. In passive reinsurance we pay close attention to a high level of financial soundness on the part of the reinsurer, especially in the case of long-tail accounts. Our reinsurance partners are carefully selected by Security Committees, their credit status is constantly monitored and – where necessary – appropriate measures are taken to secure receivables.

As the equivalent of the maximum exposure to default risks on the balance sheet date, the book value of financial assets deriving from the insurance business – irrespective of collateral or other agreements and debts provisions that serve to minimize the default risk – was as follows:

Statement of book values of financial assets deriving from insurance contracts	31.12.2008 ¹⁾			
	Property/Casualty Primary Insurance	Non-Life Reinsurance	Life Primary Insurance	Life/Health Reinsurance
Figures in EUR million				
Receivables				
Policy loans	2	—	205	14
Accounts receivable from policyholders	621	33	161	3
Accounts receivable from insurance intermediaries	275	217	117	—
Accounts receivable from reinsurance business	616	1,596	6	792
Other assets				
Reinsurance recoverables on technical provisions	3,603	1,951	1,165	269
Total	5,117	3,797	1,654	1,078

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

Statement of book values of financial assets deriving from insurance contracts	31.12.2007 ¹⁾			
	Property/Casualty Primary Insurance	Non-Life Reinsurance	Life Primary Insurance	Life/Health Reinsurance
Figures in EUR million				
Receivables				
Policy loans	2	—	194	14
Accounts receivable from policyholders	509	—	171	—
Accounts receivable from insurance intermediaries	304	231	62	—
Accounts receivable from reinsurance business	442	902	20	1,117
Other assets				
Reinsurance recoverables on technical provisions	3,504	2,430	1,252	365
Total	4,761	3,563	1,699	1,496

¹⁾ Presentation after elimination of intra-Group relations between two segments; Adjusted on the basis of IAS 8

With respect to business ceded, we reduce the default risk on accounts receivable from reinsurers by carefully selecting reinsurers through our Group's internal reinsurance broker Protection Reinsurance Intermediaries AG and reviewing their credit status on the basis of opinions from internationally respected rating agencies.

In the two primary insurance segments the claims arising out of passive reinsurance, i.e. the cession of our assumed risks – the reinsurance recoverables on unpaid claims – amounted to altogether EUR 4.8 (4.8) billion. The accounts receivable from reinsurers under primary insurance business totaled EUR 421 (489) million.

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

	AAA	AA	A	BBB	< BBB	No rating
%						
Reinsurance recoverables on technical provisions	13 (13)	38 (42)	33 (32)	0 (2)	1 (1)	15 (10)

84 (87)% of our reinsurers are rated A or better. In addition, many of our reinsurance recoverables are secured by deposits or letters of credit.

In the two reinsurance segments the claims due from retrocessions amounted to EUR 2.1 (2.5) billion as at the balance sheet date. Altogether 96% of retrocessionaires have an investment grade rating. Of these, more than 95% are rated A or better. The large proportion of reinsurers with top ratings reflects our policy of avoiding default risks in this area wherever possible.

The accounts receivable from insurance business that were overdue but not impaired at the balance sheet date can be broken down as follows:

Analysis of overdue but not individually impaired financial assets deriving from insurance contracts	31.12.2008		31.12.2007	
	> 3 months < 1 year	> 1 year	> 3 months < 1 year	> 1 year
Figures in EUR million				
Accounts receivable from policyholders	62	2	44	5
Accounts receivable from insurance intermediaries	5	—	73	—
Accounts receivable from reinsurance business	215	119	125	176
Total	282	121	242	181

The overdue receivables from insurance business are composed of accounts receivable that had not been paid by the due date and were still outstanding as at the balance sheet date. The presentation dispenses with the short duration range of “1 day to 3 months” in view of the different processes used throughout the Group in this regard. Responsibility for receivables management in the Talanx Group is borne locally by the individual subsidiaries. The receivables management process – reflecting the underlying business risks – consequently varies (inter alia differing treatment of receivables at risk of default (derecognition or value adjustment); differing points in time when receivables management is activated and differing tools used in receivables management). Only once a receivable is overdue by more than 90 days do the aforementioned reasons become insignificant, hence making Group-wide observations possible.

The primary insurers had accounts receivable from policyholders and insurance intermediaries in primary insurance business that were overdue by more than 90 days as at the balance sheet date totaling EUR 60 (105) million and EUR 5 (94) million respectively. These figures were equivalent to levels of 8 (15)% and <1 (24)% respectively. The combined average default rate over the past three years was 3%. The accounts receivable from passive reinsurance business with arrears of more than 90 days amounted to altogether EUR 143 (93) million, corresponding to a level of 23 (21)%. The average default rate over the past three years in this area was 1.3 (1.7)%.

Relative to the major companies of the Hannover Re Group, which make up the reinsurance segments of the Talanx Group, EUR 290 million – or 10% – of our accounts receivable from reinsurance business totaling EUR 2.8 billion were older than 90 days as at the balance sheet date. The average default rate over the past three years was less than 0.3%.

Of our total reinsurance recoverables, 30% were secured by deposits or letters of credit – a level virtually unchanged from the previous year. In the case of most of our retrocessionaires we also function as reinsurer, meaning that a potential normally exists for offsetting against our own liabilities.

Value adjustments were not taken insofar as the default risk associated with the assets is reduced by collateral (such as letters of credit, cash deposits, securities deposits).

The adjusted receivables can be broken down as follows:

Analysis of individually adjusted financial assets deriving from insurance contracts	31.12.2008			31.12.2007		
	Risk provision	Thereof 2008	Book value after risk provision	Risk provision	Thereof 2007	Book value after risk provision
Figures in EUR million						
Accounts receivable from policyholders	34	6	818	28	5	681
Accounts receivable from insurance intermediaries	77	21	609	56	12	596
Accounts receivable from reinsurance business	131	-55	3,011	196	36	2,481
Total	242	-28	4,438	280	53	3,758

In the year under review risk provision of EUR 80 million for accounts receivable from reinsurance business was released. This risk provision is no longer needed because in the previous year we significantly reduced the remaining credit risks through the securitization of default risks resulting from reinsurance recoverables.

The value adjustments on accounts receivable from insurance business that we recognize in separate adjustment accounts developed as follows in the year under review:

Development of value adjustments on accounts receivable from insurance business	2008	2007
Figures in EUR million		
Cumulative value adjustments as at 31.12. of the previous year	280	228
Change in consolidated group	—	4
Value adjustments in the financial year	60	52
Write-ups	27	19
Release	−90	24
Exchange-rate fluctuations	−1	−5
Other changes	20	−4
Cumulative value adjustments as at 31.12. of the year under review	242	280

The default risks on financial assets deriving from insurance contracts were determined on the basis of individual analyses. Any existing collateral was taken into account. The proportion of impaired receivables stood at 5 (7)%.

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

Write-down rates	31.12.2008	31.12.2007	31.12.2006	31.12.2005
%				
Accounts receivable from policyholders	4.0	4.0	2.3	6.3
Accounts receivable from insurance intermediaries	11.2	8.6	7.0	9.9
Accounts receivable from reinsurance business	4.0	7.3	5.3	5.0

The annual default rates were as follows:

Default rates	31.12.2008	31.12.2007	31.12.2006	31.12.2005
%				
Accounts receivable from policyholders	4.2	2.1	3.9	9.3
Accounts receivable from insurance intermediaries	2.7	1.8	1.9	2.3
Accounts receivable from reinsurance business	0.1	0.3	0.1	0.3

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

2008	Interest income	Interest expense	Value adjustment	Total
Figures in EUR million				
Loans and receivables	329	495	−57	−109
Reinsurance recoverables on technical provisions	—	—	29	−29
Total	329	495	−28	−138

2007	Interest income	Interest expense	Value adjustment	Total
Figures in EUR million				
Loans and receivables	250	80	9	161
Reinsurance recoverables on technical provisions	—	—	–26	26
Total	250	80	–17	187

Management of risks from investments

The structure of the asset portfolios is regularly examined in order to review the strategic asset allocation. The breakdown for the Talanx Group (excluding funds held by ceding companies) as at 31 December 2008 was as follows:

Weighting of major asset classes	Parameter as per investment guidelines	Position as at 31.12.2008	Position as at 31.12.2007
%			
Bonds (direct holdings and investment funds)	At least 50	85	80
Equities (direct holdings and investment funds)	At most 25	2	8
Real estate (direct holdings and investment funds)	At most 5	2	2

In this regard it is evident that the bonds, equities and real estate are within the defined Group limits. In accordance with the company's risk-carrying capacity and regulatory requirements, the investment goals of security, profitability, liquidity as well as mix and spread are given adequately balanced consideration under our holistic asset/liability management systems. The main opposing risks are market risks, default risks and liquidity risks.

Market risks

Market risks derive from the potential loss associated with adverse changes in market prices and may be attributable, in particular, to fluctuations in the prevailing interest rate level and equity prices.

The market risk consists primarily of the risk of changes in the market prices of fixed-income assets and equities as well as the exchange-rate risk associated with fluctuations in exchange rates if there is no matching cover. This may necessitate value adjustments or lead to the realization of losses in the event of disposal of financial assets. A decline in the interest rate level can also lead to reduced investment income.

The value at risk (VaR) is a vital tool used for managing market price risks. As part of these calculations the probability of losing a certain portion of the portfolio is determined. The calculation of this maximum loss potential is performed on the basis of a confidence level of 95% and a holding period of ten days. The current VaR as at year-end 2008 amounted to EUR 684 (458) million, a figure equivalent to 1 (< 1)% of the assets under consideration.

The daily updated holdings are fed into the calculation as input data. The scope of the market data history used for risk analysis is 180 weeks. On this basis, 180 weekly changes are calculated for each relevant market parameter, such as equity prices, exchange rates and interest rates, and these are then used to establish the Value at Risk. The risk model is recalibrated with the aid of the updated market data. The longer-term sampling period of the market parameters of 180 weeks assures a certain stability of the risk parameters over time.

Normal market scenarios are used to calculate the Value at Risk. In addition, stress tests are conducted in order to be able to map extreme scenarios. In this context, the loss potentials are simulated on the basis of already occurred or notional extreme events. Actual market developments may diverge from the model assumptions.

The range of management tools is complemented by stress tests and scenario analyses. In the case of interest-rate-sensitive products and equities, we calculate a possible change in fair value using a historic “worst case” scenario on a daily basis, estimating the potential loss under extreme market conditions. With the aid of scenarios we simulate changes in equity prices, exchange rates and yields on the basis of historical data. Interest rate risks refer to an unfavorable change in the value of financial assets held in the portfolio due to changes in the market interest rate level. Declining market yields lead to increases and rising market yields to decreases in the fair value of fixed-income securities portfolios. Share price risks derive from unfavorable changes in the value of equities and equity or index derivatives due, for example, to downward movements on particular stock indices. We spread these risks through systematic diversification across various sectors and regions. Currency risks are of considerable importance to an internationally operating reinsurance enterprise that writes a significant proportion of its business in foreign currencies.

Scenarios for changes in the fair value of assets held by the Group as at the balance sheet date:

Portfolio	Scenario	Portfolio change based on fair value
Figures in EUR million		
Equity securities	Share prices +20%	+123
	Share prices +10%	+60
	Share prices -10%	-56
	Share prices -20%	-107
Fixed-income securities	Yield increase +200 basis points	-5,491
	Yield increase +100 basis points	-2,950
	Yield decrease -100 basis points	+2,875
	Yield decrease -200 basis points	+6,071
Exchange-rate-sensitive investments	Change in exchange rates ¹⁾ +10%	-1,331
	thereof USD	-858
	thereof GBP	-131
	thereof AUD	-80
	thereof other	-262
	Change in exchange rates ¹⁾ -10%	+1,331
	thereof USD	+858
	thereof GBP	+131
	thereof AUD	+80
	thereof other	+262

¹⁾ Exchange-rate fluctuations of +/-10% against the euro based on balance sheet values

The breakdown of our investments by currency was as follows:

Currency	31.12.2008	31.12.2007
%		
EUR	79	78
USD	14	13
GBP	2	2
AUD	1	1
Other	4	6
Total	100	100

We use short-call and long-put options as well as swaps to partially hedge portfolios, especially against price, exchange and interest rate risks. In the year under review we also used derivative financial instruments to optimize our portfolio in light of risk/return considerations. The contracts are concluded solely with first-class counterparties and compliance with the standards defined in the investment guidelines is strictly controlled in order to avoid risks – especially credit risks – associated with the use of such transactions.

Default risks

The risks of counterparty default requiring monitoring consist of counterparty credit risks and issuer's risks. Along with the lists of counterparties and issuers specified by the Chief Financial Officer, monitoring of the limits defined per rating category constitutes a vital precondition for investment decisions. We pay close attention to the good credit status of counterparties and debtors in order to avoid default risks. Key indicators here are the ratings assigned by external agencies such as S&P or Moody's. New investments are restricted to investment grade securities in order to limit the credit risk.

The maximum default risk exposure on the balance sheet date, exclusive of collateral or other agreements that serve to minimize the default risk, was as follows:

31.12.2008	Measured at cost or amortized cost	Measured at fair value	Total
Figures in EUR million			
Investments in affiliated companies and participating interests	66	—	66
Loans and receivables	30,123	—	30,123
Financial instruments held to maturity	1,378	—	1,378
Financial instruments available for sale	—	24,865	24,865
Financial instruments at fair value through profit or loss	—	793	793
Financial instruments held for trading	—	423	423
Other invested assets, insofar as they are financial instruments	2,249	1,608	3,857

31.12.2007 ¹⁾	Measured at cost or amortized cost	Measured at fair value	Total
Figures in EUR million			
Investments in affiliated companies and participating interests	59	—	59
Loans and receivables	29,243	—	29,243
Financial instruments held to maturity	1,477	—	1,477
Financial instruments available for sale	—	25,877	25,877
Financial instruments at fair value through profit or loss	—	865	865
Financial instruments held for trading	—	18	18
Other invested assets, insofar as they are financial instruments	2,001	1,238	3,239

¹⁾ Adjusted on the basis of IAS 8

As a general rule, the investments are not secured. The exceptions are mortgage loans secured by a charge over property. The contractual provisions envisage realization only in case of default on performance.

