

Annual Report 2006 Talanx AG

**talanx.**

## Talanx AG at a glance

Figures in EUR thousand	2006	2005	2004	2003	2002
Income from participating interests	286,317	392,130	199,591	203,291	68,914
Net interest income	-109,550	-28,154	-10,950	-17,664	-5,712
Other operating income	95,983	76,262	34,353	29,910	1,720,570
Other operating expenditure	35,239	28,354	36,361	17,895	4,863
Profit or loss on ordinary activities before tax	237,511	411,884	186,633	197,642	1,778,909
Extraordinary profit or loss	-42,561	-3,000	—	—	-7,500
Tax expenditure	38,739	30,724	54,698	19,937	66,723
Profit or loss for the financial year	156,211	378,160	131,935	177,705	1,704,686
Allocation to other retained earnings	—	189,080	—	—	—
Profit or loss for the financial year/disposable profit	156,211	189,080	131,935	177,705	1,704,686
Financial assets	4,623,900	2,979,164	2,958,967	3,382,022	2,989,312
Capital and reserves					
Subscribed capital	260,000	260,000	260,000	260,000	200,000
Capital reserve	629,529	629,529	629,529	629,529	509,196
Retained earnings	2,296,366	2,107,286	1,890,272	1,757,567	52,881
Disposable profit	156,211	189,080	131,935	177,705	1,704,686
Total	3,342,106	3,185,895	2,911,736	2,824,801	2,466,763
Borrowed funds with a term in excess of 1 year	1,072,182	967,151	695,547	698,742	251,623

## Issuer credit ratings

<p><b>A.M. Best</b> 29.08.2006</p> <p><b>BBB+</b> (Stable Outlook)</p>
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<p><b>Standard &amp; Poor's</b> 20.06.2006</p> <p><b>A-</b> (Stable Outlook)</p>
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## Report by the Supervisory Board

In our function as the Supervisory Board we again considered at length the economic situation and strategic development of Talanx AG and its major subsidiaries in the 2006 financial year. We advised the Board of Management on the direction of the company, monitored the management of business and were directly involved in decisions of fundamental importance.

In the year under review we came together for three ordinary meetings and one extraordinary meeting of the Supervisory Board. As in the previous year, the Federal Financial Supervisory Authority (BaFin) exercised its legal powers and sent a representative to attend one meeting. The committees formed by the Supervisory Board in accordance with § 107 Para. 3 German Stock Corporation Act (AktG), namely the Audit Committee and the Personnel Committee, each met on three occasions. The Mediation Committee prescribed under the Co-Determination Act again had no reason to meet in 2006. The Chairman of the Supervisory Board informed the full Supervisory Board of the work of the Audit and Personnel Committees. In addition, we received quarterly written reports from the Board of Management on the course of business and the position of the company and the Group in accordance with § 90 German Stock Corporation Act (AktG). Purely on the basis of the company's economic position, no audit measures pursuant to § 111 Para. 2 German Stock Corporation Act (AktG) were necessary. Insofar as transactions requiring approval arose between meetings, the Board of Management submitted these to us for a written resolution. The Chairman of the Supervisory Board also remained in constant contact with the Chairman of the Board of Management and was regularly advised of all important business transactions within the company and the Talanx Group.

The Board of Management provided us with regular, timely and comprehensive information regarding the business and financial situation – including the risk situation –, major capital expenditure projects and fundamental issues of corporate policy as well as the strategic orientation of the company and the Group.

### Key areas of discussion

The business development of the company and the individual Group segments, the planning for 2007 and the medium-term planning of the company and the Group formed the primary focus of the reporting and were discussed at length during our meetings. The reasons for divergences between the business experience and the relevant plans and targets in the financial year just-ended were explained to us, and we were able to satisfy ourselves accordingly with the explanations provided.

A special focus of our deliberations was on the integration of the group of Gerling primary insurance companies into the Talanx Group following closing of the transaction on 30 April 2006. In this regard we received regular reports on the status of measures taken under company law as well as negotiations concerning a settlement of interests and social compensation plan and on the progress of major projects, and we adopted the necessary resolutions regarding implementation of the target structure. Furthermore, the Audit Committee approved the acquisition of a property/casualty insurer in Turkey as well as various capital increases at affiliated companies. What is more, we kept ourselves informed of progress with the restructuring of the Clarendon Group. The Audit Committee also discussed the findings of an actuarial audit of the net loss reserves for non-life insurance business within the Talanx Group as well as the profitability trend at the individual Group companies as at 31 December 2005. The

Audit Committee approved cooperations with Citibank in Russia and Turkey as well as the associated establishment of life insurance companies in these countries, in each case by a written resolution. The full Supervisory Board also adopted a revised allocation of responsibilities for the Board of Management and kept itself informed of a planned acquisition in Italy.

The transactions and measures subject to approval in accordance with legal requirements, the company's Articles of Association or Rules of Procedure were agreed with the Board of Management following examination and discussion.

#### **Audit of the annual and consolidated financial statements**

The annual financial statements of Talanx AG submitted by the Board of Management, the financial statements of the Talanx Group – drawn up in accordance with International Financial Reporting Standards (IFRS) – as well as the corresponding management reports and the bookkeeping system were audited by KPMG Deutsche Treuhand-Gesellschaft Aktiengesellschaft, Wirtschafts-prüfungsgesellschaft, Hannover. The full Supervisory Board selected the auditor and the Audit Committee awarded the concrete audit mandate. In addition to the usual audit tasks, the audit focused particularly on an examination of the internal control system for the avoidance of financial losses (fraudulent acts) in the management of participating interests as well as on the compensation paid internally within the Group across countries. The special challenges associated with the international aspects of the audit were met without reservation.

These audits gave no grounds for objection. The unqualified audit certificates that were issued state that the accounting, annual financial statements and consolidated financial statements give a true and fair view of the net assets, financial position and results and that the management reports suitably reflect the annual and consolidated financial statements.

The financial statements and the audit reports of KPMG were distributed to all the members of the Supervisory Board in due time. They were finalized at a meeting of the Audit Committee on 19 June 2007 and at a meeting of the Supervisory Board on 20 June 2007. The auditor took part in the discussions of the full Supervisory Board regarding the annual and consolidated financial statements, reported on the conduct of the audits and was available to provide the Supervisory Board with additional information. In accordance with the final outcome of our own examination of the annual financial statements, the consolidated financial statements and the corresponding management reports, we concurred with the opinion of the auditor and approved the annual and consolidated financial statements drawn up by the Board of Management. The annual financial statements are thus adopted. We approve of the management reports and in particular the statements made therein regarding the further development of the company. We agree with the Board of Management's proposal for the distribution of the disposable profit.

The report on the company's relations with affiliated companies drawn up by the Board of Management in accordance with § 312 German Stock Corporation Act (AktG) has likewise been examined by KPMG Deutsche Treuhand-Gesellschaft Aktiengesellschaft, Wirtschafts-prüfungs-gesellschaft, Hannover, and given the following unqualified audit certificate:

"Having audited the report in accordance with our professional duties, we confirm that

1. its factual details are correct,
2. in the case of the transactions detailed in the report, the expenditure of the company was not unreasonably high."

We have examined the report on relations with affiliated companies; we reached the same conclusion as the auditors and have no objections to the statement reproduced in this report.

#### **Changes on the Board of Management and Supervisory Board**

In the run-up to completion of the acquisition of the operating insurance companies of the Gerling Group, the General Meeting of Talanx AG resolved at an extraordinary meeting held on 10 March 2006 to enlarge the company's Supervisory Board from twelve to sixteen members. The two additional members to be elected by the General Meeting were then immediately elected at the same meeting: Dr. Hans-Dieter Petram and Mr. Bodo Uebber, whose terms of office both began on 20 April 2006. The two additional employee representatives, Mr. Rudolf Müller and Mr. Ralf Rieger, were appointed as members of the Supervisory Board by order of Hannover County Court on 16 May 2006.

Dr. Querner was appointed as a member of the Board of Management effective 8 May 2006. With effect from the end of the company's Annual General Meeting held on 12 July 2006 Mr. Haas was appointed as Chairman of the Board of Management, after Mr. Baumgartl's term of office as a member and Chairman of the Board of Management had been terminated in accordance with his own wishes – as had long been envisaged – on the same date by mutual agreement. The Supervisory Board thanked Mr. Baumgartl for his many years of work at the head of the company and the Group. On 12 July 2006 the Annual General Meeting elected Mr. Baumgartl to the Supervisory Board, which then chose him as its Chairman. Dr. Fonk had previously resigned his office as a member and Chairman of the company's Supervisory Board with effect from the end of the Annual General Meeting. The Supervisory Board praised the contributions made by Dr. Fonk during his many years of service at the helm of the Supervisory Board. His considerable professional expertise, his integrity as a human being and the knowledgeable support that he gave to the Board of Management in its changing make-up were decisive factors in the successful development of the company and the Group. For these achievements Dr. Fonk deserves our unqualified thanks and recognition.

#### Word of thanks to the Board of Management and staff

The Supervisory Board thanked the members of the Board of Management and all the staff for their efforts in the year under review – one which was characterized by special challenges. Their contributions were vital to the excellent development of results.