Investments are serviced regularly by the debtors. Only the mortgage loans show arrears – totaling EUR 18 (20) million. Since these receivables are adequately secured by charges over property, no value adjustment was taken. There were no investments that would have been overdue or impaired if their terms had not been renegotiated.

The fixed-income investments and loans (excluding other invested assets) are divided into the following debtor groups and corresponding ratings:

31.12.2008	Measured at cost or amortized cost	Measured at fair value	Total
Figures in EUR million			
EU member states	606	3,865	4,471
Foreign governments	359	2,550	2,909
Semi-governmental entities	8,922	4,875	13,797
Corporations	8,360	6,675	15,035
Covered bonds/asset-backed securities	10,937	536	11,473
Mortgage loans	1,607	—	1,607
Investment fund units	—	690	690
Other	1	323	324

31.12.2007	Measured at cost or amortized cost	Measured at fair value	Gesamt
Figures in EUR million			
EU member states	693	2,035	2,728
Foreign governments	344	2,084	2,428
Semi-governmental entities	8,726	4,043	12,769
Corporations	8,270	4,782	13,052
Covered bonds/asset-backed securities	10,221	3,898	14,119
Mortgage loans	1,668	—	1,668
Investment fund units	—	4,724	4,724
Other	798	423	1,221

The ratings of the fixed-income investments were as follows:

Rating	Government bonds		Securities issued by semi-governmental entities		Corporate bonds		Mortgage bonds/asset-backed securities		Other	
	%	EUR million	%	EUR million	%	EUR million	%	EUR million	%	EUR million
AAA	82	6,062	32	4,356	4	524	72	11,693	21	322
AA	3	235	60	8,351	32	4,835	17	2,780	12	177
A	11	788	8	1,044	52	7,814	10	1,615	11	162
BBB	4	284	—	35	11	1,658	1	116	46	693
< BBB	—	13	—	10	1	205	—	91	10	157
Total	100	7,381	100	13,797	100	15,036	100	16,295	100	1,511

At the end of the reporting period the issuers of 99 (98)% of our investments in fixed-income securities had an investment grade rating (AAA to BBB), while 94 (92)% were rated A or better. Borrower's note loans and registered debentures are assigned an internal rating upon acquisition that is derived where possible from the issuer's rating.

Loans secured by a charge over property with a total volume of EUR 1,607 (1,668) million were granted to private individuals who do not have a rating. In addition, bank deposits and policy loans as well as equity papers are unrated.

Management of concentration risks

A broad mix and spread of individual asset classes is observed in order to minimize the portfolio risk. The concentration risk is limited by the investment guidelines and constantly monitored; overall, it is comparatively slight, even though bank mergers – in particular – result in appreciable increases in concentrations. What is more, the extent to which investments may be made in more heavily risk-exposed assets is restricted.

Management of liquidity risks

The liquidity risk is the risk of not being able to meet payment obligations – especially those arising out of insurance contracts – at all times. The liquid asset structure of our investments ensures that at all times Talanx will have sufficient funds available to meet its payment obligations. In addition, as part of our asset/liability management we take care to match the duration of investments used to cover payment obligations under insurance contracts. To this end, we compare first and foremost the modified durations on the assets and liabilities side of the balance sheet.

For a presentation of the major technical provisions (benefit reserve, loss and loss adjustment expense reserve, provision for premium refunds) and investments (broken down by their expected or contractual maturities) please see the notes on the corresponding balance sheet items.

Net gains/losses on financial instruments from investments

2008	Ordinary investment income	Amortization	Gain/loss on disposal	Unrealized gains and losses	Value adjustment	Total
Figures in EUR million						
Investments in affiliated companies and participating interests	5	—	17	—	—	22
Loans and receivables	1,201	59	1	—	17	1,278
Financial instruments held to maturity	65	6	—	—	—	71
Financial instruments available for sale	1,125	32	-315	—	-1,323	-481
Financial instruments at fair value through profit or loss	30	16	-1	-142	—	-97
Financial instruments held for trading	1	—	280	135	—	416
Other invested assets, insofar as they are financial assets	124	6	2	—	—	132
Total	2,551	119	-16	-7	-1,306	1,341

2007	Ordinary investment income	Amortization	Gain/loss on disposal	Unrealized gains and losses	Value adjustment	Total
Figures in EUR million						
Investments in affiliated companies and participating interests	3	—	2	—	—	5
Loans and receivables	1,089	23	-35	—	-18	1,059
Financial instruments held to maturity	69	6	—	—	—	75
Financial instruments available for sale	1,110	32	297	—	-182	1,257
Financial instruments at fair value through profit or loss	35	20	3	-20	—	38
Financial instruments held for trading	—	—	-29	-25	—	-54
Other invested assets, insofar as they are financial assets	87	3	—	—	—	90
Total	2,393	84	238	-45	-200	2,470

Net gains/losses on other financial instruments

The other financial instruments on the assets side encompass primarily receivables not connected with investments or the insurance business. They are predominantly short-term receivables that are unrated. Since the portfolio of accounts receivable is comprised of a relatively large number of debtors, we consider the default risk on these financial instruments to be slight.

The other financial instruments on the liabilities side consist of medium- and long-term commitments arising from subordinated liabilities and notes payable and loans as well as other liabilities not connected with investments or the insurance business. The other liabilities include inter alia interest rate swaps with a negative fair value of EUR 35 million (see the section entitled "Hedge accounting" on the following pages).

Net income from subordinated liabilities and notes payable and loans

2008	Interest expenses	Amortization	Total
Figures in EUR million			
Debts measured at cost or amortized cost	155	4	151

2007	Interest expenses	Amortization	Total
Figures in EUR million			
Debts measured at cost or amortized cost	127	1	126

The maturities of the subordinated liabilities and notes payable and loans, including the second tranche (EUR 250 million) of the line of credit of Talanx AG recognized under "Other liabilities", are as follows:

2008	3 months to 1 year	1 to 5 years	5 to 10 years	10 to 20 years	More than 20 years	No maturity
Figures in EUR million						
Debts measured at cost or amortized cost	265	579	8	1,327	152	595

2007	3 months to 1 year	1 to 5 years	5 to 10 years	10 to 20 years	More than 20 years	No maturity
Figures in EUR million						
Debts measured at cost or amortized cost	10	582	8	1,370	152	646

The Talanx Group has concluded a firm agreement with a broad consortium of banks regarding an available floating-rate line of credit that may be drawn upon as necessary. At the end of 2008 we had used two tranches amounting to altogether EUR 800 million. A tranche of EUR 250 million was paid back in April 2009.

In order to protect against possible future major losses Hannover Re took out a new credit line of EUR 500.0 million in 2004 in the form of an unsecured syndicated loan. The facility has a term of five years and ends in August 2009. It has not been used to date.

In addition, facilities exist with various financial institutions for letters of credit, including two unsecured syndicated guarantee facilities each in the amount of USD 2.0 billion. Half of the first of these lines matures in January 2010 and the other half in January 2012, while the second line matures in January 2013.

Hedge accounting

The Talanx Group uses interest rate swaps as part of a cash flow hedge in order to hedge the net profit or loss for the period against the interest rate risk associated with floating-rate commitments. The interest rate swaps serve to protect against rising interest rates. In 2007 we had taken out a floating-rate bank liability in an amount of EUR 550 million so as to finance the purchase price for the interests in BHW Lebensversicherung AG and BHW Pensionskasse AG as well as the remaining 50% stakes in Postbank Lebensversicherung AG and Postbank Versicherung AG. The floating rate tracks the three-month EURIBOR.

Four interest rate swaps were taken out with the same value date, also in a nominal amount of altogether EUR 550 million. We receive floating interest from these swaps in the same amount as we are required to pay on the basis of the liability, and in exchange we pay fixed interest. The selection of highly rated counterparties ensures that we avoid entering into a significant credit risk.

We adopted cash flow hedge accounting pursuant to IAS 39.86 (b) in the year under review. The interest rate swaps serve to hedge future cash flows. They are recognized at fair value under cash flow hedge accounting. The fair value (dirty value) of the four interest rate swaps amounted to altogether –EUR 35 (–6) million as at the balance sheet date; it included accrued interest of –EUR 8 (–6) million. The decrease in fair values can be attributed to movements in capital market interest rates. The fair values of the individual interest rate swaps were as follows:

Counterparty	Basis	31.12.2008	31.12.2007
Figures in EUR million			
LB Baden Württemberg	150	–11	–2
DZ Bank	150	–9	–2
Calyon	150	–9	–2
Morgan Stanley	100	–6	–1
Total	550	–35	–7

The fair value was calculated in the SimCorp Dimension investment management system used by AmpegaGerling Asset Management GmbH on the basis of the discounted cash flow method.

The fair value of the liabilities to banks corresponds to the book value and amounted to EUR 559 million.

The interest payments arising out of the bank liability and the interest rate swaps are made on 31 March, 30 June, 30 September and 31 December of each year. The amounts of the floating-rate interest payments coincide in this context. In economic terms, we are left only with the payments of the fixed interest amounts; to this extent, we have immunized ourselves against fluctuating interest expenses due to changes in capital market interest rates. The bank liability is to be paid back by 31 July 2012 at the latest.

Proof of the effectiveness of the cash flow hedge has been furnished.

Insofar as the hedging relationship is effective, the measurement gains or losses on the interest rate swaps are recognized directly in equity in a separate item (cash flow hedge reserve) after allowance for deferred taxes. The negative balance of the cash flow hedge reserve increased by EUR 26 million (before taxes) or EUR 18 million (after taxes) in the year under review.

The measurement gains or losses on the interest rate swaps are booked to income immediately in the amount of the ineffective part of the hedging relationship. In the year under review this gave rise to expenses of EUR 0.8 million, which were recognized under other income/expenses.

The current interest payments are recognized in other income/expenses after allowance for correct allocation to applicable accounting periods, since the hedged item constitutes an instrument used for corporate financing.

Since the liability carries floating-rate interest, changes in the interest rate level do not in principle affect the fair value of the liability. The situation is different as regards the interest rate swaps: the larger the spread between the fixed interest rate payable and the floating interest rate received, the higher the fair value amount of the interest rate swaps. The liability is repayable on 31 December 2012, and the interest rate swaps mature on the same date. Upon maturity the interest rate swaps have a fair value of EUR 0. All fluctuations in fair value are thus neutralized over the term of the swaps.

Securities lending

On 12 December 2008 Talanx AG concluded a securities lending transaction with WestLB. Shares were transferred with a value date of 18 December 2008 and returned on 15 January 2009. Cash collateral amounting to 105% of the market value of the shares was furnished by the borrower; the underlying market value of the share was EUR 13.44. Floating-rate interest was paid on the cash collateral at the EONIA O/N rate; the borrower additionally paid a loan fee.

Upon inception of the securities lending transaction Talanx AG booked a withdrawal of the designated shares from its securities portfolio. The subject matter of the agreement was the return of shares of the same type and quality, i.e. of the same issuer, on 15 January 2009, without agreement of compensatory payments for any losses of value. As the lender, Talanx AG therefore retained unchanged all opportunities and risks associated with the equity investment – especially the potential for or risk of changes in the value of the equities – on the basis of the firmly agreed return transfer.

The transaction was thus recognized as a secured lending transaction. Talanx AG continued to recognize the loaned 1,200,000 shares on 31 December 2008 with a book value of EUR 19 million. At the same time, we carried a loan liability with a book value of EUR 16 million for the cash collateral received.

Notes on the consolidated balance sheet – assets

(1) Goodwill

	2008	2007
Figures in EUR million		
Gross book value at 31.12. of the previous year	689	423
Currency translation at 01.01. of the year under review	-22	9
Gross book value after currency translation at 01.01. of the year under review	667	432
Change in consolidated group	1	—
Additions ¹⁾	12	306
Disposals	—	49
Currency exchange rate differences	-3	—
Gross book value at 31.12. of the year under review	677	689
Accumulated depreciation and accumulated impairment losses at 31.12. of the previous year	52	2
Currency translation at 01.01. of the year under review	—	—
Accumulated depreciation and accumulated impairment losses after currency translation at 01.01. of the year under review	52	2
Impairments	4	50
Accumulated depreciation and accumulated impairment losses at 31.12. of the year under review	56	52
Balance at 31.12. of the previous year	637	421
Balance at 31.12. of the year under review	621	637

¹⁾ In the year under review the previous year's increase in the Group interests in the PB insurers and the acquisitions of BHW Lebensversicherung AG and BHW Pensionskasse AG (EUR 306 million) are correctly shown in the "Additions" item for 2007; in the previous year they were shown in "Change in consolidated group".

The recognized goodwill derived mainly from the acquisition of HDI Seguros de Automóveis e Bens S.A. in 2005, the purchase of the former Gerling Group by Talanx AG in 2006, the increase of the interests held by the Group in the PB insurers to 100% in the previous year and the purchase of 100% stakes in BHW Lebensversicherung AG and BHW Pensionskasse AG (both also 2007).

The additions of EUR 12 million in the year under review stemmed from the acquired non-life insurers HDI Strakhuvannya and HDI Seguros S.A. (see here our remarks in the section "Business combinations in the reporting period").

The impairments of EUR 4 million were wholly attributable to the Property/Casualty Primary Insurance segment and are connected with the subsequent use of trade tax loss carry-forwards in the context of the acquisition of the Gerling Group in 2006. The impairments are opposed by income in the same amount from the recognition of deferred tax claims.

The annual goodwill impairment test did not identify any need to take impairments in the year under review (previous year: EUR 50 million). The impairment taken in 2007 was attributable exclusively to the Life Primary Insurance segment and related to the CGU “Neue Leben Group”, the calculated fair value of which was below the corresponding book value. For further information on the impairment test please see our remarks in the section entitled “Summary of major accounting policies”, page 102 et seq.

	Property/ Casualty Primary Insurance	Life Primary Insurance	Non-Life Reinsurance	Financial Services	Total ¹⁾
Figures in EUR million					
Balance at 31.12.2006	203	161	54	3	421
Currency translation at 01.01.2007	9	—	—	—	9
Balance after currency translation at 01.01.2007	212	161	54	3	430
Additions	—	306	—	—	306
Disposals	—	2	47	—	49
Impairments	—	50	—	—	50
Balance at 31.12.2007	212	415	7	3	637
Currency translation at 01.01.2008	–22	—	—	—	–22
Balance after currency translation at 01.01.2008	190	—	—	—	615
Change in consolidated group	—	1	—	—	1
Additions	12	—	—	—	12
Impairments	4	—	—	—	4
Currency exchange rate differences	–3	—	—	—	–3
Balance at 31.12.2008	195	416	7	3	621

¹⁾ Presentation after elimination of intra-Group relations

(2) Other intangible assets

	Insurance- related intan- gible assets	Software Purchased	Created	Other	2008	2007 ¹⁾
Figures in EUR million						
Gross book value at 31.12. of the previous year	2,757	254	56	72	3,139	2,658
Currency translation at 01.01. of the year under review	—	—	—	—	—	—
Gross book value after currency translation at 01.01. of the year under review	2,757	254	56	72	3,139	2,658
Change in consolidated group	1	—	–3	–1	–3	506
Additions	5	59	34	23	121	85
Disposals	34	25	2	29	90	110
Reclassification	—	15	8	–24	–1	—
Currency exchange rate differences	—	–3	—	–1	–4	–1
Gross book value at 31.12. of the year under review	2,729	300	93	40	3,162	3,138
Accumulated depreciation and accumulated impairment losses at 31.12. of the previous year	433	166	21	13	633	455
Currency translation at 01.01. of the year under review	—	—	—	—	—	—
Accumulated depreciation and accumulated impairment losses after currency translation at 01.01. of the year under review	433	166	21	13	633	455
Change in consolidated group	—	–1	–2	—	–3	—
Additions	—	11	11	—	22	—
Disposals	—	—	—	3	3	69
Depreciation/amortization						
Scheduled	128	26	11	3	168	239
Unscheduled	29	1	—	—	30	8
Reclassification	—	–1	—	1	—	—
Currency exchange rate differences	—	–2	—	—	–2	—
Accumulated depreciation and accumulated impairment losses at 31.12. of the year under review	590	200	41	14	845	633
Balance at 31.12. of the previous year	2,323	88	35	59	2,505	2,188
Balance at 31.12. of the year under review	2,139	100	52	26	2,317	2,505

¹⁾ Adjusted on the basis of IAS 8

In the previous year the gross amounts of the disposals as well as the accumulated depreciation and accumulated impairment losses (disposals) were adjusted for PVFPs – shareholders' portion – fully amortized in 2006 or prior years (EUR 67 million).

In 2007 we correctly recognized intangible assets of EUR 52 million, which had previously been carried under insurance-related intangible assets, under the other assets. The statement of changes in the book value of fixed assets and investments has been adjusted accordingly.

The “insurance-related intangible assets” derived largely from the insurance portfolios of the former Gerling Group acquired in 2006 (carrying value 2008: EUR 1.5 billion) as well as the portfolios of BHW Lebensversicherung AG (carrying value 2008: EUR 324 million) and PB Lebensversicherung AG (carrying value 2008: EUR 75 million) purchased in 2007.

A present value of future profits (PVFP) was capitalized in the amount of the expected future earnings of these assumed life portfolios. It is shown for gross account and consists of a shareholders’ portion – on which deferred taxes were established – and a policyholders’ portion.

PVFPs for life insurance companies	31.12.2008	31.12.2007
Figures in EUR million		
Shareholders’ portion	944	957
Policyholders’ portion	1,093	1,191
Balance	2,037	2,148

Of the “depreciation/amortization” on insurance-related intangible assets totaling EUR 157 (211) million, an amount of EUR 96 million was attributable to the amortization of PVFPs in the Life Primary Insurance segment. A further EUR 61 million resulted from write-downs taken on purchased insurance portfolios in the Group segment of Property/Casualty Primary Insurance, including special write-downs of EUR 29 million.

(3) Investment property

	2008	2007
Figures in EUR million		
Gross book value at 31.12. of the previous year	927	1,069
Currency translation at 01.01. of the year under review	—	—
Gross book value after currency translation at 01.01. of the year under review	927	1,069
Additions	43	17
Disposals	26	395
Disposal groups pursuant to IFRS 5	–35	361
Reclassification	–11	–124
Currency exchange rate differences	—	–1
Gross book value at 31.12. of the year under review	898	927
Accumulated depreciation and accumulated impairment losses at 31.12. of the previous year		
	311	287
Currency translation at 01.01. of the year under review	—	—
Accumulated depreciation and accumulated impairment losses after currency translation at 01.01. of the year under review	311	287
Disposals	—	6
Depreciation		
Scheduled	8	19
Unscheduled	3	—
Disposal groups pursuant to IFRS 5	–8	3
Reclassification	—	8
Accumulated depreciation and accumulated impairment losses at 31.12. of the year under review	314	311
Balance at 31.12. of the previous year	616	782
Balance at 31.12. of the year under review	584	616

The additions are divided mainly between the segments of Property/Casualty Primary Insurance (EUR 36 million) and Life/Health Reinsurance (EUR 7 million).

The changes in the area of disposals pursuant to IFRS 5 relate to investment property classified as “held for sale” (cf. here our remarks in the “Disposal groups” section on page 134).

The fair value of investment property amounted to EUR 622 (660) million as at the balance sheet date. The fair values were determined largely internally within the Group using discounted cash flow methods and in individual cases on the basis of external expert opinions.

Of the total investment property, EUR 428 (434) million was allocated to special cover funds. Restrictions on the disposal of assets and pledges as collateral existed in an amount of EUR 3 (3) million as at 31 December 2008.

(4) Investments in affiliated companies and participating interests

	2008	2007
Figures in EUR million		
Affiliated companies	12	2
Participating interests	54	57
Balance at 31.12. of the year under review	66	59

The increase in the book value recognized as at the balance sheet date resulted above all from the deconsolidation of 22 companies in the year under review, 21 of which were recognized as participating interests as at the balance sheet date. The interests in one company were sold prior to the balance sheet date.

(5) Investments in associated companies

	2008	2007 ¹⁾
Figures in EUR million		
Balance at 31.12. of the previous year	178	174
Disposals	33	—
Amortization	—	1
Adjustment recognized in income	–7	4
Adjustment recognized outside income	–3	1
Balance at 31.12. of the year under review	135	178

¹⁾ Adjusted on the basis of IAS 8

Public price listings are not available for the associated companies. The disposals recognized in 2008 were connected principally with the sale of ITAS Assicurazioni S.p.A., Trento, Italy (see here our remarks in the section entitled “Consolidation”) on page 130.

The companies valued at equity include goodwill of EUR 20 (24) million.

(6) Loans and receivables

	Cost or amortized cost		Unrealized gains/losses		Fair value	
	31.12.2008	31.12.2007	31.12.2008	31.12.2007	31.12.2008	31.12.2007
Figures in EUR million						
Mortgage loans	1,607	1,668	-19	-38	1,588	1,630
Loans and prepayments on insurance policies	211	209	—	—	211	209
Loans and receivables due from governmental or semi-governmental entities	8,995	8,885	245	-421	9,240	8,464
Corporate securities	8,119	7,913	147	-254	8,266	7,659
Covered bonds, asset-backed securities	10,693	9,979	401	-502	11,094	9,477
Participation rights	498	588	-19	-41	479	547
Other	—	1	—	—	—	1
Total	30,123	29,243	755	-1,256	30,878	27,987

Changes	2008	2007
Figures in EUR million		
Balance at 31.12. of the previous year	29,243	25,644
Change in consolidated group	—	699
Additions	2,508	4,697
Disposals	1,738	1,853
Amortization	59	23
Value adjustments	—	18
Write-ups	17	—
Changes in accrued interest	—	66
Other changes	24	11
Currency exchange rate differences	10	-26
Balance at 31.12. of the year under review	30,123	29,243

Contractual maturity	Cost or amortized cost		Fair value	
	31.12.2008	31.12.2007	31.12.2008	31.12.2007
Figures in EUR million				
Due in one year	2,147	1,238	2,146	1,212
Due after one through two years	1,770	1,609	1,792	1,593
Due after two through three years	1,163	2,312	1,188	2,211
Due after three through four years	1,319	1,177	1,364	1,151
Due after four through five years	1,404	1,468	1,441	1,435
Due after five through ten years	12,146	11,248	12,333	10,785
Due after ten years	10,174	10,191	10,614	9,600
Total	30,123	29,243	30,878	27,987

Rating structure of loans and receivables	Cost or amortized cost	
	31.12.2008	31.12.2007
Figures in EUR million		
AAA	8,982	9,186
AA	12,022	13,072
A	6,604	4,385
BBB or lower	2,515	2,600
Total	30,123	29,243

(7) Financial assets held to maturity

	Cost or amortized cost		Unrealized gains/losses		Fair value	
	31.12.2008	31.12.2007	31.12.2008	31.12.2007	31.12.2008	31.12.2007
Figures in EUR million						
Government debt securities of EU member states	92	98	4	-1	96	97
US Treasury Notes	345	325	64	21	409	346
Other foreign government debt securities	14	19	1	—	15	19
Debt securities issued by semi-governmental entities	441	436	21	7	462	443
Corporate securities	241	357	-13	-14	228	343
Mortgage bonds, asset-backed securities	245	242	—	-10	245	232
Total	1,378	1,477	77	3	1,455	1,480

Changes	2008	2007
Figures in EUR million		
Balance at 31.12. of the previous year	1,477	1,571
Change in consolidated group	2	—
Additions	9	40
Disposals	124	67
Amortization	6	6
Changes in accrued interest	-7	-3
Other changes	-4	—
Currency exchange rate differences	19	-70
Balance at 31.12. of the year under review	1,378	1,477

Contractual maturity	Cost or amortized cost		Fair value	
	31.12.2008	31.12.2007	31.12.2008	31.12.2007
Figures in EUR million				
Due in one year	12	127	10	124
Due after one through two years	31	5	31	5
Due after two through three years	198	30	207	29
Due after three through four years	262	194	274	196
Due after four through five years	144	256	146	260
Due after five through ten years	695	824	750	825
Due after ten years	36	41	37	41
Total	1,378	1,477	1,455	1,480

Rating structure of fixed-income securities	Cost or amortized cost	
	31.12.2008	31.12.2007
Figures in EUR million		
AAA	726	709
AA	345	324
A	230	359
BBB or lower	77	85
Total	1,378	1,477

The rating categories are based on the classifications of leading international rating agencies.

(8) Financial assets available for sale

	Cost or amortized cost		Unrealized gains/losses		Fair value	
	31.12.2008	31.12.2007	31.12.2008	31.12.2007	31.12.2008	31.12.2007
Figures in EUR million						
Fixed-income securities						
Government debt securities of EU member states	3,772	2,036	84	-7	3,856	2,029
US Treasury Notes	1,856	1,560	137	46	1,993	1,606
Other foreign government debt securities	512	408	21	—	533	408
Debt securities issued by semi-governmental entities	4,621	3,938	158	-5	4,779	3,933
Corporate securities	6,660	4,656	-327	-121	6,333	4,535
Investment funds	742	4,786	-72	-125	670	4,661
Other securities	5,573	4,165	-129	-80	5,444	4,085
Total fixed-income securities	23,736	21,549	-128	-292	23,608	21,257
Variable-yield securities						
Equities	818	925	-31	76	787	1,001
Investment funds	460	3,264	-22	334	438	3,598
Other securities	32	21	—	—	32	21
Total variable-yield securities	1,310	4,210	-53	410	1,257	4,620
Total securities	25,046	25,759	-181	118	24,865	25,877

In the year under review the holdings in special funds are no longer recognized under “Investment funds” separately from direct holdings of securities; instead, they are shown together on the basis of the breakdown selected for the directly held portfolio. A corresponding adjustment of the comparative figures had to be omitted for technical reasons.

Changes	2008	2007
Figures in EUR million		
Balance at 31.12. of the previous year	25,877	25,663
Change in consolidated group ¹⁾	4	-610
Additions	20,141	12,092
Disposals	19,103	10,783
Amortization	32	32
Value adjustments	1,322	166
Changes in accrued interest	59	4
Change in unrealized gains/losses	-332	-131
Other changes	-255	-90
Disposal group pursuant to IFRS 5 ¹⁾	—	718
Currency exchange rate differences	-236	-852
Balance at 31.12. of the year under review	24,865	25,877

¹⁾ The amount recognized under the disposal groups pursuant to IFRS 5 as at 31 December 2007 refers to the disposal of a partial portfolio of the disposal group classified as held for sale in 2006.

Contractual maturity of fixed-income securities	Fair value		Cost or amortized cost	
	31.12.2008	31.12.2007	31.12.2008	31.12.2007
Figures in EUR million				
Due in one year	4,314	3,212	4,455	3,269
Due after one through two years	2,898	2,000	2,874	2,009
Due after two through three years	2,770	1,737	2,759	1,749
Due after three through four years	2,094	1,683	2,094	1,682
Due after four through five years	3,233	1,833	3,169	1,852
Due after five through ten years	6,594	5,241	6,625	5,316
Due after ten years	1,705	5,551	1,760	5,672
Total	23,608	21,257	23,736	21,549

Rating structure of fixed-income securities	Fair value	
	31.12.2008	31.12.2007
Figures in EUR million		
AAA	13,221	9,353
AA	3,852	4,309
A	4,361	3,013
BBB or lower	2,174	4,582
Total	23,608	21,257

The rating categories are based on the classifications of leading international rating agencies.

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

	Fair value	
	31.12.2008	31.12.2007
Figures in EUR million		
Fixed-income securities		
Government debt securities of EU member states	8	4
Other foreign government debt securities	25	70
Debt securities issued by semi-governmental entities	96	110
Corporate securities	341	247
Covered bonds, asset-backed securities	196	199
Investment funds	20	63
Other securities	40	37
Total fixed-income securities	726	730
Variable-yield securities		
Equities	—	—
Investment funds	15	102
Other securities	7	12
Total variable-yield securities	22	114
Derivatives	45	21
Total securities	793	865

Changes	2008	2007
Figures in EUR million		
Balance at 31.12. of the previous year	865	1,042
Change in consolidated group	3	884
Additions	408	150
Disposals	476	1,247
Amortization	16	20
Changes in accrued interest	4	-1
Change in unrealized gains/losses	-87	-19
Other changes	78	38
Currency exchange rate differences	-18	-2
Balance at 31.12. of the year under review	793	865

Contractual maturity of fixed-income securities	Fair value	
	31.12.2008	31.12.2007
Figures in EUR million		
Due in one year	101	117
Due after one through two years	30	51
Due after two through three years	270	42
Due after three through four years	15	238
Due after four through five years	75	42
Due after five through ten years	97	69
Due after ten years	138	171
Total	726	730

Rating structure of fixed-income securities	Fair value	
	31.12.2008	31.12.2007
Figures in EUR million		
AAA	124	248
AA	170	234
A	232	121
BBB or lower	200	127
Total	726	730

The rating categories are based on the classifications of leading international rating agencies. With respect to a partial portfolio with a nominal value of EUR 67 million, which would otherwise be recognized under “Loans and receivables”, a decline in fair value of EUR 2 million attributable to a deterioration of the credit risk has been established since purchase of the securities or since their classification as “Financial instruments at fair value through profit or loss”. The deterioration in the credit risk was identified on the basis of a rating downgrade. The spread differences since purchase/classification were determined for the affected securities. The change in fair value was established with the aid of the modified duration and the change in the market interest rate.