Hannover, 20 June 2007

For the Supervisory Board

Wolf-Dieter Baumgartl  
(Chairman)

## Boards and officers

### Supervisory Board

#### Wolf-Dieter Baumgartl

Berg  
Member and Chairman  
(since 12.07.2006)



#### Dr. Thomas Lindner

Chairman of the Management Board  
of Groz-Beckert KG,  
Albstadt



#### Dr. rer. pol. Michael Rogowski

Chairman of the Supervisory Board  
of Voith AG,  
Heidenheim



#### Dr. Hans-Joachim Fonk

Attorney, Tutzing  
Member and Chairman  
(until 12.07.2006)



#### Otto Müller

Employee, Hannover  
Rückversicherung AG,  
Hannover



#### Dr. Erhard Schipporeit

Former member of the Executive  
Board of E.ON AG,  
Hannover



#### Johannes Funck

Employee, HDI Privat  
Versicherung AG,  
Mülheim  
Deputy Chairman



#### Rudolf Müller

(since 16.05.2006)  
Employee, Gerling Kundenservice  
Firmen und Privat GmbH,  
Leverkusen



#### Barbara Schulze

Employee, HDI Industrie  
Versicherung AG,  
Bochum



#### Prof. Dr. Eckhard Rohkamm

Former CEO of ThyssenKrupp  
Technologies AG,  
Hamburg  
Deputy Chairman



#### Dr. Hans-Dieter Petram

(since 20.04.2006)  
Member of the Executive Board  
of Deutsche Post AG,  
Bonn



#### Jürgen Stachan

(since 02.01.2006)  
Trade union secretary,  
Sarstedt



#### Götz Hartmann

Executive employee, Talanx AG,  
Gehrden



#### Ralf Rieger

(since 16.05.2006)  
Employee, Gerling Vertrieb  
Firmen und Privat AG,  
Raesfeld



#### Bodo Uebber

(since 20.04.2006)  
Member of the Board of Management  
of DaimlerChrysler AG,  
Stuttgart



#### Gerald Herrmann

Trade union secretary,  
Norderstedt



#### Eggert Voscherau

Deputy Chairman of the Executive  
Board of BASF Aktiengesellschaft,  
Ludwigshafen



## Board of Management

### Wolf-Dieter Baumgartl

Member and Chairman  
(until 12.07.2006)



### Herbert K. Haas

Chairman (since 12.07.2006)  
Chairman of the Board of Management  
HDI Haftpflichtverband der  
Deutschen Industrie V.a.G.,  
Hannover



### Werner Dettmer

Member of the Board of Management  
of HDI Service AG,  
Hannover



### Dr. Christian Hinsch

Member of the Board of Management  
of HDI Haftpflichtverband der  
Deutschen Industrie V.a.G.  
Chairman of the Boards of  
Management of  
HDI Industrie Versicherung AG  
HDI Service AG  
HDI International Holding AG  
Gerling-Konzern Allgemeine  
Versicherungs-AG,  
Hannover/Cologne



### Norbert Kox

Chairman of the Executive Boards of  
CiV Lebensversicherung AG  
CiV Versicherung AG  
PB Lebensversicherung AG  
PB Versicherung AG,  
Hilden



### Dr. Hans Löffler

Chairman of the Executive Boards of  
HDI-Gerling Leben Serviceholding AG  
HDI-Gerling Lebensversicherung AG  
Aspecta Lebensversicherung AG,  
Cologne/Hamburg



### Harry Ploemacher

Chairman of the Executive Board of  
AmpegaGerling Asset Management  
GmbH,  
Cologne



### Dr. Immo Querner

(since 08.05.2006)  
Member of the Board of Management  
of HDI Haftpflichtverband der  
Deutschen Industrie V.a.G.,  
Hannover



### Wilhelm Zeller

Chairman of the Executive Boards of  
Hannover Rückversicherung AG  
E + S Rückversicherung AG,  
Hannover



# Management report

## Business overview and general environment

In its function as the financial and management holding company of the Talanx Group, Talanx AG holds participating interests in companies inside and outside Germany that transact principally insurance and reinsurance business. In addition, Talanx subsidiaries are active in the financial services sector. The primary task of Talanx AG is to lead and steer the Talanx Group. Its Board of Management defines the Group strategy and decides on business-policy objectives in coordination with the Supervisory Board. Talanx AG is also responsible for raising capital for the Group and is tasked with ensuring efficient Group controlling and risk management as well as with safeguarding the implementation and enhancement of value-based enterprise management.

Talanx is a diversified group that operates with multiple brands. Diversification is motivated by the goal of ensuring continuous value enhancement of the company through various business segments in a changing business climate and general environment. A local approach provides for greater market intimacy and affords competitive advantages. Thanks to its flexible multi-brand strategy Talanx AG also stands out as an ideal cooperation partner, especially in the bancassurance sector.

The Group's strategic orientation is anchored by its drive towards growth only in strict compliance with profit targets and risk limits. With a view to permanently cementing the Group's competitiveness in the European insurance industry, the takeover of the operational insurance companies of the Gerling Group by Talanx AG was completed as at the closing date of 30 April 2006, 24.00 hours. What is more, further complementary acquisitions and/or cooperative ventures in this or other business segments continue to be one of a range of strategic options.

### Macroeconomic environment and industry-specific conditions

The global economy grew by around 5% overall last year. The economic upturn in the industrial nations also held stable; growth in gross domestic product (GDP) was therefore expected to exceed the previous year (2.6%) and reach 2.9% in 2006, although this figure was adjusted downwards in the course of the year. The Eurozone, on the other hand, enjoyed accelerated growth: the increase in GDP of 2.7% will come in considerably higher than in the previous year (1.4%). At 2.6%, growth in Germany is also expected to be significantly stronger than in 2005 (0.9%). Economic activity has been boosted by another surge in exports. At the same time, the economy received further stimulus from autumn onwards as a consequence of rising domestic demand.

The implications of this improved macroeconomic climate for the insurance industry were only limited in 2006. According to provisional calculations the German Insurance Association (GDV) expects premium growth of just 2.3% (previous year: 3.7%) in 2006. The increase has again been driven by life and health insurers: life insurance including occupational pension schemes and pension funds booked premium growth of 4.1% compared to the level of the previous year. Most notably, the number of contracts with an annuity-type payment followed the growth trend in favor of policies with a long-term orientation towards individual provision. Every other new policy taken out today is an annuity policy.

In property and casualty insurance the GDV expects premium income to contract by 0.9% in 2006, attributable principally – as in the previous year – to increasingly intense competition in industrial property and motor insurance. Against the backdrop of a rising burden of losses – in part due to major claims in industrial insurance – the GDV anticipates a modest deterioration in the combined ratio.

Reinsurance companies, the results of which are always dependent on major claims and natural catastrophe losses, enjoyed a calm year worldwide compared to 2005 and developed more favorably than the primary insurers. Overall, property and casualty reinsurance generated a more profitable performance than life and health reinsurance.

#### Overview of the business development

As anticipated, the result generated by Talanx AG in the 2006 financial year fell short of the previous year. As a consequence of the heavy burden of natural catastrophe losses in 2005, Hannover Re did not pay a dividend in 2006. In view of reduced income from participating interests and profit transfers, sharply lower interest and other operating income and increased operating expenses, the posted result was considerably lower than in the previous year.

As far as the development of the Group is concerned, Talanx nevertheless achieved a major strategic objective: with the acquisition of the operational Gerling companies the portfolio of participating interests now enjoys an evenly balanced structure that will promote sustained stable growth and a consistent earnings trend. Only a few years ago Talanx's performance was subject to much greater volatility due to its lopsided risk exposure. By way of this acquisition the Group has substantially expanded its market position in primary insurance in both Germany and Europe as a whole as well as in the area of asset management.

## Net income, financial position and assets

On 28 July 2006 Gerling Leben Holding GmbH was merged into Talanx AG with retroactive effect as at 1 January 2006. Since the annual financial statement does not include the previous year's figures of Gerling Leben Holding GmbH, both companies' figures for the previous year are presented together in a merger balance sheet on pages 46 and 47.

### Net income

The profit on ordinary activities fell by 42.3% to EUR 237.5 (411.9) million. The main factors here were the sharply lower income from participating interests and profit transfers.

Income from participating interests received by Talanx AG declined from EUR 19.0 million to EUR 3.5 million (-81.6%), particularly due to the omission of a dividend distribution by Hannover Re. Income from participating interests in 2006 therefore consisted principally of dividends paid by Neue Leben Holding AG in an amount of EUR 3.2 (3.0) million.

Income from profit transfers decreased from EUR 392.5 million in the previous year to EUR 296.1 million (-24.4%). In this respect too the omission of a dividend by Hannover Re made itself felt in 2006, since this is partially transferred by intermediate holding companies which are recognized under this item and consequently showed a zero result in 2006. The profit transfer from Aspecta Global Group AG (since November 2006: HDI-Gerling Leben Serviceholding AG) was considerably lower than in the previous year, when it was influenced by a special effect. In 2006 the result posted by the Aspecta Group also included realization gains from the sale of HDI Lebensversicherung AG to Gerling-Konzern Lebensversicherungs-AG. HDI International Holding AG (since 20 December 2006: HDI-Gerling International Holding AG) transferred a larger profit. The profit of Gerling Beteiligungs-GmbH (GBG) was recognized for the first time in 2006; this includes the dividend distributed by Gerling-Konzern Allgemeine Versicherungs-AG for 2005 and 2006. In addition, GBG realized proceeds from the sale of Gerling Leben Holding to Talanx AG.

The other operating income of EUR 96.0 (76.3) million consisted principally of profits from the inclusion of Gerling-Konzern Lebensversicherungs-AG in the Aspecta Global Group.

Interest income declined from EUR 25.4 million to EUR 11.3 million as a consequence of reduced liquidity. In addition, no interest income was collected on the profit-sharing certificate of HDI Industrie Versicherung AG.

Other operating expenses were 29.5% higher than in the previous year at EUR 27.3 million, primarily due to higher consulting fees.

Interest expenditure climbed by 116.6% to EUR 121.5 million, principally in connection with the acquisition of Gerling Beteiligungs-GmbH. Further increases resulted from the compounding of the pension costs newly assumed from Gerling and from the new bearer debenture issued to Gerling-Konzern Lebensversicherungs-AG.

The extraordinary expenses include the loss from the merger with Gerling Leben Holding.

### Financial position

The liquidity needed to meet current payment obligations is ensured by means of ongoing cash planning that takes account of the likely liquidity trend. As described above, the company's inflow of funds derives principally from dividend income and the results of profit transfer agreements with affiliated companies. In addition, credit lines are available at short notice if required.