The decline in fair values established in this way on the basis of deteriorations in the credit risk in the year under review amounted to EUR 428 thousand.

(10) Financial assets held for trading

	Fair value	
	31.12.2008	31.12.2007
Figures in EUR million		
Fixed-income securities		
Government debt securities of EU member states	2	2
Corporate securities	—	—
Total fixed-income securities	2	2
Variable-yield securities		
Investment funds	42	9
Total variable-yield securities	42	9
Derivatives	379	7
Total securities	423	18

The recognized derivatives refer primarily to derivative financial instruments used to hedge interest rate, exchange and other market price risks (see also the section entitled “Derivative financial instruments and structured products”).

Changes	2008	2007
Figures in EUR million		
Balance at 31.12. of the previous year	18	63
Additions	515	6
Disposals	280	2
Changes in accrued interest	1	–1
Change in unrealized gains/losses	135	–25
Other changes	34	–24
Currency exchange rate differences	—	1
Balance at 31.12. of the year under review	423	18

Contractual maturity of fixed-income securities	Fair value	
	31.12.2008	31.12.2007
Figures in EUR million		
Due in one year	2	1
Due after four through five years	—	1
Total	2	2

Rating structure of fixed-income securities	Fair value	
	31.12.2008	31.12.2007
Figures in EUR million		
A	2	1
BBB or lower	—	1
Total	2	2

The rating categories are based on the classifications of leading international rating agencies.

(11) Other invested assets

The other invested assets of EUR 3.9 (3.2) billion are composed principally of participating interests in partnerships measured at fair value in an amount of EUR 860 (835) million and deposits at banks totaling EUR 1,861 (1,509) million. The amortized costs of these participating interests amounted to EUR 713 (623) million as at the balance sheet date; in addition, unrealized gains of EUR 173 (230) million and unrealized losses of EUR 26 (18) million were recognized from these investments. The fair values of the deposits at banks correspond largely to the book values, since their duration is for the most part less than one year.

(12) Derivative financial instruments and structured products

Derivatives

Derivative financial instruments are used within the Talanx Group to hedge against interest rate, exchange and other market price risks and to a limited extent also to optimize returns or realize intentions to buy/sell. In this context, the applicable regulatory requirements and the standards set out in the Group's internal investment guidelines are strictly observed and first-class counterparties are always selected.

The fair values of derivative financial instruments are determined on the basis of market prices and observable market data as at the balance sheet date and using recognized measurement models. Insofar as structured products – i.e. financial instruments composed of a host contract and one or more derivative financial instruments – require separation of the derivative component(s) from the underlying, the derivative is recognized under the balance sheet item “Financial instruments at fair value through profit or loss” or in the event of negative fair values under the “Other liabilities”. Derivatives that are used within the scope of special accounting rules for hedging relationships in accordance with IAS 39 (hedge accounting) were shown either under the heading “At fair value through profit or loss” or in the “Other liabilities” depending on their fair values (further information on hedge accounting is provided in the corresponding section of the Notes).

The open positions from derivatives (fair values) as recognized in the balance sheet are as follows:

Balance sheet recognition of derivative financial instruments	Hedge instrument as per IAS 39	31.12.2008	31.12.2007
Figures in EUR million			
Balance sheet item			
Financial instruments at fair value through profit or loss	No	45	21
Financial instruments held for trading	No	379	7
Other liabilities	No	127	44
	Yes	35	6
Total		586	78

In the financial year just-ended the positions still open at the balance sheet date produced a profit of EUR 191 million; the positions closed in the year under review gave rise to a profit of EUR 422 million.

The fair values of our open positions are shown below differentiated according to risk types. Positive and negative fair values are netted in the table. Open positions from derivatives existed in an amount of EUR 586 (78) million at the balance sheet date, corresponding to 0.6 (0.1)% of the balance sheet total.

Maturities of derivative financial instruments	Due after 1		Due after 5		Due after 10 years	Other	31.12.2008
	Due in 1 year	through 5 years	through 10 years	Due after 10 years			
Figures in EUR million							
Equity and index risks	366	—	—	—	—	—	366
Derivatives embedded in insurance contracts	—	—	—	—	—	80	80
Credit risks	24	2	4	32	—	—	62
Interest rate risks	–206	232	22	—	—	—	48
Currency risks	27	—	—	—	—	—	27
Other risks	1	2	—	—	—	—	3
Total	212	236	26	32	80	—	586

Structured products

As at 31 December 2008 Group companies held structured products with a total value of EUR 5.2 (4.9) billion. A structured financial product denotes an investment product created through the combination of several underlying financial products, at least one of which must be a derivative. These investments are allocated to the asset classes of loans and receivables, financial instruments available for sale or financial instruments at fair value through profit or loss. In accordance with this categorization, the book values are based either on amortized costs (loans and receivables) or on fair values. Further details are provided in the accounting policies.

Within the Talanx Group financial instruments – i.e. structured products – composed of a host contract and one of more derivative financial instruments (embedded derivatives) that require separation of the derivative component(s) from the underlying are recognized as financial instruments at fair value through profit or loss in accordance with IAS 39.11A (fair value option on structured products), insofar as the embedded derivatives form an integral component of the contract that cannot be dealt with separately and separate measurement of the derivatives would not be reliable.

(13) Accounts receivable on insurance business

	31.12.2008	31.12.2007
Figures in EUR million		
Accounts receivable on direct written insurance business	1,427	1,277
thereof:		
From policyholders	818	681
From insurance intermediaries	609	596
Accounts receivable on reinsurance business	3,011	2,481
Total	4,438	3,758

(14) Deferred acquisition costs

	2008			2007		
	Gross business	Reinsurance recoverables	Net business	Gross business	Reinsurance recoverables	Net business
Figures in EUR million						
Balance at 31.12. of the previous year	3,858	579	3,278	3,779	611	3,168
Change in consolidated group ¹⁾	—	–19	–19	–17	87	–104
Portfolio entries/withdrawals	11	—	11	–10	—	–10
Newly capitalized acquisition costs	791	105	686	881	64	817
Amortized acquisition costs	418	49	369	771	173	598
Disposal group pursuant to IFRS 5 ¹⁾	—	—	—	97	—	97
Currency adjustments	–104	–7	–97	–96	–5	–91
Other changes	–1	19	19	–5	–4	–1
Balance at 31.12. of the year under review	4,137	628	3,509	3,858	579	3,278

¹⁾ Regarding the presentation of the sale of partial portfolios recognized as assets and liabilities of a disposal group classified as held for sale as at 31 December of the previous year, please see our remarks in the section entitled "Summary of major accounting policies", page 102 et seq.

(15) Other assets

	31.12.2008	31.12.2007
Figures in EUR million		
Own-use real estate	572	577
Tax refund claims	370	145
Plant and equipment	122	116
Interest and rent due	22	25
Sundry assets	650	587
Total	1,736	1,450

Of the sharp rise in tax refund claims (+EUR 225 million), EUR 170 million was attributable to Talanx AG and related principally to trade tax refund claims due from the revenue authority for the years 2007 and 2008.

Development of own-use real estate	2008	2007
Figures in EUR million		
Gross book value at 31.12. of the previous year	754	597
Currency translation at 01.01. of the year under review	—	—
Gross book value after currency translation at 01.01. of the year under review	754	597
Change in consolidated group	-49	2
Additions	58	34
Disposals	1	5
Reclassification	11	126
Disposal group pursuant to IFRS 5	-14	—
Currency exchange rate differences	-2	—
Gross book value at 31.12. of the year under review	757	754
Accumulated depreciation and accumulated impairment losses at 31.12. of the previous year	177	131
Currency translation at 01.01. of the year under review	—	—
Accumulated depreciation and accumulated impairment losses after currency translation at 01.01. of the year under review	177	131
Change in consolidated group	-18	—
Depreciation		
Scheduled	19	41
Reclassification	7	5
Accumulated depreciation and accumulated impairment losses at 31.12. of the year under review	185	177
Balance at 31.12. of the previous year	577	466
Balance at 31.12. of the year under review	572	577

The fair value of the own-use real estate amounted to EUR 628 (630) million as at the balance sheet date. These fair values were calculated largely using the discounted cash flow method. The methods used to determine the book values are set out in the section entitled “Summary of major accounting policies”, page 102 et seq.

An amount of EUR 259 (289) million was allocated from the own-use real estate to special cover funds. Contractual commitments for the acquisition of property, plant and equipment totaled EUR 2 (—) million as at the balance sheet date.

Development of plant and equipment	2008	2007
Figures in EUR million		
Gross book value at 31.12. of the previous year	335	316
Currency translation at 01.01. of the year under review	—	—
Gross book value after currency translation at 01.01. of the year under review	335	316
Change in consolidated group	–2	–6
Additions	100	70
Disposals	70	44
Reclassification	–1	3
Other changes	–10	—
Currency exchange rate differences	–9	–4
Gross book value at 31.12. of the year under review	343	335
Accumulated depreciation and accumulated impairment losses at 31.12. of the previous year	219	192
Currency translation at 01.01. of the year under review	—	—
Accumulated depreciation and accumulated impairment losses after currency translation at 01.01. of the year under review	219	192
Change in consolidated group	–1	–3
Disposals	40	13
Depreciation		
Scheduled	60	43
Unscheduled	—	3
Reclassification	–1	—
Other changes	–10	—
Currency exchange rate differences	–6	–3
Accumulated depreciation and accumulated impairment losses at 31.12. of the year under review	221	219
Balance at 31.12. of the previous year	116	124
Balance at 31.12. of the year under review	122	116

Other assets	31.12.2008	31.12.2007
Figures in EUR million		
Trade accounts receivable	117	142
Receivables relating to investments	130	64
Receivables from non-group lead business	51	53
Other tangible assets	60	49
Claims under insurance for pension commitments	43	41
Prepaid insurance benefits	37	36
Surrender values	29	33
Other claims for recovery	16	—
Prepaid expenses	30	26
Receivables from the disposal of property, plant and equipment	7	1
Sundry assets	130	142
Total	650	587

Notes on the consolidated balance sheet – liabilities

(16) Shareholders' equity

Shareholders' equity is shown as a separate component of the consolidated financial statement in accordance with IAS 1 "Presentation of Financial Statements" and IAS 32 "Financial Instruments: Disclosure and Presentation" in conjunction with IAS 39 "Financial Instruments: Recognition and Measurement". The change in shareholders' equity comprises not only the net income deriving from the statement of income but also the changes in the value of asset and liability items not recognized in the statement of income.

The share capital of Talanx AG remains unchanged at EUR 260 million and is divided into 260,000 registered no-par shares. The share capital is fully paid up.

Minority interests are established in accordance with the shares held by companies outside the Group in the shareholders' equity of the subsidiaries.

The equity-affecting changes in the available-for-sale portfolio before allowance for policyholders, minority interests and deferred taxes were as follows.

	2008	2007 ¹⁾
Figures in EUR million		
Transfer of gains(-)/losses(+) from the fair value measurement of the available-for-sale portfolio to the result for the reporting period	-328	-77
Minority interests		
Figures in EUR million		
Unrealized gains and losses from investments	-62	140
Minority interest in net profit	-66	522
Other shareholder's equity	2,232	1,769
Total	2,104	2,431

¹⁾ Adjusted on the basis of IAS 8

Changes in shareholders' equity and minority interests

IAS 1 "Presentation of Financial Statements" requires detailed disclosures in the Notes that enable the readers of the financial statements to understand the objectives, methods and processes of capital management and provide supplementary information on changes in Group shareholders' equity.

In this context please see the following remarks as well as the information contained in the management report regarding capital and performance management as well as value-based management.

Capital management

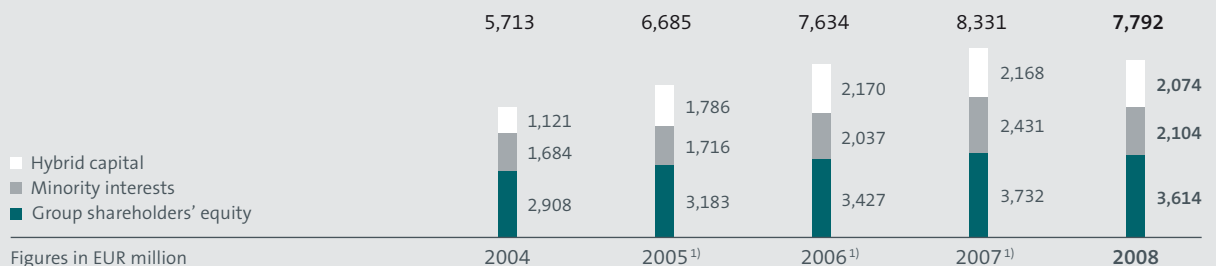
The preservation and consistent strengthening of its equity base is a key strategic objective for the Talanx Group. As part of its approach to capital management the Talanx Group considers the policyholders' surplus over and above the shareholders' equity reported in the balance sheet.

The policyholders' surplus is defined as the sum total of

- shareholders' equity excluding minority interests, composed of the common shares, additional paid-in capital, other comprehensive income and retained earnings,
- minority interests and
- hybrid capital used as an equity substitute, which encompasses our subordinated liabilities.

The policyholders' surplus totaled EUR 7.8 (8.3) billion as at the balance sheet date.

The chart below illustrates the growth of the policyholders' surplus over the last five reporting years.