The equity ratio stood at 64.8 (73.4)% as at the balance sheet date.

**Assets**

The balance sheet of Talanx AG continues to be shaped by its function as a holding company. Due to the acquisition of the Gerling companies, which took effect in 2006, as well as the granting of a loan to HDI Service AG, total assets grew by 18.8% to EUR 5.2 billion.

The Gerling acquisition was reflected on the assets side of the balance sheet under the shares in affiliated companies, which grew by 38.9% year-on-year to EUR 4,028.8 million.

The level of cash in banks, which at EUR 838.5 million had been substantially in excess of the multi-year average as at the previous year's balance sheet date due to a non-recurring effect, had been scaled back to EUR 77.6 million by the end of 2006.

On the liabilities side of the balance sheet the acquisition of Gerling Leben Holding was the primary factor in the surge in provisions for pensions from EUR 3.8 million to EUR 444.0 million. The provisions for taxation, on the other hand, were reduced by 15.1% to EUR 58.4 million.

The report on relations with affiliated companies that is to be drawn up by the Board of Management in accordance with § 312 Stock Corporation Act concludes that our company received an adequate consideration for all transactions with affiliated companies according to the circumstances of which it was aware at the time when the transactions were effected. No measures as defined by § 312 German Stock Corporation Act were taken or omitted.

The company did not incur any losses that required offsetting within the meaning of § 311 (1) of the German Stock Corporation Act.

**Proposal for the distribution of profits**

The Board of Management and Supervisory Board intend to propose to the Annual General Meeting that the disposable profit be distributed as follows:

Allocation to other retained earnings: EUR 156,211,000.

**Balance sheet structure**

in EUR million

	Shares in affiliated companies and participations	Loans to affiliated companies	Other assets	Balance sheet total
Assets 2006	4,070	554	537	5,161
Assets 2005	2,945	34	1,364	4,343
	Stockholders' equity	Outside capital	Other liabilities	
Liabilities 2006	3,342	1,077	742	5,161
Liabilities 2005	3,186	972	185	4,343

## Development of the major participations

The following section describes the development and 2006 business experience of the most important companies grouped together under Talanx AG. This mode of presentation was chosen in view of the fact that the performance of Talanx AG is determined primarily by profit transfers from the individual companies and income from participating interests. Most domestic companies are linked with Talanx AG via control and profit transfer agreements; these companies are listed in the Notes under "Other information".

The classification of companies is based on the business segments in which the Talanx Group is active. In order to present the areas of responsibility more clearly, a number of changes were made with effect from 31 December 2006. For example, companies have been reallocated within the business segments. In the present report this is especially true of the holding company Hannover Finance US with its major participating interests Praetorian Group and Clarendon Insurance Group as well as the primary insurance activities of Hannover Re in the United Kingdom (Inter Hannover) and South Africa (Hannover Re Africa). The aforementioned companies – together with their primary insurance operations – were reclassified from the Property/Casualty Primary Insurance segment to the Reinsurance segment. The other operational holding companies have also now been reallocated from the Group segment to the individual business segments.

What is more, the previous classification criterion of "direct" (property/casualty primary insurance) and "indirect" (property/casualty reinsurance) business has been dropped in favor of an alignment according to responsibilities. All direct and indirect business is now captured within one company and one segment. This means, for example, that the significant volume of assumed business of HDI Industrie Versicherung AG is now also recognized in the Property/Casualty Primary Insurance segment.

In primary insurance the breakdown very largely corresponds to the holding company formations for "non-life" and "life" business in the target structure of the integrated HDI-Gerling Group. The current Gerling Beteiligungs-GmbH is not allocated to any of the above-mentioned segments, but is instead included under "Corporate Functions". The Hannover Re Group, which is in the process of disposing of the Praetorian Group – and hence a large portion of its previously transacted primary insurance activities – corresponds to the "Reinsurance" segment with the attributes "non-life" and "life/health". In this way the data are structurally comparable with the information that the Hannover Re Group will be publishing going forward.

### Gerling Beteiligungs-GmbH

The object of Gerling Beteiligungs-GmbH (GBG) is the acquisition and management of participating interests in the companies that formed the operational Gerling Group prior to the company's takeover by Talanx AG. In addition, it performs various administrative functions on behalf of these companies.

In May 2006 GBG – following a capital injection from Talanx AG – purchased the roughly 30.09% stake in Gerling-Konzern Allgemeine Versicherungs-AG (GKA) that had previously been held by outside investors. On the basis of the participation of over 95% thereby attained, GBG submitted a formal request for a squeeze-out procedure to the Executive Board of GKA, which has not yet been completed.

Under an agreement dated 7 July 2006 GBG sold all shares in Gerling Leben Holding to Talanx AG in order to enable the latter to execute the merger of Gerling-Konzern Lebensversicherungs-AG with HDI Lebensversicherung AG.

In the reporting period from May to December 2006 GBG generated sales proceeds of EUR 19.6 million as well as other operating income of EUR 42.9 million. The latter derived in very large measure from the sale of the participation in Gerling Leben Holding. In addition, income of EUR 30.0 million was booked from the participating interest in GKA as well as income of EUR 3,000 from a profit transfer.

A profit on ordinary activities of EUR 66.5 million was reported. Extraordinary expenses as well as tax expenditures produced a total result of EUR 62.8 million, which was transferred to Talanx AG in accordance with the profit transfer and control agreement.

As part of the ongoing restructuring activities, there are far-reaching changes in store for GBG. Based on the current planning status, it is to be merged into HDI Service AG following spin-off of its existing functions as a service provider and intermediate holding company.

### Property/Casualty Primary Insurance

The areas of concentration within this segment are worldwide industrial insurance as well as property and casualty business with private customers in Germany and Europe as a whole. The principal distribution channels are direct sales, independent agents and cooperation arrangements with banks and post office partners.

This business segment is dominated first and foremost by the activities of the following companies, the development of which is described below: Gerling-Konzern Allgemeine Versicherungs-AG, HDI Industrie Versicherung AG and HDI Privat Versicherung AG as well as the foreign insurance companies grouped together under HDI-Gerling International Holding AG. The following companies are also included in this segment: Aspecta Versicherung AG (as at 31 December 2006), HDI Rechtsschutz Versicherung AG, CiV Versicherung AG, PB Versicherung AG and Neue Leben Unfallversicherung AG.

### Gerling-Konzern Allgemeine Versicherungs-AG

Gerling-Konzern Allgemeine Versicherungs-AG (GKA) is a roughly 95.5%-owned subsidiary of Gerling Beteiligungs-GmbH (GBG). The remaining 4.5% is the free float.

GKA ranks among the largest non-life insurers in Germany and is one of the market leaders among insurers serving the business community in Europe. It offers all lines of property and casualty insurance: fire and liability insurance, engineering insurance, marine, aviation and space insurance as well as accident, motor and personal lines. With its innovative products aimed at a variety of customer groups, it provides appropriate insurance protection for industry, small and mid-sized enterprises, self-employed professionals and private clients. The company's core expertise also includes supporting a range of international insurance products.

GKA can look back on a successful 2006 financial year: defying the market trend, it boosted its gross written premium by 1.6% to EUR 2.5 billion. With premium income in the domestic market rising only marginally to EUR 1.7 billion, this increase was attributable to foreign business – which booked growth of 4.3% to EUR 881.8 million. At the same time, the volume of reinsured business assumed largely from foreign subsidiaries of GKA climbed by 16.8% to EUR 160.1 million. Whereas premiums in casualty business, traditionally the highest-volume line, declined marginally, the strongest growth rates were recorded in engineering insurance lines – which profited from the economic revival in core target markets.

The level of retained premium fell 13.4 percentage points to 59.8%. Net premiums earned consequently contracted by 15.4% from EUR 1.7 billion to EUR 1.5 billion.

Making allowance for the run-off results, gross claims expenditure climbed by 11.0% to EUR 1.8 billion. The gross loss ratio calculated for accounting purposes therefore rose by 3.7 percentage points to 71.0%. Allowing for the reinsurers' share of the claims expenses, the net loss ratio increased by a comparatively modest 0.6 percentage points to 71.6%.

The development of the expense ratios was gratifying overall. While the gross expense ratio decreased from 26.1% to 24.7%, the net expense ratio – after deduction of reinsurance commissions received – improved on the previous year by 4.1 percentage points to 25.3%.

Turning to the investment performance, the picture was mixed: although current net income from investments was boosted thanks to the higher interest rate level, the overall investment result contracted to EUR 144.5 million after EUR 249.8 million in the previous year due to the sharply lower profits on disposals as well as write-downs taken.

The netting of results from underwriting and non-underwriting business produced a profit on ordinary activities of EUR 102.6 million. Allowing for extraordinary expenses and after deduction of taxes, the profit for the financial year stood at EUR 15.9 million – producing a disposable profit of EUR 16.0 million after addition of the profit carried forward from the previous year.

In the course of the current year the business transacted by GKA is to be integrated into HDI Industrie Versicherung AG and HDI Privat Versicherung AG. This integration is still subject to completion of the squeeze-out procedure.

#### HDI Service AG

HDI Service AG is the future holding company of the HDI-Gerling non-life insurance group within the Talanx Group. During the year it will therefore be renamed HDI-Gerling Sach Serviceholding AG. In addition to its function as an intermediate holding company, it will continue to perform tasks as a service company.

In the 2006 financial year HDI Service AG, which had hitherto been a subsidiary of HDI Industrie Versicherung AG and HDI Privat Versicherung AG, acquired all the shares of the following companies: HDI-Gerling International Holding AG (acquisition cost of EUR 586.0 million), HDI Industrie Versicherung AG (EUR 170.0 million), HDI Privat Versicherung AG (EUR 161.0 million), HDI Rechtsschutz Versicherung AG (acquisition cost of EUR 24.0 million) and Aspecta Versicherung AG (acquisition cost of EUR 2.5 million).

Talanx AG, as the sole stockholder of HDI Service AG, contributed the participating interests in HDI Industrie Versicherung AG and HDI Privat Versicherung AG. As a consequence of this transaction the share capital of the company increased by EUR 10.0 million and the capital reserve grew by EUR 321.0 million. In order to partially fund the purchase of the interests in HDI-Gerling International Holding AG, Talanx AG extended to HDI Service AG loan funds in an amount of EUR 550.0 million. They are available until 8 July 2013 with a coupon of 5.43% p.a. HDI Service AG assumed further liabilities from HDI Privat Versicherung AG and HDI Industrie Versicherung AG totaling altogether EUR 60.0 million that are available until 31 December 2007 within the scope of receivables purchase agreements.

In 2006 HDI Service AG generated revenues from services amounting to EUR 92.1 (89.8) million. This income contrasted with personnel expenses of EUR 42.8 (39.8) million and other operating expenses of EUR 46.1 (45.7) million. The financial year closed with a profit on ordinary activities of EUR 0.1 million (previous year: loss of EUR 0.4 million). An amount of altogether EUR 0.1 (–0.4) million was transferred to Talanx AG on the basis of the profit transfer agreement.

The company's total assets grew significantly by EUR 928.8 million to EUR 978.5 million. This was attributable very largely to the increase in shares in affiliated companies, which climbed by EUR 943.5 million to EUR 943.8 million. In addition, holdings of overnight money rose by EUR 3.6 million, while accounts due to affiliated companies – first and foremost administrative expense allocations – decreased by EUR 20.0 million for accounting reasons.

Provided insurance markets hold stable and there are no substantial changes to the service agreements with the companies belonging to the Talanx Group, HDI Service AG expects earnings for 2007 and 2008 to rise modestly in step with the budgeted increase in costs.

Significant changes may arise as a consequence of the reorganization of service functions within the entire HDI-Gerling landscape. Insofar as functions are combined at HDI Service AG, adjustment of the service agreements will lead to corresponding changes in the procurement of services. These changes are for the most part subject to completion of the squeeze-out procedure at Gerling-Konzern Allgemeine Versicherungs-AG and cannot therefore be quantified at the present time.

#### HDI Industrie Versicherung AG

HDI Industrie Versicherung AG, which transacts insurance business with commercial and industrial clients through eleven German branches as well as branches in Switzerland, France and the Czech Republic, ranks among the leading industrial insurers in Germany and throughout Europe. The HDI insurers write foreign business primarily through the independent subsidiaries of HDI-Gerling International Holding AG. Approximately one quarter of the premium income reported in the financial statement of HDI Industrie Versicherung AG derives from foreign business.

In a market environment characterized by growing competitive intensity and falling prices, HDI Industrie Versicherung AG generated a very gratifying result in the 2006 financial year: the growth of 10.9% in gross premiums was comfortably above-average. A slightly higher retention boosted net premiums by 11.9%. Boasting double-digit rates of increase, liability insurance and sundry lines were the drivers of growth.

Claims and claims expenses – for gross account – were burdened appreciably by a number of major losses. A large portion of these losses was, however, offset by effective reinsurance covers, and the net loss ratio for the total portfolio consequently remained virtually on a par with the previous year at 73.9 (72.7)%. In view of this moderate claims experience and the decrease in the net expense ratio, the combined ratio continued to fall to 85.2 (86.7)%.

The profit before the allocation to the equalization reserve again improved on the previous year to reach EUR 95.0 (77.2) million. An amount of EUR 134.0 (110.9) million was allocated to the equalization reserve; the technical account therefore closed with a deficit of EUR 39.0 (33.7) million.

However, since the performance of non-underwriting business offset the underwriting deficit, a profit was generated on ordinary activities. An amount of EUR 4.6 (22.2) million was transferred to Talanx AG on the basis of the existing profit transfer agreement.

No improvement in the business outlook is to be expected in property and casualty insurance in 2007. The already attained degree of market penetration and fierce price competition are impacting premium income. The stepping up of marketing activities by foreign insurers is likely to further intensify the competitive pressure.

HDI Industrie Versicherung AG will counter the anticipated premium erosion with an unchanged profit-oriented and prudent underwriting policy; it will relinquish risks for which adequate rates can no longer be obtained. In the motor line the company plans to offset the market-related fall in average premiums in 2007 by significantly boosting policy numbers with a view to achieving further modest premium growth overall.

In 2007 HDI Industrie Versicherung AG will again maintain its position as the second-largest German industrial insurer. Special attention will be paid to the integration of the industrial business of Gerling-Konzern Allgemeine Versicherungs-AG into the branch structure of HDI Industrie Versicherung AG, which is to be renamed HDI-Gerling Industrie Versicherung AG as part of this reorganization. With this step the vast bulk of the business written by Gerling-Konzern Allgemeine Versicherungs-AG with industrial and other major clients will be transferred to HDI-Gerling Industrie Versicherung AG. This integration is, however, still subject to completion of the squeeze-out procedure at Gerling-Konzern Allgemeine Versicherungs-AG and receipt of the requisite official approvals.

#### HDI Privat Versicherung AG

Private customers are the focus of HDI Privat Versicherung AG. HDI Privat has traditionally positioned itself as a value-for-money provider, and its portfolio is largely dominated by motor insurance.

In the 2006 financial year the company again successfully asserted itself in a continuing difficult macroeconomic environment and surpassed the good result achieved in the previous year.

The company's gross premium income contracted by 5.5% to EUR 640.5 (677.8) million, a development driven by systematic pursuit of the company's policy of writing policies – even in an insurance market characterized by fierce competition and increased pressure on prices – solely on the basis of premiums that are commensurate with the risk. The decrease in the average premium was another adverse factor. Virtually all insurance lines were affected by the premium erosion, especially the important motor class. Premiums for net account fell less sharply due to the further rise in the level of retained premium.

The claims experience again developed highly satisfactorily. Claims and claims expenses decreased in absolute terms and to a disproportionate extent, thereby further reducing the net loss ratio to 71.2 (81.1)%. Net operating expenses, on the other hand, increased to 19.3 (14.9)%.

The underwriting result before the allocation to the equalization reserve was in comfortably positive territory. Despite a larger allocation to the equalization reserve as a consequence of the favorable claims experience, the gross technical account closed with a profit that exceeded the good result of the previous year by more than half.

Cessions to reinsurers contracted again as a consequence of the slightly increased retention, leaving an underwriting profit for net account too in the order of EUR 6.2 (–23.9) million.

The non-underwriting result closed at EUR 52.6 (62.8) million. While ordinary investment income was boosted despite a virtually unchanged asset portfolio, the profit from disposals declined appreciably.

All in all, the favorable development of underwriting business and the non-underwriting result combined to produce a profit on ordinary activities of EUR 58.8 (38.9) million – another record for the company. An amount of EUR 58.8 (38.5) million was transferred to Talanx AG on the basis of the profit transfer agreement.

In the current financial year HDI Privat Versicherung AG – in common with the market as a whole – expects premium income to fall in the important motor line due to the declining average premium. The price competition among insurers entails the risk of losing policies from the portfolio of in-force business. In other private customer lines too modest portfolio losses occurred in the wake of developments in motor business. HDI Privat Versicherung AG is striving to counter this trend inter alia by enhancing customer affinity.

As with industrial business, at HDI Privat Versicherung AG too progress with the integration of the Gerling companies will have a significant influence on developments in the current financial year: we plan to integrate parts of the private customer business of Gerling-Konzern Allgemeine Versicherungs-AG into the branch structure of HDI Privat Versicherung AG, which is to be renamed HDI Direkt Versicherung AG as part of this reorganization and will for its part cede portions of the portfolio to the newly created HDI-Gerling Firmen und Privat Versicherung AG. This integration is still subject to completion of the squeeze-out procedure of Gerling-Konzern Allgemeine Versicherungs-AG and receipt of the requisite official approvals.

#### HDI-Gerling International Holding AG

Renamed HDI-Gerling International Holding AG with effect from 20 December 2006 (previously: HDI International Holding AG), the company is responsible for steering and controlling the foreign-based insurers operating in the property/casualty primary insurance segment. A wholly owned subsidiary of HDI Service AG, the company's registered office is in Hannover.

With a premium volume of EUR 1.8 billion and almost 3,500 staff worldwide, this area has evolved into a major pillar of the Talanx Group: HDI-Gerling International Holding AG operates highly successfully in Austria, Brazil, Bulgaria, Italy, the Netherlands, Poland, Spain and Turkey. For the internationally operating insurance companies this involvement not only means a transfer of capital and know-how, but also support in the fight for competitive advantages. The goal is to cement the market position as a successful motor insurer and further expand business with both private and industrial customers.

There are plans to integrate certain foreign locations of the Gerling Group into the area of responsibility of HDI-Gerling International Holding AG. No premium increases are included in the figures as at the balance sheet date of 31 December 2006 because, legally speaking, no transfers had taken place at that date.

The book values of the participations increased by EUR 30.7 million and amounted to altogether EUR 546.8 (516.1) million as at 31 December 2006. On the basis of the control and profit transfer agreement, the profit of EUR 43.5 (33.1) million was transferred to Talanx AG as contractually agreed. Due to the change of stockholder from Talanx AG to HDI Service AG, a new control and profit transfer agreement was concluded with HDI Service AG effective 1 January 2007.

The foreign companies have assets under management in excess of EUR 2,474.4 (2,210.0) million. The in-force portfolio surpassed 6 million policies for the first time.

The acquisition of HDI Sigorta A.Ş. (previously: IHLAS Sigorta A.Ş.), which was finally closed on 30 June 2006, has also been recognized for the first time. By entering the vigorously growing Turkish market we continue to expand our involvement in Europe.

Once the full integration of HSBC Automóveis e Bens (acquired on 30 November 2005) into HDI Seguros had been completed on 1 April 2006, the Brazilian company was able to move forward into a new dimension – in terms of both premium volume and profitability.