¹⁾ Adjusted on the basis of IAS 8

The Talanx Group uses "Intrinsic Value Creation" (IVC) as its central value-based management indicator for measuring the value created by our Group companies and segments. This concept as well as the objectives and principles in accordance with which we conduct our enterprise governance and capital management is described in our remarks on capital and performance management in the correspondingly titled section of the management report.

The Talanx Group satisfies the capital expectations of the rating agencies that assess the Group's financial strength. Some Group companies are subject to additional national capital and solvency requirements. All Group companies met the applicable local minimum capital requirements in the year under review.

Within the scope of Group-wide capital management Talanx AG monitors the capital resources of its subsidiaries with the utmost diligence.

(17) Subordinated liabilities

In order to optimize the Group's capital structure and hence its cost of capital and to safeguard the liquidity (solvency) required (by regulators), Talanx AG and various Group companies have in the past taken out long-term liabilities that predominantly take the form of subordinated debt and are in some cases exchange-listed.

Specifically, the long-term subordinated debt is comprised of the following financial instruments:

		Book value	
		31.12.2008	31.12.2007
Figures in EUR million			
Hannover Finance Inc.	USD 20 million, floating rate, 1999/2029, (a; A) ¹⁾	14	14
The debt was originally issued in an amount of USD 400 million. Group companies bought back portions in 2004 and 2005 totaling USD 380 million. The debt may be redeemed by the issuer no earlier than 2009.			
Hannover Finance (Luxembourg) S.A.	EUR 750 million, floating rate, 2004/2024, (a; A) ¹⁾	746	746
The subordinated debt was placed on the European capital market. It may be redeemed in 2014 at the earliest and at each coupon date thereafter.			
Hannover Finance (Luxembourg) S.A.	EUR 500 million, 5%, 2005/no final maturity, (a-; A) ¹⁾	479	476
Part of the volume of the subordinated debt was offered to the holders of the debt issued in 2001 by way of exchange. The debt may be called by the issuer on 01.06.2015 at the earliest.			
Hannover Finance (Luxembourg) S.A.	EUR 138 million, 6.25%, 2001/2031, (a; A) ¹⁾	138	138
The debt was originally issued in an amount of EUR 350 million. The holders of this debt were offered the opportunity to exchange into the new debt issued in 2005. Nominal participation in the exchange was EUR 212 million. The debt may be called by the issuer in 2011 at the earliest.			
HDI-Gerling Industrie Versicherung AG	EUR 250 million, floating rate, 2004/2024, (bbb+; -) ¹⁾	273	276
The subordinated Eurobond issue may be called by the issuer in 2014 at the earliest.			
HDI-Gerling Lebensversicherung AG	EUR 110 million, 6.75%, 2005/no final maturity, (-; A-) ¹⁾	116	170
The subordinated debt is listed on the Luxembourg Stock Exchange. It may be called by the issuer in 2015 at the earliest. In 2008 Group companies acquired partial amounts of the debt in a nominal amount of EUR 50 million.			
Talanx Finanz	EUR 310 million, 4.5%, 2005/2025, (bbb-; BBB) ¹⁾	308	348
The subordinated debt is listed on the Luxembourg Stock Exchange. In 2008 Group companies acquired partial amounts of the debt in a nominal amount of EUR 40 million.			
Total		2,074	2,168

¹⁾ (debt rating A.M.Best; debt rating S&P)

The decrease in subordinated debt resulted primarily from the repurchase of partial amounts of individual issues by Group companies.

2008	Cost or amortized cost	Unrealized gains or losses	Accrued interest	Fair value
Figures in EUR million				
Debts measured at cost or amortized cost	2,074	-625	70	1,519

2007	Cost or amortized cost	Unrealized gains or losses	Accrued interest	Fair value
Figures in EUR million				
Debts measured at cost or amortized cost	2,168	2	71	2,241

The fair value of the extended subordinated loans is based on quoted, active market prices. If such price information was not available, fair value was determined on the basis of the recognized effective interest rate method or estimated using other financial assets with similar rating, duration and return characteristics. Under the effective interest rate method the current market interest rate levels in the relevant fixed-interest-rate periods are always taken as a basis.

The net result from subordinated liabilities in the year under review consisted of ordinary expenses in an amount of EUR 113 (120) million and income from amortization totaling EUR 4 (1) million.

(18) Unearned premium reserve

	2008			2007		
	Gross	Retro	Net	Gross	Retro	Net
Figures in EUR million						
Balance at 31.12. of the previous year	4,755	537	4,218	5,092	516	4,576
Change in the consolidated group ¹⁾	11	3	8	-172	121	-293
Portfolio entries/withdrawals	35	—	35	-1	—	-1
Allocations	1,237	79	1,158	1,193	135	1,058
Releases	1,067	193	874	1,494	329	1,165
Other changes	-1	—	-1	-6	—	-6
Currency exchange rate differences	-76	-17	-59	-103	-12	-91
Disposal group pursuant to IFRS 5 ¹⁾	—	—	—	246	106	140
Balance at 31.12. of the year under review	4,894	409	4,485	4,755	537	4,218

¹⁾The amount shown under the disposal groups pursuant to IFRS 5 as at 31 December 2007 refers to the disposal of a partial portfolio recognized as assets and liabilities of a disposal group classified as held for sale in 2006.

(19) Benefit reserve

	2008			2007		
	Gross	Retro	Net	Gross	Retro	Net
Figures in EUR million						
Balance at 31.12. of the previous year	35,987	1,103	34,884	33,319	1,333	31,986
Change in the consolidated group	—	—	—	2,227	3	2,224
Portfolio entries/withdrawals	-278	-140	-138	-514	-233	-281
Allocations	1,290	-22	1,312	2,798	2	2,796
Releases	57	1	56	1,497	-1	1,498
Other changes	-4	—	-4	1	—	1
Currency exchange rate differences	-552	-11	-541	-347	-3	-344
Balance at 31.12. of the year under review	36,386	929	35,457	35,987	1,103	34,884

Durations of the reserves	2008			2007		
	Gross	Retro	Net	Gross	Retro	Net
Figures in EUR million						
Less than one year	2,086	53	2,033	1,465	31	1,434
Between one and five years	7,379	199	7,180	9,459	268	9,191
Between five and ten years	7,302	182	7,120	8,304	269	8,035
Between ten and twenty years	8,354	225	8,129	7,795	238	7,557
After more than twenty years	7,454	152	7,302	5,002	98	4,904
Deposits	3,811	118	3,693	3,962	199	3,763
Total	36,386	929	35,457	35,987	1,103	34,884

(20) Loss and loss adjustment expense reserve (loss reserve)

	2008			2007		
	Gross	Retro	Net	Gross	Retro	Net
Figures in EUR million						
Balance at 31.12. of the previous year	26,651	5,671	20,980	26,682	5,384	21,298
Change in consolidated group ¹⁾	10	16	-6	-249	162	-411
Portfolio entries/withdrawals	101	1	100	148	—	148
Plus incurred claims and claims expenses (net)						
Year under review	11,108	1,826	9,282	10,011	1,557	8,454
Previous years	922	-21	943	2,775	1,124	1,651
Total	12,030	1,805	10,225	12,786	2,681	10,105
Less claims and claims expenses paid (net)						
Year under review	5,607	879	4,728	5,131	621	4,510
Previous years	5,992	1,166	4,826	6,831	1,871	4,960
Total	11,599	2,045	9,554	11,962	2,492	9,470
Other changes	—	-29	29	2	26	-24
Currency exchange rate differences	-32	60	-92	-1,335	-359	-976
Disposal group pursuant to IFRS 5 ¹⁾	—	—	—	579	269	310
Balance at 31.12. of the year under review	27,161	5,479	21,682	26,651	5,671	20,980

¹⁾ The amount shown under the disposal groups pursuant to IFRS 5 as at 31 December 2007 refers to the disposal of a partial portfolio recognized as assets and liabilities of a disposal group classified as held for sale in 2006.

In the year under review we adjusted the presentation of the “run-off triangles” for the loss and loss adjustment expense reserves. The “run-off triangles” establish the correlation between the loss occurrence year and the loss run-off year. In line with previous years, we show the constituted loss reserves not by occurrence years but by the run-off of the reserve reported in the balance sheet. For the sake of improved understanding, from 2008 onwards we are splitting the disclosure into the two Group segments of Property/Casualty Primary Insurance and Non-Life Reinsurance, with only the corresponding net loss reserves being shown. The modified disclosure, which had no implications for the balance sheet and net income, is supplemented by a corresponding reconciliation with the Group figures for each segmental balance sheet.

The following two tables set out the net loss reserves for the years 1998 to 2008 split into the Group segments of Non-Life Reinsurance and Property/Casualty Primary Insurance. The tables show the changes made over time in the loss reserve established as at each balance sheet date due to payments rendered, supplementary premiums brought to account in years after they were written and revised estimates of outstanding payments. The difference between the original loss reserve and the current reserve is reflected in the net run-off result. This result is significantly influenced by movements in the euro against major foreign currencies.

The carrying amount of the **reinsurance recoverables** on unpaid claims of EUR 5.5 (5.7) billion includes cumulative specific value adjustments of EUR 47 (26) million. The total amount of the net reserves was EUR 21.7 (21.0) billion. The following breakdown of the durations refers to this amount.

Durations of the reserve	2008			2007		
	Gross	Re	Net	Gross	Re	Net
Figures in EUR million						
One year or less	8,429	2,102	6,327	7,811	1,896	5,915
Between one and five years	10,640	2,101	8,539	10,395	2,180	8,215
Between five and ten years	3,890	667	3,223	3,496	750	2,746
Between ten and twenty years	2,648	359	2,289	2,638	575	2,063
More than twenty years	972	116	856	1,606	116	1,490
Deposits	582	134	448	705	154	551
Total	27,161	5,479	21,682	26,651	5,671	20,980

(21) Provision for premium refunds

	2008			2007 ¹⁾		
	Gross	Re	Net	Gross	Re	Net
Figures in EUR million						
Balance at 31.12. of the previous year	1,403	2	1,401	1,319	2	1,317
Change in the consolidated group	-2	—	-2	179	—	179
Portfolio entries/withdrawals	-89	—	-89	-51	—	-51
Allocations	51	—	51	86	—	86
Disposals						
Life insurance policies	256	—	256	207	—	207
Liability/personal accident policies with a premium refund	15	-1	14	2	—	1
Other changes	-118	—	-118	78	—	78
Currency exchange rate differences	-1	—	-1	1	—	—
Balance at 31.12. of the year under review	973	1	972	1,403	2	1,401

¹⁾ Adjusted on the basis of IAS 8

(22) Provision for pensions and other post-employment benefit obligations

The companies belonging to the Talanx Group normally award their employees pension commitments based on defined contribution or defined benefit plans. The type of pension commitment is given in accordance with the relevant pension plan and encompasses retirement, disability, widows' and orphans' benefits. The pension entitlement is dependent on length of service and salary. The vast majority of pension commitments are based on defined benefit pension plans.

Under defined benefit plans the pension beneficiary is promised a specific benefit; in contrast to defined contribution plans, the expenditures to be incurred by the company on the basis of the benefit commitments are not fixed from the outset. The commitments to employees in Germany predominantly comprise commitments funded by the company; no pension funds exist.

In addition, employees have an opportunity to accumulate further old-age provision by way of deferred compensation through membership of HDI-Gerling Pensionskasse AG. The benefits provided by HDI-Gerling Pensionskasse AG are guaranteed for its members and their surviving dependants and comprise traditional pension plans with bonus increases as well as unit-linked hybrid annuities. Employees of the former Gerling Group also have the option of obtaining pension commitments through deferred compensation with Gerling Versorgungskasse VVaG. In this case the employer companies meet the administrative expenses and assume responsibility for ensuring that the life insurance contracts can be fulfilled through their liability to make additional contributions.

Provisions for pensions are established in accordance with IAS 19 "Employee Benefits" using the Projected Unit Credit Method. They are established in accordance with actuarial principles and make allowance for the length of service and estimated rate of compensation increase of pension beneficiaries. The benefit entitlements are discounted using a single Group-wide blended rate of interest.

The major Group companies based the measurement of their pension commitments on the following assumptions:

Measurement parameters/assumptions	2008			2007		
	Germany	USA	Other	Germany	USA	Other
%						
Discount rate	6.00–6.40	6.20	4.17–7.00	4.95–5.50	6.20	4.70–6.20
Rate of compensation increase	3.00	—	2.50–4.50	3.00	3.50	3.00–5.30
Projected long-term yield on plan assets	4.25	7.50–8.50	4.50–7.00	4.25	7.50–8.50	5.70–7.50
Indexation	2.25	3.00	2.00–3.50	1.75	2.00–3.00	2.00–3.50

The change in the projected benefit obligation of the pension commitments for the various defined benefit plans of the Talanx Group was as follows:

Change in the projected benefit obligation	2008	2007
Figures in EUR million		
Projected benefit obligation at 01.01. of the year under review	1,359	1,353
Current service cost	20	16
Interest cost	69	61
Deferred compensation	1	1
Actuarial gain/loss	-132	-5
Currency translation	-8	-4
Benefits paid during the year	-61	-60
Past service cost	1	—
Business combinations, divestitures and other activities	-4	-1
Plan curtailments	1	-2
Projected benefit obligation at 31.12. of the year under review	1,246	1,359

The funded status of the defined benefit obligation is shown in the following table:

Change in the projected benefit obligation	2008	2007
Figures in EUR million		
Projected benefit obligation from unfunded plans	1,181	1,274
Projected benefit obligation from wholly or partially funded plans	65	85
Projected benefit obligation at 31.12. of the year under review	1,246	1,359
Fair value of plan assets	-57	-72
Funded status	1,189	1,287

The fair value of the plan assets developed as follows:

Change in plan assets	2008	2007
Figures in EUR million		
Fair value at 01.01. of the year under review	72	74
Expected return on plan assets	4	4
Actuarial gain/loss	-14	-4
Currency translation	-9	-4
Employer contributions	4	4
Benefits paid during the year	-1	-1
Business combinations, divestitures and other activities	1	-1
Fair value at 31.12. of the year under review	57	72

The structure of the asset portfolio underlying the plan assets was as follows:

Portfolio structure of plan assets	2008	2007
as %		
Fixed-income securities	53	56
Equities	21	22
Other	26	22
Total	100	100

The fair value of plan assets as at the balance sheet date included amounts totaling EUR 1 (1) million for own financial instruments.