Italy offers good opportunities for expanding the distribution network in the life sector by entering into further cooperative arrangements, first and foremost with regional banks. The local company generated premiums of EUR 495.6 million in the life sector, equivalent to growth of 28.7%.

In the Polish market the Group was able to extend its position and strengthen the distribution network. Following the merger of HDI Samopomoc TU S.A. with Tryg Polska TU S.A. (acquired in 2004) effective 30 November 2006, it is successfully operating under the new market presence of HDI Asekuracja TU S.A.

HDI-Gerling International AG strives for value-based and profit-oriented growth. Thanks to its strategy geared towards long-term success, it is well prepared to face the challenges of markets undergoing far-reaching changes. For the sixth time in succession the international insurers substantially improved their performance and (with the exception of the newly acquired HDI Sigorta A.Ş.) again posted profits in 2006. For 2007 all the companies have good prospects of consolidating or extending their position in the markets and further boosting profitability. Given our principles of value-based management, in the future too the participating interests are expected to show further increases in value that will surpass their own cost of capital.

### Life Primary Insurance

The focus of this business segment is on products that contribute to comprehensive individual and occupational retirement provision. The distribution channels served consist of independent agents, direct sales as well as cooperations with banks and postal service partners. The Talanx Group now ranks among the ten largest German insurance groups in life business and it operates on the market under the Aspecta, CiV, HDI-Gerling, Neue Leben and PB brands. In the bancassurance sector the companies CiV Lebensversicherung AG, CiV Versicherung AG, PB Lebensversicherung AG, PB Versicherung AG and PB Pensionsfonds AG cooperate in certain sub-segments on the basis of service agreements that provide for cost allocation on an absorbed cost basis. The Group's activities in the area of occupational pension schemes are grouped together under the auspices of HDI Pensionsmanagement AG, a service, marketing and consulting company.

In Life Primary Insurance the integration of Gerling into the Group is already far advanced. Operational companies such as the life insurers and occupational pension providers of HDI and Gerling were merged in October 2006.

In Germany the trend towards unit-linked products rather than traditional life insurance policies was sustained. In addition, some companies recorded strong demand for single-premium products in conjunction with immediate annuities. A further positive effect on premium growth in 2006 derived from the increase of one percentage point on the so-called "Riester scale" in the contributions eligible for state assistance under "Riester" pension products.

### HDI-Gerling Leben Serviceholding AG

The former Hamburg-based Aspecta Global Group AG was renamed HDI-Gerling Leben Serviceholding AG in the 2006 financial year as part of the integration of the Gerling companies into the Talanx Group. The company's registered office was moved to Cologne. The following main companies fall under its purview: HDI-Gerling Lebensversicherung AG,

which emerged from the merger of Gerling-Konzern Lebensversicherungs-AG and HDI Lebensversicherung AG, as well as HDI-Gerling Pensionskasse AG, which was similarly the result of a merger between the two companies' occupational pension providers. Also included under HDI-Gerling Leben Serviceholding AG are Aspecta Lebensversicherung AG and the foreign companies Aspecta Assurance International AG, Liechtenstein, Aspecta Assurance International Luxembourg S.A. with branches in Spain and Italy as well as Aspecta Zycie TU S.A. and Gerling Polska Zycie TU S.A. in Poland. Aspecta Versicherung AG, which is active in the Property/Casualty Primary Insurance segment, was transferred to HDI Service AG effective 31 December 2006.

Overall, the companies belonging to HDI-Gerling Leben Serviceholding AG – including the Gerling companies for 2005 as well as 2006 – boosted the total premiums paid under new business by 9.5% to EUR 9.0 billion. The new business booked by the companies operating in Germany and Austria generated growth of 5.4% to reach a volume of EUR 7.4 billion. The strategy of expanding foreign business in 2006 was systematically pursued with the marketing of life insurance products in Luxembourg, Italy, Spain, Austria, France, Poland and Switzerland. With growth of 34.2% in new business taken up, the foreign companies contributed a volume of EUR 1.6 billion to new business.

HDI-Gerling Leben Serviceholding AG is superbly positioned in the life segment. Using a two-brand strategy the goal is to put in place a market-leading, harmonized total product range with clearly defined marketing concepts. In this context, Aspecta is positioning itself as a specialist for innovative and performance-oriented insurance solutions. An optimal balance between provision considerations, investment know-how and international experience constitutes the basis here for the development of unit-linked life insurance products geared to specific target groups. The HDI-Gerling Leben brand, on the other hand, combines the experience and expertise of two strong brands rich in tradition with a good market

position. The product range extends from conventional life insurance to innovative solutions for retirement provision. HDI-Gerling Leben will secure its excellent positioning through robust expertise, first and foremost in the field of occupational pension schemes. The planned merger of the two occupational pension providers and the integration of sales activities aimed at independent agents will significantly strengthen the market position.

#### Aspecta Lebensversicherung AG

As a partner for independent agents, Aspecta Lebensversicherung AG supports brokers, multiple agents and marketing companies with a comprehensive range of products and services in the area of unit-linked life insurance in Germany and Austria. Aspecta's core expertise lies in combining investment funds with insurance products in the form of unit-linked policies with a special focus on the development of products tailored to individual target groups.

In the course of 2006 Aspecta again enjoyed above-average growth in the in-force portfolio and generated new business in line with its expectations. The proportion of total premium income attributable to premiums from unit-linked products climbed from 79.9% to 82.3%. The tailored product FRAUEN.invest (aimed specifically at female customers) and the children's policy ASPECTA Einstein were key drivers of growth in new business.

The development of the in-force portfolio was gratifying overall, reaching a sum insured of EUR 20.5 billion as at the end of 2006. Regular premiums increased by 4.8% to EUR 525.4 million, while the number of policies climbed by 2.5% to 734,307. By way of comparison, the rise in regular premiums for the German insurance market as a whole was 0.3%. The lapse rate for business in force at Aspecta Lebensversicherung AG also improved by a further percentage point to 7.6 (8.6)%.

With the asset portfolio growing slightly to reach EUR 1.0 billion, a net interest return of 4.5 (4.3)% was generated.

The acquisition expense ratio in relation to the total premiums paid under new business remained unchanged year-on-year at 6.5%. The administrative expense ratio relative to gross written premium showed similar restraint, holding stable at 3.7%.

Following extraordinary expenditures of EUR 13.4 million incurred in connection with the integration process, a balanced overall business result was therefore generated in 2006.

All in all, Aspecta Lebensversicherung AG believes that it is well positioned with its product range to serve the markets for both private and occupational retirement provision, and hence the foundations are in place for consistent growth. The coming year will be significantly influenced by the further integration and optimization of administrative structures and workflows within the life insurance group of HDI-Gerling Leben Serviceholding AG. The repercussions for Aspecta Lebensversicherung AG will not only make possible qualitative advances but will also facilitate, most importantly, future improvements in the cost structure in subsequent years. Overall, the result for 2007 is expected to be on a par with the previous year.

#### HDI-Gerling Lebensversicherung AG

Following the merger of HDI Lebensversicherung AG into Gerling-Konzern Lebensversicherungs-AG in October 2006, the latter was renamed HDI-Gerling Lebensversicherung AG.

The gross written premium booked by HDI-Gerling Lebensversicherung increased by 2.8% last year to reach EUR 2.0 billion. The new business generated by the merged company was highly gratifying in 2006: with premiums of EUR 370 million in new business (+21%), it achieved another particularly successful sales performance.

Regular premiums in new business were boosted by 24% to EUR 216 million, while single premiums climbed 17% to EUR 154 million. Growth in new business in 2006 was driven by individual retirement provision. In this segment new business with unit-linked products – where premiums rose by 75% – enjoyed particularly vigorous growth. Although the unfavorable tax framework had a moderating effect in 2006, premiums from new business in the core competence of occupational retirement provision were maintained on the level of the previous year at EUR 136.6 million.

The asset portfolio totaling EUR 18.3 billion was also on a par with the previous year. With income from investments amounting to EUR 837 million, the net interest return was improved from 4.3% in the previous year to 4.6% in the year under review.

Cost management also progressed successfully in 2006. The company's administrative expense ratio was further reduced to 2.9 (3.0)%, while the acquisition expense ratio – against the backdrop of the vigorous surge in new business – decreased to 6.4 (7.2)% of the total premium in new business.

With a gross surplus of EUR 182 million (including direct bonus), HDI-Gerling Lebensversicherung AG generated a profit for the year of EUR 31.0 (30.0) million after allocations to the provision for premium refunds. In addition, an amount of EUR 7.7 million was allocated to retained earnings. A disposable profit of EUR 23.3 million was reported.

Through the pooling of expertise, marketing capabilities and financial strength in the new combined group as well as its outstanding positioning in key growth segments of the life insurance market with improved profitability and financial security, HDI-Gerling Lebensversicherung can look to the future with considerable confidence. In view of the further rise in demand for individual and occupational retirement provision, the company anticipates another gain in new

business as well as a favorable business result in 2007 thanks to flexible and innovative products such as Two Trust – a new generation of unit-linked annuity products for occupational pension schemes.

#### CiV Lebensversicherung AG

CiV Lebensversicherung AG can look back on more than 20 years of successful cooperation with Citibank – a partnership that today ranks among the most successful bancassurance cooperations in Germany. Working together with Citibank, CiV Lebensversicherung AG develops tailored products that are fully integrated into the bank's Corporate Design and product portfolio.

In 2006 CiV Lebensversicherung AG further enlarged its product range in collaboration with its cooperation partner Citibank. New legal requirements as well as the optimization of existing products necessitated various modifications.

CiV Lebensversicherung AG again recorded vigorous growth in new business in the 2006 financial year. New policies taken up were boosted by 15.5% to 390,000 (337,000). Total premiums paid in new business amounted to EUR 4.1 billion. The company was able to position itself superbly, especially in the area of "Riester" pension products and in the rapidly expanding senior citizens' market.