The actual return on the plan assets amounted to –EUR 7 (2) million in the year under review.

The following table presents a reconciliation of the defined benefit obligations with the provisions for pensions recognized as at the balance sheet date:

Funded status of the defined benefit obligation	2008	2007
Figures in EUR million		
Defined benefit obligations at 31.12. of the year under review	1,246	1,359
Fair value of plan assets at 31.12. of the year under review	–57	–72
Funded status at 31.12. of the year under review	1,189	1,287
Unrealized actuarial gain/loss	83	–36
Net provisions for pensions at 31.12. of the year under review	1,272	1,251

The recognized provision for pensions developed as follows in the year under review:

Change in the provisions for pensions	2008	2007
Figures in EUR million		
Net provisions for pensions at 01.01. of the year under review	1,251	1,241
Currency translation	1	1
Change in consolidated group ¹⁾	–3	–5
Net periodic pension cost	87	70
Deferred compensation	1	1
Amounts paid during the year	–4	–13
Benefits paid during the year	–61	–51
Reclassification and other movements	–	6
Disposal groups pursuant to IFRS 5 ¹⁾	–	1
Net provisions for pensions at 31.12. of the year under review	1,272	1,251

¹⁾ The amount shown under the disposal groups pursuant to IFRS 5 as at 31 December 2007 refers to the disposal of a partial portfolio recognized as assets and liabilities of a disposal group classified as held for sale in 2006.

The components of the net periodic pension cost for defined benefit plans recognized in the statement of income of the Talanx Group were as follows:

Net periodic pension cost	2008	2007
Figures in EUR million		
Current service cost for the year under review	20	16
Interest cost	69	61
Expected return on plan assets	-4	-4
Recognized actuarial gain/loss	—	-1
Past service cost	2	—
Effect of plan curtailments	—	-2
Net periodic pension cost for the year under review	87	70

For the 2009 financial year the Talanx Group anticipates employer contributions of EUR 7 (7) million, which will be paid into the defined benefit plans shown here.

The net periodic pension cost was recognized in the consolidated statement of income in amounts of EUR 11 (14) million under acquisition costs and administrative expenses, EUR 75 (55) million under other expenses and EUR 1 (1) million under other investment expenses.

Defined contribution plans are funded via external pension funds or similar institutions. In this case fixed contributions (e.g. based on the relevant income) are paid to these institutions and the pension beneficiary's claim is against the said institution; in effect, the employer has no further obligation beyond payment of the contributions. The expense recognized for these obligations in the year under review amounted to EUR 3 (4) million, of which only a minimal amount was attributable to commitments to employees in key positions.

(23) Provisions for taxes

The provisions for taxes can be broken down as follows:

	2008	2007
Figures in EUR million		
Provision for income tax	494	585
Other tax provisions	125	140
Total	619	725

(24) Sundry provisions

The sundry provisions, which are measured by the likely amounts used, developed as follows:

	Restructuring/ Integration	Assumption of third-party pension commitments in return for payment	Bonuses and incentives	Early retirement/ partial retirement arrangements	Other personnel expenses	Other	Total
Figures in EUR million							
Balance at 01.01.2007	92	77	55	49	39	234	546
Change in consolidated group	—	—	–6	—	—	25	19
Additions	23	—	47	33	28	166	297
Utilization	25	1	36	11	19	65	157
Release	4	—	—	1	3	83	91
Change in fair value of plan assets	—	—	—	–12	—	—	–12
Other changes	—	—	—	—	—	–28	–28
Currency exchange rate differences	—	—	–1	—	—	–2	–3
Disposal group pursuant to IFRS 5	—	—	6	—	—	5	11
Balance at 31.12.2007	86	76	65	58	45	252	582
Change in consolidated group	—	—	—	–1	–1	–2	–4
Additions	—	—	36	30	24	102	192
Utilization	37	1	42	6	16	83	191
Release	2	—	4	4	4	37	51
Change in fair value of plan assets	—	—	—	–6	—	—	–6
Other changes	—	—	—	—	—	6	6
Currency exchange rate differences	—	—	—	—	–1	–2	–3
Balance at 31.12.2008	47	75	55	71	47	236	525

The other sundry provisions include provisions for restructuring/integration expenses of EUR 47 (86) million. This relates primarily to hitherto unused partial amounts for restructuring provisions, employee-related provisions (e.g. relocation, termination payments) and provisions connected with the transfer of locations in the context of the reorganization of the Talanx Group as part of the integration of the companies belonging to the former Gerling Group into the Talanx Group and the associated measures in relation to business organization.

(25) Notes payable and loans

On 28 September 2007 Talanx AG took out a floating-rate bank liability in an amount of EUR 550 million under a line of credit for EUR 1.5 billion. It was used to finance the purchase price for the interests in BHW Lebensversicherung AG and BHW Pensionskasse AG as well as the remaining 50% stakes in PB Lebensversicherung AG and PB Versicherung AG and all the shares of PB Pensionsfonds AG. The floating rate of the loan tracks the 3-month EURIBOR. The loan is due for redemption on 31 December 2012.

Also on 28 September 2007, Talanx AG took out interest rate swaps to hedge the interest rate risk arising out of the loan. For further information on the interest rate swaps and their treatment in the balance sheet as a cash flow hedge please see the explanations provided in the section entitled "Hedge accounting".

(26) Other liabilities

	31.12.2008	31.12.2007
Figures in EUR million		
Liabilities under direct written insurance business	2,155	2,036
thereof to policyholders	1,651	1,643
thereof to insurance intermediaries	504	393
Reinsurance payable	1,703	1,801
Liabilities due to banks	329	75
Trade accounts payable	43	13
Liabilities relating to investments	172	120
Liabilities under non-group lead business	16	76
Liabilities from derivatives	162	50
thereof negative fair values from derivative hedge instruments	35	6
Deferred income	31	22
Interest	12	15
Liabilities due to social insurance institutions	10	11
Liabilities to trustees	—	8
Other liabilities	268	455
Total	4,901	4,682

The liabilities due to banks are attributable entirely to Talanx AG. The total amount does not include any liabilities with a maturity of more than five years. The loan of EUR 250 million taken up in the reporting period expired on 20 April 2009. This amount was invested with entirely matching maturities.

(27) Deferred taxes

The following table presents a breakdown of the deferred tax assets and liabilities into the balance sheet items from which they are derived.

	31.12.2008	31.12.2007 ¹⁾
Figures in EUR million		
Deferred tax assets		
Loss and loss adjustment expense reserves	255	444
Technical provisions	298	281
Loss carry-forwards	263	277
Benefit reserves	273	207
Provisions	144	141
Accounts receivable on insurance business	18	40
Investments	112	63
Contract deposits	4	36
Deferred acquisition costs	230	299
Premium refunds	1	—
Other invested assets	7	9
Value adjustment	–258	–271
Other	367	315
Total	1,714	1,841
Deferred tax liabilities		
Equalization reserve	999	978
Deferred acquisition costs	772	762
Contract deposits	4	18
Accounts receivable on insurance business	206	171
Present value of future profits (PVFP)	329	345
Benefit reserves	39	67
Technical provisions	148	129
Investments	121	111
Loss and loss adjustment expense reserves	39	19
Other invested assets	61	40
Debt consolidation	3	17
Premium refund	5	—
Provisions	5	12
Other	65	91
Total	2,796	2,760
Deferred tax liabilities (net)	1,082	919

¹⁾Adjusted on the basis of IAS 8

The deferred tax assets and deferred tax liabilities were recognized as follows:

	31.12.2008	31.12.2007 ¹⁾
Figures in EUR million		
Deferred tax assets	295	236
Deferred tax liabilities	1,377	1,155
Deferred tax liabilities (net)	1,082	919

¹⁾Adjusted on the basis of IAS 8

Notes on the consolidated statement of income

(28) Net premium earned

The gross written premium includes the savings elements of premiums under unit-linked life and annuity policies. These savings elements were eliminated from the net premium earned.

(29) Investment income

2008	Property/ Casualty Primary Insurance	Life Primary Insurance	Non-Life Reinsurance	Life/Health Reinsurance	Financial Services	Group function ¹⁾	Total
Figures in EUR million							
Real estate	6	59	2	—	—	—	67
Dividends	25	49	43	—	—	2	119
Ordinary investment income on fixed-income securities	418	1,231	565	150	2	15	2,381
Interest income on funds withheld and contract deposits	3	2	26	299	—	—	330
Other income	64	62	40	4	—	—	171
Ordinary investment income	516	1,403	676	453	2	17	3,067
Profit or loss on investments in associated companies	—	—	3	—	—	—	3
Income from write-ups	—	17	—	—	—	—	17
Realized gains on investments	259	397	368	11	—	—	1,035
Unrealized gains on investments	110	82	31	2	—	—	225
Investment income	885	1,899	1,078	466	2	17	4,347
Realized losses on investments	172	221	478	15	—	—	886
Unrealized losses on investments	40	107	75	80	—	1	303
Total	212	328	553	95	—	1	1,189
Impairments/depreciation on investment property							
Scheduled	2	7	—	—	—	—	9
Unscheduled	—	11	—	—	—	—	11
Impairments on equity securities	260	458	356	—	—	58	1,132
Impairments on fixed-income securities	50	44	86	11	—	—	191
Impairments on participating interests	5	13	25	—	—	—	43
Expenses for the administration of investments	7	14	4	1	89	—	115
Other expenses	9	24	14	—	—	—	47
Other investment expenses/impairments	333	571	485	12	89	58	1,548
Investment expenses	545	899	1,038	107	89	59	2,737
Net investment income	340	1,000	40	359	-87	-42	1,610

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

2007	Property/ Casualty Primary Insurance	Life Primary Insurance	Non-Life Reinsurance	Life/Health Reinsurance	Financial Services	Group function ¹⁾	Total
Figures in EUR million							
Real estate	6	62	2	—	—	—	70
Dividends	21	63	40	—	—	—	124
Ordinary investment income on fixed-income securities	412	1,098	617	137	2	7	2,273
Interest income on funds withheld and contract deposits	3	2	60	186	—	—	251
Other income	65	14	55	1	—	—	135
Ordinary investment income	507	1,239	774	324	2	7	2,853
Profit or loss on investments in associated companies	—	—	8	2	—	—	10
Realized gains on investments	57	193	236	9	1	—	496
Unrealized gains on investments	4	12	10	—	—	—	26
Investment income	568	1,444	1,028	335	3	7	3,385
Realized losses on investments	32	150	65	6	—	—	253
Unrealized losses on investments	4	56	8	22	—	—	90
Total	36	206	73	28	—	—	343
Impairments/depreciation on investment property							
Scheduled	2	17	1	—	—	—	20
Unscheduled	—	—	—	—	—	—	—
Impairments on equity securities	19	84	34	—	—	—	137
Impairments on fixed-income securities	—	19	26	—	—	—	45
Impairments on participating interests	2	4	10	—	—	—	16
Expenses for the administration of investments	12	5	4	—	69	—	90
Other expenses	10	4	16	1	1	—	32
Other investment expenses/impairments	45	133	91	1	70	—	340
Investment expenses	81	339	164	29	70	—	683
Net investment income	487	1,105	864	306	-67	7	2,702

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

The net gains and losses on the disposal of investments can be broken down as follows:

	2008		2007	
	Gains	Losses	Gains	Losses
Figures in EUR million				
Gains/losses on the disposal of				
Loans and receivables	5	4	1	36
Equities				
Available for sale	170	611	159	32
At fair value through profit or loss	1	2	2	4
Fixed-income securities				
Available for sale	163	83	30	52
At fair value through profit or loss	3	3	6	1
Investment fund units	106	16	217	63
Other investments	587	167	81	65
Total	1,035	886	496	253

The other investments are composed almost exclusively of derivatives held for hedging purposes in respect of which hedge accounting was not used.

The unrealized gains and losses on investments can be broken down as follows:

	2008		2007	
	Gains	Losses	Gains	Losses
Figures in EUR million				
Equities				
At fair value through profit or loss	—	50	1	3
Trading	1	2	—	1
Fixed-income securities				
At fair value through profit or loss	12	104	6	24
Derivative financial instruments	212	147	19	62
Total	225	303	26	90

The derivative financial instruments encompass derivatives held for hedging purposes in respect of which hedge accounting was not used and derivatives in connection with insurance contracts that are to be recognized separately.

The following value adjustments were taken in the year under review:

Value adjustments	2008	2007
Figures in EUR million		
Investment property	11	—
Loans and receivables	—	—
Financial assets – available for sale		
Fixed-income securities	191	45
Equity securities	1,132	137
Participating interests	43	16
Total	1,377	198

The write-ups on fixed-income securities available for sale amounted to EUR 17 (–) million.

Interest income on investments	2008	2007
Figures in EUR million		
Loans and receivables	1,201	1,089
Financial assets – held to maturity	65	69
Financial assets – available for sale	926	935
Financial assets – at fair value through profit or loss	30	35
Other	106	129
Total	2,328	2,257

(30) Claims and claims expenses

2008 ¹⁾	Property/ Casualty Primary Insurance	Life Primary Insurance	Non-Life Reinsurance	Life/Health Reinsurance	Total
Figures in EUR million					
Gross					
Claims and claims expenses paid	4,019	2,938	3,052	1,590	11,599
Change in loss and loss adjustment expense reserve	173	29	27	179	408
Change in benefit reserve	-32	818	—	446	1,232
Expenses for premium refunds	3	365	—	—	368
Total	4,163	4,150	3,079	2,215	13,607
Reinsurers' share					
Claims and claims expenses paid	949	154	781	162	2,046
Change in loss and loss adjustment expense reserve	203	-2	-454	11	-242
Change in benefit reserve	—	-56	—	33	-23
Expenses for premium refunds	—	—	—	—	—
Total	1,152	96	327	206	1,781
Net					
Claims and claims expenses paid	3,070	2,784	2,271	1,428	9,553
Change in loss and loss adjustment expense reserve	-30	31	481	168	650
Change in benefit reserve	-32	874	—	413	1,255
Expenses for premium refunds	3	365	—	—	368
Total	3,011	4,054	2,752	2,009	11,826

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

2007 ¹⁾	Property/ Casualty Primary Insurance	Life Primary Insurance	Non-Life Reinsurance	Life/Health Reinsurance	Total
Figures in EUR million					
Gross					
Claims and claims expenses paid	3,819	2,575	3,862	1,570	11,826
Change in loss and loss adjustment expense reserve	701	54	13	191	959
Change in benefit reserve	130	1,069	—	390	1,589
Expenses for premium refunds	29	452	—	—	481
Total	4,679	4,150	3,875	2,151	14,855
Reinsurers' share					
Claims and claims expenses paid	1,126	150	1,063	185	2,524
Change in loss and loss adjustment expense reserve	491	4	-290	-8	197
Change in benefit reserve	1	-37	—	39	3
Expenses for premium refunds	1	—	—	—	1
Total	1,619	117	773	216	2,725
Net					
Claims and claims expenses paid	2,693	2,425	2,799	1,385	9,302
Change in loss and loss adjustment expense reserve	210	50	303	199	762
Change in benefit reserve	129	1,106	—	351	1,586
Expenses for premium refunds	28	452	—	—	480
Total	3,060	4,033	3,102	1,935	12,130

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

(31) Acquisition costs and administrative expenses

	2008	2007
Figures in EUR million		
Gross		
Acquisition costs		
Payments	3,581	3,551
Change in deferred acquisition costs	-366	-147
Total acquisition costs	3,215	3,404
Administrative expenses	887	790
Total	4,102	4,194
Reinsurers' share		
Acquisition costs		
Payments	604	651
Change in deferred acquisition costs	-59	109
Total	545	760
Net		
Acquisition costs		
Payments	2,977	2,900
Change in deferred acquisition costs	-307	-256
Total acquisition costs	2,670	2,644
Administrative expenses	887	790
Total	3,557	3,434

(32) Other income/expenses

	2008	2007 ¹⁾
Figures in EUR million		
Other income		
Other technical income	36	23
Exchange gains	151	376
Income from the disposal of affiliated companies	—	179
Income from services ²⁾	120	158
Reversals of impairments on receivables	123	76
Income from contracts recognized in accordance with the deposit accounting method	26	75
Profits from the disposal of own-use real estate	9	72
Income from the release of other non-technical provisions	51	57
Interest income	59	47
Commission income	84	37
Rental income	41	12
Income from reimbursement of a purchase price	16	—
Income from the settlement of surety insurances	25	—
Income from the repurchase of own securities	24	—
Sundry income	233	92
Total	998	1,204
Other expenses		
Other technical expenses	105	97
Exchange losses	233	327
Other interest expenses	291	250
Depreciation and impairments	251	246
Expenses for the company as a whole	254	213
Expenses for services	120	168
Other taxes	17	34
Losses from the disposal of own-use real estate	1	22
Sundry expenses	129	240
Total	1,401	1,597
Other income/expenses	-403	-393

¹⁾ Adjusted on the basis of IAS 8

²⁾ The amounts carried in the previous year under sales revenues were recognized in the item "Income from services" in the year under review. The previous year was adjusted accordingly.

The balance of other technical income and expenses amounts to –EUR 69 (–74) million.

(33) Amortization of insurance-related intangible assets and goodwill impairments

Further information is provided under the items “(1) Goodwill”, page 154 et seq., and “(2) Other intangible assets”, page 156 et seq.

(34) Taxes on income

This item includes domestic income tax as well as comparable taxes on income incurred by foreign subsidiaries. The determination of the income tax includes the calculation of deferred taxes. The principles used to recognize deferred taxes are set out in the section entitled “Summary of major accounting policies”. Deferred taxes are established on retained earnings of major affiliated companies in cases where a distribution is concretely planned.

The actual and deferred taxes on income can be broken down as follows:

Income tax	2008	2007
Figures in EUR million		
Actual tax for the year under review	299	613
Actual tax for other periods	-99	128
Deferred taxes due to temporary differences	145	-196
Deferred taxes from loss carry-forwards	-3	14
Change in deferred taxes due to changes in tax rates	-1	-230
Recognized tax expenditure	341	329

The deferred tax income from the change in tax rates stood at EUR 1 (230) million. The high income in the previous year was due above all to the cut in tax rates in Germany as part of the 2008 reform of business taxes; of this amount, EUR 112 million was attributable to minority interests.

Domestic/foreign breakdown of recognized tax expenditure/income	2008	2007
Figures in EUR million		
Current taxes	200	743
Germany	124	579
Outside Germany	76	164
Deferred taxes	141	-414
Germany	147	-461
Outside Germany	-6	47
Total	341	329

Contrary to a very clear opinion expressed by specialized attorneys, the revenue authority takes the view that investment income generated by the Ireland-based reinsurance subsidiaries of some Group companies are subject to additional taxation at the parent companies in Germany on the basis of the provisions of the Foreign Transactions Tax Act. Insofar as the relevant assessment notices have already been received, an appeal has been lodged – also with respect to the amounts already recognized as tax expenditure.

The actual and deferred taxes recognized directly in equity in the financial year – resulting from items directly charged or credited to equity – amounted to –EUR 32 (–1) million.

The following table presents a reconciliation of the expected expense for income taxes that would be incurred upon application of the German income tax rate to the pre-tax profit with the actual expense for taxes.

Reconciliation of the expected expense for income taxes with the recognized tax expenditure	2008	2007
Figures in EUR million		
Profit before income taxes	462	1.328
Expected tax rate	31.6%	40.0%
Expected expense for income taxes	146	531
Change in deferred rates of taxation	–1	–230
Taxation differences affecting foreign subsidiaries	–51	–122
Non-deductible expenses	222	86
Tax-exempt income	–7	–160
Value adjustment	–11	73
Tax expense not attributable to the reporting period	20	128
Other	23	23
Recognized expense for income taxes	341	329

The calculation of the expected expense for income taxes is based on the German income tax rate, which was reduced from 40.0% in the previous year to the current level of 31.6%. This tax rate is made up of corporate income tax including the German reunification charge and a mixed trade tax rate.

The tax ratio stood at 73.8% (previous year: 24.8%; excluding the non-recurring income from the change in tax rates, the tax ratio in 2007 amounted to 42.1%). The tax rate corresponds to the average income tax load borne by all Group companies. Given the expected domestic tax rate, the expense for income taxes would amount to EUR 146 million – a figure EUR 195 million lower than the actual expense for income taxes. The divergences are connected principally with the adverse trend on capital markets, since impairments/losses on our equity holdings – especially in the Non-Life Reinsurance segment – are not deductible under German tax law.

Availability of capitalized loss carry-forwards

No deferred taxes were established on loss carry-forwards of EUR 624 (680) million because their realization is not sufficiently certain. In addition, tax credits of EUR 20 (17) million that had not been capitalized were available.

Availability of loss carry-forwards and tax credits that have not been capitalized:

Figures in EUR million	1–5 years	6–10 years	> 10 years	Unlimited	Total
Loss carry-forwards	12	6	153	453	624
Tax credits	—	—	—	20	20
Total	12	6	153	473	644

Loss carry-forwards not recognized in previous years reduced the actual expense for taxes by EUR 37 million and the deferred expense for taxes by EUR 11 million in the year under review. The devaluation of deferred tax claims recognized in previous years led to a deferred tax expense of EUR 11 million in the 2008 financial year.

Other information

Staff

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

	2008	2007
Primary insurance companies	15,183	14,902
Reinsurance companies	1,790	1,922
Financial services companies	313	245
Other	97	109
Total	17,383	17,178

During the reporting period 21 companies with altogether 297 employees were deconsolidated as at 30 September; they are not included in the number of staff for the fourth quarter. If these employees had been included, the number of staff at the primary insurance companies would have been 74 higher.

Expenditures on personnel	2008	2007
Figures in EUR million		
Wages and salaries		
Expenditures on insurance business	791	800
Expenditures on the administration of investments	50	36
	841	836
Social security contributions and expenditure on provisions and assistance		
Social security contributions	133	129
Expenditures for pension provision	46	41
Expenditures for assistance	11	8
	190	178
Total	1,031	1,014

The personnel expenditures of the 21 deconsolidated companies were recognized until 30 September of the reporting period.

Transactions with related parties

IAS 24 “Related Party Disclosures” defines related parties inter alia as parent companies and subsidiaries, subsidiaries of a common parent company, associated companies, legal entities under the influence of management and the management of the company itself.

The related entities within the Talanx Group are comprised of HDI Haftpflichtverband der Deutschen Industrie V.a.G. (HDI V.a.G.), which directly holds all shares of Talanx, as well as all unconsolidated subsidiaries – which essentially encompasses the subsidiaries not included in the consolidated financial statement due their insignificant status – and the associated companies recognized at equity. In addition, there are the provident funds that pay benefits in favor of employees of Talanx or one of its related parties after termination of the employment relationship.

The related persons are the members of the Boards of Management and Supervisory Boards of Talanx AG and HDI V.a.G. Transactions between Talanx and its subsidiaries or between subsidiaries of Talanx AG are eliminated through consolidation and hence not discussed in the Notes. Business relations existing with unconsolidated companies or with associated companies are of minor importance overall.

Within the scope of their operating activities a contractual relationship exists between Group companies and DFA Capital Management regarding the purchase and implementation/modification of a software solution for dynamic financial management. This gave rise to capitalizations in past financial years and will result in further capitalizations in future financial years. The contractual payment arrangements provide for the considerations to be rendered on a largely synchronized and equivalent basis.

For details of the remuneration received by the members of the Board of Management and Supervisory Board of Talanx AG please see the remarks on the compensation of the management boards of the parent company.

Share-based payment

With effect from 1 January 2000 the Executive Board of Hannover Re, with the consent of the Supervisory Board, introduced a virtual stock option plan that provides for the granting of stock appreciation rights to certain managerial staff. The content of the stock option plan is based solely on the Conditions for the Granting of Stock Appreciation Rights. All the members of the Group’s senior management are eligible for the award of stock appreciation rights. Exercise of the stock appreciation rights does not give rise to any entitlement to the delivery of Hannover Re stock, but merely to payment of a cash amount linked to the performance of the Hannover Re share. Recognition of transactions involving stock appreciation rights with cash settlement is governed by the requirements of IFRS 2 “Share-based Payment”.

Stock appreciation rights were first granted for the 2000 financial year and are awarded separately for each subsequent financial year (allocation year), provided the performance criteria defined in the Conditions for the Granting of Stock Appreciation Rights are satisfied.

The internal performance criterion is achievement of the target performance defined by the Supervisory Board, which is expressed in terms of the diluted earnings per share (EPS) calculated in accordance with IAS 33 “Earnings per Share”. If the target EPS is surpassed or undershot, the provisional basic number of stock appreciation rights initially granted is increased or reduced accordingly to produce the EPS basic number. The external performance criterion is the development of the share price in the allocation year. The benchmark used in this regard is the (weighted) ABN Amro Rothschild Global Reinsurance Index. This index encompasses the performance of listed reinsurers worldwide. Depending upon the outperformance or underperformance of this index, the EPS basic number is increased – albeit by at most 400% of the EPS basic number – or reduced – although by no more than 50% of the EPS basic number.

The maximum period of the stock appreciation rights is ten years, commencing at the end of the year in which they are awarded. Stock appreciation rights which are not exercised by the end of the 10-year period lapse. Stock appreciation rights may only be exercised after a waiting period and then only within four exercise periods each year. For 40% of the stock appreciation rights (first tranche of each allocation year) the waiting period is two years, for each additional 20% (tranches two to four of each allocation year) of the stock appreciation rights the waiting period is extended by one year. Each exercise period lasts for ten trading days, in each case commencing on the sixth trading day after the date of publication of the quarterly report of Hannover Rückversicherung AG.

Upon exercise of a stock appreciation right the amount paid out to the entitled party is the difference between the basic price and the current market price of the Hannover Re share at the time of exercise. In this context, the basic price corresponds to the arithmetical mean of the closing prices of the Hannover Re share on all trading days of the first full calendar month of the allocation year in question. The current market price of the Hannover Re share at the time when stock appreciation rights are exercised is determined by the arithmetical mean of the closing prices of the Hannover Re share on the last twenty trading days prior to the first day of the relevant exercise period.

The amount paid out is limited to a maximum calculated as a quotient of the total volume of compensation to be granted in the allocation year and the total number of stock appreciation rights awarded in the year in question.

In the event of cancellation of the employment relationship or termination of the employment relationship as a consequence of a termination agreement or a set time limit, a holder of stock appreciation rights is entitled to exercise all such rights in the first exercise period thereafter. Stock appreciation rights not exercised in this period and those in respect of which the waiting period has not yet expired shall lapse. Retirement, disability or death of the member of management shall not be deemed to be termination of the employment relationship for the purpose of exercising stock appreciation rights.

The allocations for the years 2000, 2002 to 2004, 2006 and 2007 gave rise to the following commitments in the 2008 financial year. No allocations were made for 2001 or 2005.

Stock appreciation rights of Hannover Re	Allocation year					
	2007	2006	2004	2003	2002	2000
Award date	28.03.2008	13.03.2007	24.03.2005	25.03.2004	11.04.2003	21.06.2001
Period	10 years	10 years	10 years	10 years	10 years	10 years
Waiting period	2 years	2 years	2 years	2 years	2 years	2 years
Basic price (in EUR)	34.97	30.89	27.49	24.00	23.74	25.50
Participants in year of issue	110	106	109	110	113	95
Number of rights granted	926,565	817,788	211,171	904,234	710,429	1,138,005
Fair value at 31.12.2008 (in EUR)	2.45	2.86	4.48	3.62	3.43	1.73
Maximum value (in EUR)	10.79	10.32	24.62	8.99	8.79	5.49
Number of rights existing at 31.12.2008	926,565	805,931	161,146	135,159	10,607	8,028
Provisions at 31.12.2008 (in EUR million)	0.79	1.63	0.69	0.50	0.04	0.01
Amounts paid out in the 2008 financial year (in EUR million)	—	—	0.01	1.06	0.82	—
Expense in the 2008 financial year (in EUR million)	0.79	-0.06	-0.77	-0.13	0.04	-0.03 ¹⁾

¹⁾ Participants did not exercise all stock appreciation rights although the maximum amount was reached

In the 2008 financial year the waiting period expired for 100% of the stock appreciation rights awarded in 2000 and 2002, 80% of those awarded in 2003 and 60% of those awarded in 2004. 93,747 stock appreciation rights from the 2002 allocation year, 121,117 stock appreciation rights from the 2003 allocation year and 1,699 stock appreciation rights from the 2004 allocation year were exercised. The total amounts paid out stood at EUR 1.89 million.