All in all, CiV Lebensversicherung AG grew its gross written premiums in direct written business by 3.5% to EUR 834.2 (807.2) million. Regular gross premiums increased by 9% in 2006 to EUR 490.4 (450.1) million, while single premiums stood at EUR 343.8 (357.1) million as at the end of 2006.

The administrative expense ratio was held virtually on a par with last year's low level at 1.3%. Net administrative expenses totaled EUR 317.2 (324.8) million due to the reduced commissions received under reinsurance business.

Current income from investments was roughly on the same level as the previous year at EUR 86.9 (86.2) million. Profits on disposals and write-ups were largely offset by expenses incurred for investments. The investment result excluding interest on deposits under assumed business improved to EUR 86.8 (81.4) million.

The year-end result for 2006 was transferred to Talanx AG on the basis of the existing profit transfer agreement. The profit transfer amounted to EUR 22.9 (16.5) million, an increase of 38.6%.

In 2007 CiV Lebensversicherung AG considers itself poised for profitable growth. It continues to aim for a result that surpasses the market as a whole, putting its trust in cost efficiency and excellent quality. Business processes are regularly reviewed with an eye to any need for optimization so as to continually cut costs. Further automation of routine business processes is planned.

With the implementation of the EU Mediation Directive, new counseling and documentation requirements come into force. CiV Lebensversicherung AG and Citibank have therefore launched a training campaign in order to appropriately prepare the bank's sales staff and equip them with the skills needed to sell insurance.

#### PB Lebensversicherung AG

The Hilden-based PB Lebensversicherung AG is the jointly owned subsidiary of Talanx AG and Deutsche Postbank AG. Working together with Postbank, PB Lebensversicherung AG offers insurance products that are optimally tailored to the needs of Postbank customers. All products are developed exclusively for Postbank's numerous distribution channels and are fully integrated into the bank's Corporate Design and product portfolio.

In 2006 PB Lebensversicherung AG further extended its product range. In addition to launching a new immediate annuity with a flexible starting date for annuity payments, other annuity products were optimized.

As in the previous years, new business developed very favorably in the financial year just-ended. Appreciable increases were booked under policies with a single premium. Single premiums in death benefit insurance, for example, surged by 241%. The rate of increase for "Riester" annuities was similarly gratifying: total new business with such policies grew by 25%. The step increase for Riester products implemented in 2006 was accepted by around 96.6% of customers. Total premiums paid in new business climbed by 85.2% to EUR 1,271.1 (686.4) million.

Gross written premiums grew by 84.8% in the same period to EUR 252.8 (136.8) million. Regular gross premiums similarly recorded a double-digit gain of 26.9% to reach EUR 126.8 (99.9) million. Single premiums posted triple-digit growth rates, rising by as much as 241.4% to EUR 126 (36.9) million. This performance can be attributed in large measure to credit life insurance, death benefit insurance and immediate annuities.

Thanks to more efficient administrative workflows, the administrative expense ratio (indirect administrative expenses in relation to gross earned premiums) decreased to 1.7 (2.3)%, a figure lower than the overall market level.

Current income from investments increased by EUR 5.7 million to EUR 14.5 million. The profits on disposals of EUR 0.5 million resulted principally from the sale of equities at the beginning of 2006, when the sharp rise in share prices was used to generate extraordinary income. Total income from investments improved by 52% to EUR 14.9 (9.8) million.

In just the eighth year of business operations PB Lebensversicherung AG reached the breakeven point and reported a profit for the year of EUR 0.5 million.

For 2007 PB Lebensversicherung AG is again setting its goals high: the company is aiming to post a result in excess of the market average. The focus will be on securing long-term, profitable growth, outstanding cost efficiency and the excellent quality of its products and services.

#### Neue Leben Holding AG

Neue Leben Holding AG is the wholly owned parent of Neue Leben Lebensversicherung AG and Neue Leben Unfallversicherung AG. As at 31 December 2006 Neue Leben Holding AG held a participating interest of 49% in Neue Leben Pensionsverwaltung AG, which in turn holds all the shares of Neue Leben Pensionskasse AG. The majority stockholder of Neue Leben Holding AG is Talanx AG with a stake of 67.5%. Additional interests are held indirectly and directly by seven savings banks.

The profit for the year of Neue Leben Holding AG decreased in the 2006 financial year, primarily due to the reduction in the dividend paid by Neue Leben Lebensversicherung AG.

Neue Leben Lebensversicherung AG generated a profit for the year of EUR 10.0 (8.0) million. Of this amount, EUR 5.25 million was allocated to retained earnings in order to strengthen the capital and reserves, while the remaining disposable profit of EUR 4.75 million was distributed to Neue Leben Holding AG.

In addition, Neue Leben Holding AG booked income from the profit transfer of Neue Leben Unfallversicherung AG in an amount of EUR 4.4 (3.3) million as well as a dividend of EUR 725,000, which was funded by a withdrawal from retained earnings. This amount is to be used as the minimum contribution for the approved capital increase.

Neue Leben Pensionsverwaltung AG closed the financial year with a profit for the year, although it was unable to pay a dividend to Neue Leben Holding AG due to a loss carry-forward from the previous year.

Overall, Neue Leben Holding AG booked lower income from participating interests than in the previous year of EUR 9.9 (11.3) million; other operating expenses decreased by EUR 304,000 to EUR 1.1 million. The profit for the year posted by Neue Leben Holding AG totaled EUR 8.6 (10.6) million, of which EUR 3.3 million was allocated to retained earnings – leaving a disposable profit of EUR 5.3 million.

For 2007 Neue Leben Lebensversicherung AG continues to target a performance better than the market as a whole. The focus is on securing long-term profitable growth, outstanding cost efficiency and excellent quality. Neue Leben Unfallversicherung AG is looking for new business to pick up appreciably in 2007. The ongoing close cooperation with the stockholding savings institutions as well as other savings banks is also expected to have a positive effect on sales. Neue Leben Holding AG anticipates a good year-end result for the current 2007 financial year.

## Reinsurance

The Reinsurance segment is dominated by the Hannover Re Group, one of the foremost reinsurance groups in the world. It transacts all lines of property/casualty, life/health and financial/finite-risk reinsurance as well as specialty insurance and maintains business relations with more than 5,000 insurance companies in about 150 countries. Its worldwide network consists of more than 100 subsidiaries, affiliates, branches and representative offices in around 20 countries.

Hannover Rückversicherung AG (Hannover Re) writes active reinsurance solely in foreign markets, with the exception of some parts of the business of the Talanx Group companies. Its subsidiary E+S Rückversicherung AG concentrates on the German market. Reciprocal retrocessions ensure regionally balanced risk spreading between the two companies. The business assumed from E+S Rück accounted for 6.8% of the gross written premium booked by Hannover Re in the year under review.

### Hannover Rückversicherung AG

The 2006 financial year passed off highly satisfactorily for Hannover Re. While results in the previous year had been overshadowed by a heavy burden of natural catastrophe losses, the year under review saw only a few major losses with comparatively modest strains. The renewals as at 1 January 2006 demonstrated that the "hard market" had been sustained. The treaty renewals in April, July and October also underscored the further improvement in market conditions for catastrophe-exposed property business. Prices for catastrophe covers rose across the board.

The rate increases in property reinsurance in the United States were attributable first and foremost to the exceptionally heavy losses of the 2005 hurricane season. Particularly under the reinsurance programs impacted by the hurricanes it was possible to obtain rate increases of 100% or more. This reflected not only the shortage of reinsurance capacity but also the recalibration of pricing and rating models – based on the insights gained from last year's hurricane events – to include previously neglected or inadequately modeled components. In casualty lines too the development was relatively gratifying; with certain exceptions, prices remained largely stable on the reinsurance side. Overall, market conditions in property and casualty reinsurance continued to be commensurate with the risks and were therefore attractive.

Despite scaling back peak exposures in the year under review, gross written premium increased by a substantial 20.6% to EUR 7.6 billion. In view of the good quality of the portfolio, Hannover Re again raised its retention to 74.2 (68.3)%.

Life and health reinsurance business contributed particularly vigorous rates of increase to the premium growth; yet special effects also played a role here. Gross premiums in the fire, aviation and casualty lines, on the other hand, declined. A number of major loss events were recorded; the net burden of catastrophe losses and major claims was nevertheless moderate at EUR 95.6 (885.4) million. This figure was equivalent to 3.9% of net premium and was thus comfortably below the expected level of 8%. By way of comparison, it had stood at 26.4% in the previous year due to the severe hurricanes. The combined ratio (excluding life business) amounted to 98.1 (103.1)% in the year under review. As far as the reported combined ratio is concerned, it should be borne in mind that from the year under review onwards the allocation to the IBNR reserve in the casualty and motor liability lines is no

longer carried in the non-technical account, but is instead recognized as part of the claims expenses. For the sake of improved comparability the figures for the previous year have been adjusted accordingly.

The pace of growth in international life and health reinsurance was sustained undiminished, offering excellent opportunities for business. Particularly due to three large-volume new treaties, gross premium surged sharply to EUR 3,228.0 (1,851.9) million. Growth was also driven by UK business with enhanced annuities – special annuity policies for policyholders with a significantly reduced life expectancy.

The underwriting result for total business before changes in the equalization reserve and similar provisions improved on the previous year to reach EUR 145.6 (–95.5) million. An amount of EUR 145.4 million was allocated to the equalization reserve and similar provisions on the basis of the favorable underwriting result. In light of the amendment of the Ordinance Concerning the Reporting by Insurance Undertakings to the Federal Insurance Supervisory Office, Hannover Re availed itself of the option of writing back the bulk of the equalisation reserves constituted in other property insurance and other indemnity insurance.

The year under review developed highly satisfactorily on capital markets. Thanks to a strong cash flow from the technical account, the portfolio of assets under own management grew to EUR 12.7 billion. The net investment result of EUR 799.9 million fell well short of the corresponding figure for the previous year (EUR 895.7 million), which had been boosted by extraordinary income from the restructuring of Hannover Re's participating interests.

Bearing in mind the current market conditions in both property/casualty and life-health reinsurance, we are looking forward to further good financial years in 2007 and indeed 2008 – provided the burden of catastrophe losses does not significantly exceed the expected level of 8% of net premium in non-life reinsurance and as long as there are no unforeseen adverse movements on capital markets.

#### E+S Rückversicherung AG

As the specialist reinsurer for the German market, E+S Rück further cemented its position as one of the leading reinsurers in the year under review. This was due not least to new customer relationships that were acquired despite progressive market consolidation in the primary insurance sector. E+S Rück was particularly able to expand its portfolio with respect to mutual insurers, an especially gratifying achievement in view of the increasing market penetration by foreign providers. In Germany – after the United States the largest non-life reinsurance market in the world – it therefore continues to rank as the number two player. Under an internal retrocession arrangement E+S Rück also assumes foreign business from Hannover Re so as to achieve significantly better risk spreading and geographical diversification across its portfolio.

Conditions on the reinsurance market remained positive in the year under review, with adequate rates and conditions. The good market position of E+S Rück was also reflected in premium growth: the gross premium volume was boosted by 10.1% to EUR 2,437.7 (2,213.7) million; the retention was increased again. Net premium earned climbed by 34.4%.

The share of the total portfolio attributable to property and casualty reinsurance remained virtually unchanged in the year under review at 63,5 (63,9)%. The decline in rates as well as the tense claims situation in industrial fire and fire loss of profits insurance gave rise to an unsatisfactory result here. On the other hand, developments in motor reinsurance – the largest line in this business segment with gross premium income of roughly EUR 367.9 (379.0) million – and casualty insurance – with a stable premium volume – were favorable.

Following the highly eventful 2005 financial year, which was impacted by losses from foreign business, loss expenditure in the year under review was satisfactory. The most notable major losses involved three industrial fire claims. Net incurred claims in property and casualty reinsurance climbed 3.9% year-on-year to EUR 809.4 (779.4) million. In the life and health lines E+S Rück cemented and extended its excellent position, as reflected in the sharp rise of 32.7% in premium income. The stronger interest in annuity and innovative risk-oriented products ensured that the growth strategies in this business segment could be acted upon.

Investment income developed favorably on the basis of another highly positive underwriting cash flow and the associated growth of around 7.0% in the volume of assets. Net investment result came in on a par with the previous year at EUR 276.5 (277.9) million.

Bearing in mind the current market conditions in the individual business groups, we expect the 2007 financial year to offer further attractive business opportunities; this should be especially true of life and health reinsurance. Provided the loss experience in natural catastrophe business is within the expected bounds and as long as capital markets remain fairly stable, we expect the result to build on the achievements of past years.

#### **Praetorian Financial Group and Clarendon Insurance Group**

In the year under review Hannover Re transferred US specialty business to the newly established Praetorian Financial Group, Inc. Clarendon Insurance Group, Inc., which had previously been responsible for these activities, will now focus on the management of expired programs as well as the remaining commodity business. Wherever possible, Hannover Re actively terminated business that was not already in run-off or had not been transferred to Praetorian (such as certain hurricane-exposed property programs in Florida). The company has not yet, however, been able to scale back the residual catastrophe-exposed business to the desired extent due to regulatory restrictions, including state-imposed moratoria. For this reason it was necessary to retain the programme of protection cover for the remaining natural catastrophe exposures – albeit now at considerably increased costs.

### Praetorian

In December 2006 Hannover Re announced that it had reached agreement with QBE Insurance Group Ltd., a major Australian insurance group, on the sale of Praetorian. The purchase price of around USD 800 million was equivalent to 2.1 times Praetorian's expected stockholders' equity excluding goodwill as at the end of the year under review. The transaction is still subject to regulatory approval in the United States and should be closed in the second quarter of 2007. Hannover Re intends to systematically invest the released risk capital of roughly EUR 600 million in the expansion of its property/casualty and life/health reinsurance business.

Praetorian generated gross premium income of EUR 1.6 (0.6) billion before consolidation in the year under review – an increase of 164% on the previous year. Net premium grew even more impressively owing to a further rise in the level of retained premium, climbing by 104.9% to EUR 417.2 (203.6) million. The operating result (EBIT) reached EUR 106.1 (30.5) million thanks to an outstanding combined ratio of 78.6%.

### Clarendon

The gross premium income booked by Clarendon before consolidation totalled EUR 771.0 (1,128.1) million in the year under review. The bulk of this volume derived from fronting transactions for Praetorian. Net premium therefore totalled a mere EUR 0.2 million. On account of considerable strains from protection covers that had to be purchased one last time to protect expiring windstorm business in Florida, Clarendon's operating result (EBIT) in the year under review was negative at –EUR 94.6 million.

### Financial Services

In the Financial Services segment asset management functions are performed for both the Talanx Group and for third-party clients in institutional and retail business under the "AmpegaGerling" brand. Since November 2006 the Asset Management GmbH, Investment GmbH and Immobilien Management GmbH have been grouped together under this joint brand. In connection with the acquisition of Gerling Beteiligungs-GmbH and its subsidiaries by Talanx AG, the new companies arose as a consequence of name changes and mergers of the Ampega companies with their Gerling counterparts. In May 2007 the AmpegaGerling companies are planning to unite all the staff at the Cologne location and establish a new joint business operation.

In addition to the AmpegaGerling companies, the Talanx Group's own reinsurance broker Protection Reinsurance Intermediaries AG also belongs to the Financial Services segment.

### AmpegaGerling Asset Management GmbH

AmpegaGerling Asset Management GmbH is an asset management firm not supervised by the Federal Financial Supervisory Authority as defined by § 2 Para. 6 No. 5 Banking Act (KWG). It rendered its financial services as at the balance sheet date exclusively for insurance and other enterprises within the Talanx Group. Since its activities will henceforth be conducted entirely within the Group, in 2006 it transferred the corresponding third-party mandates to AmpegaGerling Investment GmbH and returned its license to perform financial services pursuant to § 1 Para. 1 a Sentence 2 No. 1 KWG and § 1 Para. 1 a Sentence 2 No. 3 KWG.

On 31 October 2006 Gerling-Konzern Gesellschaft für Vermögens-Management (GKVM) was merged into Ampega Asset Management GmbH, which has since traded under the name AmpegaGerling Asset Management GmbH. In addition to performing asset management tasks for the Group companies, its business activities encompass administrative services such as investment accounting including taxes and reporting in accordance with the German Commercial Code (HGB) and IFRS, performance measurement, compliance and investment reporting.

The new company pools the know-how relating to asset liability and investment risk management and combines the differing product profiles of the former Ampega and Gerling asset management companies. In this way, it is able to secure and extend its earning capacity by providing a comprehensive range of services. The transfer of the Gerling companies' asset portfolios to Ampega's highly performant IT structure – which affords a holistic platform for investment decisions, accounting as well as risk and regulatory reporting – enables us to tap into economies of scale and hence generate cost synergies. As at the end of the financial year the total volume of assets under management – at EUR 46.8 billion – was on a par with the previous year's level for the merged individual companies: in 2005 the volume at Ampega Asset Management GmbH – adjusted for mandates that required a license – amounted to EUR 31.6 billion, while at GKVM – excluding real estate and mortgage loans – it stood at EUR 14.7 billion.

Sales revenues were boosted by EUR 16.2 million to EUR 75.8 million in connection with the Gerling integration (2005: Ampega Asset Management GmbH: EUR 43.2 million; GKVM: EUR 16.4 million). The current operating expenses of EUR 35.3 million (excluding costs for migration to the common system) were on a par with the level of the merged individual companies in the previous year (2005: Ampega Asset Management GmbH: EUR 18.8 million; GKVM: EUR 16.6 million).

Amounting to EUR 41.1 million, the profit on ordinary activities – excluding income from participating interests received from affiliated companies – improved 57.1% on the previous year's performance by the merged individual companies (2005: Ampega Asset Management GmbH: EUR 26.2 million; GKVM: –EUR 0.1 million, owing to the fact that until 2005 the company operated on a cost allocation basis).

As a consequence of the modified structure of participations in connection with the merger, the shares in affiliated companies carried under financial assets and hence the capital reserve increased by EUR 77.9 million.

The hallmarks of 2007 will be personnel integration, the realization of the target organization and the migration of business processes. The personnel integration is expected to be completed by September.

The reorganization of business segments and commission structures among the AmpegaGerling companies should lead to further enlargement of the volume of assets under management in 2007 and boost the profit on ordinary activities.

#### AmpegaGerling Investment GmbH

AmpegaGerling Investment GmbH (AIG) is an investment company under German law pursuant to § 2 Para. 6 of the Investment Act. It was created in October 2006 out of the merger and simultaneous renaming of Ampega Investment AG (Ampega) and Gerling Investment Kapitalanlage GmbH (GIK).

AIG is owned by AmpegaGerling Asset Management GmbH (94.9%) and Alstertor Erste Beteiligungs- und Investitionssteuerungs-GmbH & Co. KG (5.1%), a wholly owned subsidiary of Talanx AG. Talanx AG reacquired the 30% participating interest in Ampega previously held by Putnam Investments, LLC., Boston, United States, in 2006.

The company manages various types of separate fund assets including real estate funds, performs financial portfolio management tasks and conducts custodian business. As part of the merger the existing license held by GIK to transact investment business was extended to include Ampega's authorization to launch and manage separate fund assets with additional risks.

The merged company can draw on GIK's long-standing experience with a successful program of relative return products in German retail funds business as well as on a highly successful special real estate fund. As at year-end the integration of the fund product range and the migration of all Gerling funds to the existing Ampega IT structure had been completed. The now altogether 34 special funds and 48 retail funds (including two single hedge funds) had a total volume of EUR 10.0 billion as at year-end – compared to volumes of EUR 7.1 billion at GIK and EUR 3.1 billion at Ampega in 2005.