The stock appreciation rights of Hannover Re have developed as follows:

Development of the stock appreciation rights of Hannover Re	Allocation year					
	2007	2006	2004	2003	2002	2000
Granted in 2001	—	—	—	—	—	1,138,005
Exercised in 2001	—	—	—	—	—	—
Lapsed in 2001	—	—	—	—	—	—
Number of options at 31.12.2001	—	—	—	—	—	1,138,005
Granted in 2002	—	—	—	—	—	—
Exercised in 2002	—	—	—	—	—	—
Lapsed in 2002	—	—	—	—	—	40,770
Number of options at 31.12.2002	—	—	—	—	—	1,097,235
Granted in 2003	—	—	—	—	710,429	—
Exercised in 2003	—	—	—	—	—	—
Lapsed in 2003	—	—	—	—	23,765	110,400
Number of options at 31.12.2003	—	—	—	—	686,664	986,835
Granted in 2004	—	—	—	904,234	—	—
Exercised in 2004	—	—	—	—	—	80,137
Lapsed in 2004	—	—	—	59,961	59,836	57,516
Number of options at 31.12.2004	—	—	—	844,273	626,828	849,182
Granted in 2005	—	—	211,171	—	—	—
Exercised in 2005	—	—	—	—	193,572	647,081
Lapsed in 2005	—	—	6,397	59,834	23,421	25,974
Number of options at 31.12.2005	—	—	204,774	784,439	409,835	176,127
Granted in 2006	—	—	—	—	—	—
Exercised in 2006	—	—	—	278,257	160,824	153,879
Lapsed in 2006	—	—	14,511	53,578	22,896	10,467
Number of options at 31.12.2006	—	—	190,263	452,604	226,115	11,781
Granted in 2007	—	817,788	—	—	—	—
Exercised in 2007	—	—	12,956	155,840	110,426	3,753
Lapsed in 2007	—	8,754	13,019	38,326	10,391	—
Number of options at 31.12.2007	—	809,034	164,288	258,438	105,298	8,028
Granted in 2008	926,565	—	—	—	—	—
Exercised in 2008	—	—	1,699	121,117	93,747	—
Lapsed in 2008	—	3,103	1,443	2,162	944	—
Number of options at 31.12.2008	926,565	805,931	161,146	135,159	10,607	8,028
Exercisable at 31.12.2008	—	—	93,991	10,574	10,607	8,028

The existing stock appreciation rights are valued on the basis of the Black/Scholes option pricing model.

The calculations were based on the price of the Hannover Re share of EUR 21.91 as at 19 December 2008, expected volatility of 34.54% (historical volatility on a five-year basis), a dividend yield of 0.00% and risk-free interest rates of 1.96% for the 2000 allocation year, 2.37% for the 2002 allocation year, 2.56% for the 2003 allocation year, 2.74% for the 2004 allocation year, 3.06% for the 2006 allocation year and 3.20% for the 2007 allocation year.

The average fair value of each stock appreciation right was EUR 1.73 for the 2000 allocation year, EUR 3.43 for the 2002 allocation year, EUR 3.62 for the 2003 allocation year, EUR 4.48 for the 2004 allocation year, EUR 2.86 for the 2006 allocation year and EUR 2.45 for the 2007 allocation year.

On this basis the aggregate provisions for the year under review amounted to EUR 3.7 (5.7) million.

Mortgages and loans

Employees who are not members of the Board of Management or Supervisory Board were granted mortgages and mortgage loans to finance residential property. These loans are all secured by a first charge on property. Bad debt losses did not exist and are not anticipated.

Contingent liabilities and other financial commitments

Hannover Re has secured by subordinated guarantee a subordinated debt in the amount of USD 400 million issued in the 1999 financial year by Hannover Finance, Inc., Wilmington (USA). In February 2004 and May 2005 Hannover Re bought back portions of the subordinated debt in an amount of altogether USD 380 million, leaving USD 20 million still secured by the guarantee. Effective 4 June 2007, the date of payment, the issuer repurchased the debt in an amount of USD 380 million from Hannover Re for the purpose of cancellation. This portion of the debt was cancelled as at 17 July 2007 and has not been traded on the capital market since that date. The remaining portions of the debt totaling USD 20 million are held by investors outside the Group.

Hannover Re has placed three subordinated debts on the European capital markets through its subsidiary Hannover Finance (Luxembourg) S.A. Hannover Re has secured by subordinated guarantee both the debt issued in 2001, the volume of which now stands at EUR 138 million, and the debts from financial years 2004 and 2005 in amounts of EUR 750 million and EUR 500 million respectively.

The guarantees given by Hannover Re for the subordinated debts attach if the issuer in question fails to render payments due under the bonds. The guarantees cover the relevant bond volumes as well as interest due until the repayment dates. Given the fact that interest on the bonds is partly dependent on the capital market rates applicable at the interest payment dates (floating rates), the maximum undiscounted amounts that can be called cannot be estimated with sufficient accuracy. Hannover Re does not have any rights of recourse outside the Group with respect to the guarantee payments.

As security for technical liabilities to US clients, Hannover Re has established a master trust in the United States. As at the balance sheet date this master trust amounted to EUR 2,353 (2,088) million. The securities held in the master trust are shown as available-for-sale investments. In addition, Hannover Re extended further collateral to its cedants in an amount of EUR 269 (329) million through so-called “single trust funds”. HDI-Gerling Industrie Versicherung AG has blocked holdings of EUR 47 (72) million. The securities held in the master trust are shown as available-for-sale investments.

As part of its business activities Hannover Re holds collateral available outside the United States in various blocked custody accounts and trust accounts, the total amount of which in relation to the major companies of the Hannover Re Group was EUR 1,389 (1,235) million as at the balance sheet date.

Outstanding capital commitments with respect to certain special investments exist in the amount of EUR 319 (270) million. The commitments exist at various Group companies. They primarily involve private equity funds and venture capital firms in the form of private limited companies.

As security for technical liabilities, various financial institutions have furnished sureties for us in the form of letters of credit. The total amount of the letters of credit was EUR 2,827 million as at the balance sheet date.

For liabilities in connection with participating interests in real estate companies and real estate transactions Hannover Re Real Estate Holdings has furnished the usual collateral under such transactions to various banks, the amount of which totaled EUR 85 million as at the balance sheet date.

Within the scope of a novation agreement regarding a life insurance contract Hannover Re assumed contingent reinsurance commitments with respect to due date and amount. Hannover Re decided to exercise its right of novation early and assume the contract as at 31 December 2008. The payment of EUR 28 million due as a consequence of exercise of the right of novation encompasses both the repurchase of the estimated reinsurance commitment amounting to EUR 10 million and EUR 18 million in expected discounted repayments plus interest for the years 2009 to 2011.

At some Group companies potential financial obligations relating to investments existed at the end of the financial year in the amount of altogether EUR 592 million in connection with structured securities through issuers’ rights to take delivery. The potential amounts that could be drawn upon totaled EUR 168 million for 2009, EUR 257 million for 2010, EUR 157 million for 2011 and EUR 10 million for 2012.

In addition, other financial commitments existed as at 31 December 2008 for investment volumes taken up but not yet paid out in an amount of EUR 365 million. Building loans to policyholders that had been awarded but not yet disbursed totaled EUR 59 million.

Commitments for contractually agreed future services in connection with an IT outsourcing contract amounted to altogether EUR 177 (234) million as at 31 December 2008.

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

Assets of Group companies totaling EUR 47 million have been assigned as security or encumbered with charges over property.

The Group's life insurance companies are members of the Security Fund for Life Insurers pursuant to §§ 124 ff. Insurance Supervision Act (VAG). On the basis of the Security Fund Financing Ordinance (Life), the Security Fund collects annual contributions of at most 0.2 per mille of the total net technical provisions until security funds of 1 per mille of the total net technical provisions have been accumulated. In addition, the Security Fund may collect special contributions in an amount of a further 1 per mille of the total net technical provisions. Furthermore, the companies have undertaken to make financial resources available to the Security Fund or alternatively to Protektor Lebensversicherung AG, Berlin, insofar as the resources of the Security Fund are not sufficient if a company has to be rehabilitated. The commitment amounts to 1% of the total net technical provisions (German Commercial Code) after allowance for the contributions already made to the Security Fund at this point in time. When the aforementioned payment commitments from the contributions payable to the Security Fund are taken into account, the total commitment of the companies stands at EUR 348 million.

Group companies of the Talanx Group are participating in a counter-guarantee given by the insurance industry for the guarantee put up by the Federal Republic of Germany as part of a rescue package for Hypo Real Estate Holding AG, Munich, and its subsidiaries (HRE Group). In this connection the Federal Republic of Germany guarantees repayment of capital and interest to the German Bundesbank, which has extended a loan to the HRE Group, as well as to the holders of debentures, through the issue of which further funds have been made available to the HRE Group. With an eye to its interest in stabilizing HRE and the German financial system, the insurance industry, among others, is participating in the sum guaranteed by the federal government under the leadership of the German Insurance Association (GDV) and with extensive involvement of the Federal Financial Supervisory Authority (BaFin) through the aforementioned counter-guarantee to the tune of EUR 1.4 billion. The share of the Talanx Group companies is limited to a capital sum of EUR 108 million.

Several Group companies are members of the association for the reinsurance of pharmaceutical risks, the association for the insurance of German nuclear reactors and the traffic accident pool Verkehrsoferhilfe 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.

Rents and leasing

Summary of rental and leasing commitments in future years

	2009	2010	2011	2012	2013	Subsequent years
Figures in EUR million	29	18	15	13	11	15

Rental and leasing contracts produced expenditures of EUR 27 million in the 2008 financial year. Subsidiaries of Hannover Re in Africa have concluded multi-year lease contracts. Further commitments refer to lease contracts entered into by primary insurance companies in Germany.

Remuneration of the management boards of the parent company

Total remuneration of EUR 9,377 (5,507) thousand was paid to the Board of Management, including an amount of EUR 933 (77) thousand relating to the previous year.

The total remuneration paid to the Supervisory Board amounted to EUR 888 (890) thousand.

Former members of the Board of Management and their surviving dependants received total remuneration of EUR 244 (39) thousand. An amount of EUR 1,692 (566) thousand was set aside to cover projected benefit obligations due to former members of the Board of Management and their surviving dependants.

No advances or loans were extended to members of the management boards in the year under review.

IAS 24 provides for detailed presentation of the remuneration components received by members of Management in key positions. Specifically, this group of persons encompasses the members of the Board of Management and Supervisory Board of Talanx AG. The aforementioned group of persons received the following remuneration components:

	2008	2007
Figures in EUR thousand		
Salaries and other remuneration due in the short term	10,265	6,397
Expenses for retirement provision	-93	285
Granting of equities and other equity-based remuneration	117	115
Total	10,289	6,798

Fee paid to the auditor

In the 2008 financial year fees of EUR 7.4 (8.9) million were paid to the appointed auditor of the consolidated financial statement as defined by § 318 German Commercial Code (HGB). The amount includes a fee of EUR 5.7 (6.3) million for the auditing of the financial statement, EUR 0.1 (0.1) million for other appraisals and valuations, EUR 0.1 (0.2) million for tax consultancy services and EUR 1.5 (2.3) million for consultancy and other services performed for the parent or subsidiary companies.

Declaration of conformity pursuant to § 161 German Stock Corporation Act (AktG)

On 5 November 2008 the Executive Board and Supervisory Board of our listed subsidiary Hannover Rückversicherung AG (Hannover Re) submitted the declaration of conformity regarding the recommendations made by the Government Commission on the German Corporate Governance Code that is required pursuant to § 161 German Stock Corporation Act (AktG) and made this declaration available to the shareholders by publishing it in its annual report.

Events after the balance sheet date

In January 2009 our subsidiary Hannover Re reached agreement with Scottish Re Group Limited on the acquisition of a large individual life portfolio under a reinsurance and asset purchase transaction. In addition to assuming the reinsurance portfolio, Hannover Re is acquiring from Scottish Re significant parts of the infrastructure for the life reinsurance business in North America and a portion of the workforce. In 2009 this business is estimated to generate a premium volume of around USD 1.2 billion. Hannover Re does not require any additional capital for the transaction, which was closed in February 2009.

Winter storm "Klaus", which moved across France and Spain at the end of January, caused losses and damage well in excess of EUR 1 billion. Through our insurance and reinsurance activities in this region we were impacted by this major loss event, which is expected to produce a net burden of losses appreciably lower than EUR 100 million.

As part of its growth strategy on the Latin American insurance market our subsidiary HDI-Gerling International Holding AG has announced the acquisition of Genworth Seguros México, S.A. de C.V. It encompasses the following lines of business: motor, property and liability insurance as well as life and personal accident insurance, with policies being sold through independent, self-employed insurance agents. The acquisition is expected to be completed in the second half of 2009.

In March 2009 Talanx reached agreement with Swiss Life on a strategic partnership. Talanx is to acquire a permanent equity stake of up to 9.9% in Swiss Life in order to reinforce the cooperation. The companies will cooperate, inter alia, in the area of AWD sales, in international business involving life insurance solutions, in life reinsurance, in subsectors relating to the administration and settlement of selected products and in the reciprocal use of public funds. By way of this cooperation Talanx is seeking to further bolster its market position in domestic and foreign private customer business and to extend the already existing business relationships with AWD. What is more, the Talanx Group has since acquired an additional interest of 8.4% in MLP from Swiss Life.

On 31 March 2009 our Spanish subsidiary HDI International (España) Cía de Seguros y Reaseguros S.A. (HDI-E) reached an agreement with the Barcelona-based Spanish insurer UNIVERSAL ASISTENCIA DE SEGUROS Y REASEGUROS S.A. (UAS) for the purpose of transferring the private insurance portfolio of HDI-E to UAS effective 1 April 2009. Completion of the portfolio transfer is subject to approval by the Spanish insurance regulator. The transaction is expected to be closed prior to 1 July 2009.

Hannover, 18 May 2009

Board of Management

Haas	Dr. Hinsch	Kox	Dr. Löffler
Dr. Noth	Dr. Querner	Wallin	