All in all, AmpegaGerling Investment GmbH had 134 portfolios under management as at the balance sheet date (2005: GIK: 31; Ampega 98) with a total asset volume of EUR 13.5 billion (2005: GIK: EUR 7.4 billion; Ampega: EUR 5.1 billion).

The company enhanced its positioning as an outsourcing partner for small and mid-sized insurance enterprises with the acquisition of a further three mandates, boosting the volume of assets under management in this segment to EUR 2.2 billion in 18 portfolios.

The asset portfolios managed for Group companies grew by 11.0% to EUR 8.1 billion (2005: Ampega: EUR 2.8 billion; GIK: EUR 4.5 billion).

Thanks to the volume trend and improved margin structures in retail business, fees and commission income increased to EUR 21.8 million (2005: GIK: EUR 11.6 million; Ampega: EUR 6.4 million). Current operating expenses were fractionally higher than the level of the merged individual companies in the previous year. Overall, the profit on ordinary activities of EUR 8.6 million improved on the previous year's performance of the merged individual companies by 56.4% (2005: GIK: EUR 5.1 million; Ampega: EUR 0.4 million). The generated profit for the year is to be paid out in full.

As with the other AmpegaGerling companies, the most notable features of 2007 will be personnel integration, implementation of the target organization and migration of the business processes. It is envisaged that the migration activities will be completed by the second quarter of 2008.

Based on the reorganization of business segments and commission structures among the AmpegaGerling companies, the company expects to improve its pre-tax operating profit by an appreciable EUR 5.7 million to EUR 14.3 million, while the volume of assets under management will be on the level of the previous year.

## Subsequent events

In the early months of 2007 Talanx took further steps towards achieving the Group's target structure: with retroactive effect as from 31 December 2006, HDI Industrie Versicherung AG, HDI Privat Versicherung AG, HDI-Gerling International AG and Aspecta Versicherung AG became wholly owned subsidiaries of HDI Service AG, which in turn is a wholly owned subsidiary of Talanx AG.

Following negotiation of a reconciliation of interests in the asset management segment in December 2006, the primary insurance segments have also continued to make progress in the current year: in March 2007 the Group Management and Group Employee Council reached an understanding in principle regarding the key points of a social compensation plan and reconciliations of interests for the Life Primary Insurance segment and Industrial Property/Casualty division. At the time when this report went to press (11 April 2007), the social compensation plan and reconciliations of interests were still being negotiated.

Winter storm "Kyrill", which swept across large parts of Europe on 18 and 19 January 2007, caused total insured losses in the range of EUR 4 to 7 billion. Hannover Re anticipates a net loss burden of EUR 120 to 180 million before tax, the bulk of this amount being attributable to Germany.

## Risk report

As the holding company of an insurance and financial services group whose enterprises are active predominantly in the insurance industry, Talanx AG not only carries its own entrepreneurial risks but also shares in the risks of its subsidiaries. The management of Talanx AG is shaped by the insurance environment, thus giving rise to a correspondingly developed level of risk awareness. Consequently, Talanx AG too uses its own specially tailored tools to monitor and manage risks.

The control mechanisms and decision-making processes of Talanx AG are embedded in the Group standards, which encompass most notably the preparation and auditing of the annual accounts, the internal control system and the controlling tools.

In accordance with the philosophy of ensuring the greatest possible decentralization, the subsidiaries each maintain their own risk management systems; for they are best able to assess their risks and implement timely risk controlling measures. Group Controlling determines the risk situation of the Talanx Group as a whole on the basis of the local risks. Reporting on both current business developments and on risk management ensures that the Board of Management of Talanx AG is kept constantly updated on risks and can intervene effectively as necessary.

The potential implications of risks are not only documented but also incorporated into the annual planning of the Group companies, thereby additionally making it possible to allow for the risks of future development. The plans drawn up by all Group companies and for the Group as a whole are discussed and approved by the Board of Management of Talanx AG.

We have combined the risks to which Talanx AG is exposed into risk groups and analyzed and evaluated them on the basis of the existing standards. The risk groups include:

- Global risks
- Participation risks
- Functional risks

Global risks encompass risks associated with changes in the political environment, economic climate or provisions of tax law. They are discussed intensively by the Board of Management of Talanx AG and the corresponding bodies for the Group as a whole and are monitored, in particular, through Association activities, information databases and a constant dialog with local management.

We associate participation risks, in particular, with the performance of individual subsidiaries, the stability of results in the portfolio of participating interests and a potentially inadequate balance in the business. Through profit transfer agreements Talanx AG participates directly in the business development and risks of the subsidiaries. What is more, negative results trends at the subsidiaries can prompt a need to write down the book values of participating interests at Talanx AG.

We use appropriate tools in the areas of controlling, internal auditing and risk management to counter risks arising out of the development of results at specific subsidiaries. A standardized reporting system regularly provides decision-makers with the latest information not only about the company but also about the business development at all major subsidiaries. They are thus able to intervene at all times in order to control risks. Risks associated with a lack of stability in the results of the portfolio of participating interests or with an inadequate business balance are reduced primarily by means of regional diversification as well as by investing systematically in growth markets and in product and portfolio segments that stabilize results.

As part of the group of functional risks, the risk of asset erosion on acquisitions and their inadequate profitability is kept as low as possible through intensive due diligence tests conducted in cooperation with independent professional consultants and auditors. Furthermore, Talanx pays close attention to risks deriving from the financing of acquisitions and their anticipated profitability. It counters the financing risk by compiling regularly updated cash flow statements and forecasts and defining priorities for the application of funds. A liquidity risk may derive from the inability of Talanx AG to meet its payment obligations due to low profit transfers from the subsidiaries. With respect to the financing and liquidity risks, too, Talanx AG is directly exposed to the risks of its subsidiaries through the profit transfer agreements. The leverage of Talanx AG is regularly reviewed. In 2006 the ratio of provisions and liabilities to total liabilities rose to 35.1 (26.5)%, due especially to assumption of the pension obligations of the Gerling companies.

The tools and procedures described above for monitoring and controlling risks additionally include a planning component, thereby also enabling us to keep our sights firmly trained on the risks of future development.

Within the scope of the planning process for Talanx AG, the plans of all subsidiaries are submitted to the Board of Management and the corresponding Group bodies, intensively discussed in this framework, reviewed for plausibility and adopted. In this context the special features of the development of business at the individual companies are discussed in a nuanced manner. Talanx AG draws up its own results planning on this basis. This planning process takes into account both future developments and the interdependencies between the subsidiaries' planning and that of Talanx AG.

### Summary assessment of the risk situation

In summary, we cannot discern any risks that could jeopardize the continued existence of Talanx AG or its assets, financial position or net income in a significant or lasting manner.

Since the risk situation of Talanx AG is crucially shaped by the risks of the subsidiaries, their risks and risk management measures are described below. The overall risk situation of the subsidiaries can be broken down into the following five risk categories:

- Underwriting risks
- Default risks in insurance business
- Investment risks
- Operational risks
- Other risks

### Major underwriting risks

The underwriting risks in property and casualty insurance and in life insurance are considered separately because there are significant differences between them.

In **property and casualty insurance (primary business and reinsurance)** underwriting risks derive primarily from the premium/loss risk and the reserving risk.

In this context, the premium/loss risk stems from the fact that previously defined insurance premiums are used to pay subsequent indemnification, although the amount of such payments is initially unknown. The actual claims experience may therefore diverge from the expected claims experience. This is attributable to two factors: the risk of random fluctuation and the risk of error: the risk of random fluctuation refers to the fact that both the occurrence and amount of a claim are caused by random factors. This element of chance cannot

be excluded even with complete data on claims. The risk of error describes the risk of reaching erroneous conclusions about a claim due to the use of incorrect stochastic methods. A distinction is made here between the diagnostic risk and the forecasting risk. The diagnostic risk refers to the fact that the current situation may be misinterpreted on the basis of the available data. This is particularly likely to occur if only incomplete data is available regarding claims from previous insurance periods. The forecasting risk refers to the fact that stochastic claim regularities determined on the basis of past data may no longer be valid.

Talanx controls and reduces all the components of the premium/loss risk first and foremost through claims analyses, modeling, selective underwriting and regular review of the claims experience as well as through the use of appropriate reinsurance protection.

The second underwriting risk in property and casualty insurance, namely the reserving risk, refers to the fact that the underwriting reserves may not suffice to pay in full the claims that have not yet been settled or reported. The level of the reserves is therefore regularly reviewed, not only internally but also by external actuaries. In addition to the reserves for losses reported to us by our clients, the Talanx Group establishes extra reserves where necessary on the basis of our own claims investigations. Furthermore, we constitute a so-called IBNR (incurred but not reported) reserve for claims that have probably already occurred but have not yet been reported to us.

The underwriting risk in **life insurance** essentially lies in the fact that key payment flows may diverge from the expected amounts. A distinction is made here between the premium/benefit risk, the reserving risk and the interest guarantee risk. The premium/benefit risk arises out of the commitment to pay a defined insurance benefit dependent on future developments on the basis of a previously fixed premium. The reserving risk refers to the adequacy of underwriting reserves. Both risk types are crucially influenced by biometric risks and the lapse risk.

Biometric actuarial bases such as mortality, longevity and morbidity are established at the inception of the contract in order to calculate premiums and reserves. Over time, however, these assumptions may prove to be no longer accurate and may therefore necessitate additional expenditures, e.g. for boosting the policy benefits for life and health contracts. The adequacy of the biometric actuarial bases is therefore regularly reviewed.

Life insurance policies also entail lapse risks. In the event of cancellation it is possible, for example, that sufficient liquid assets may not be available to cover insurance benefits. This can give rise to the unplanned realization of losses on the disposal of assets. For this reason, the Group's life insurers regularly match the duration of their assets and liabilities. What is more, receivables due from insurance agents may be lost in the event of cancellation, e.g. if the accounts receivable from intermediaries cannot be collected. Talanx therefore pays close attention to the credit status of its insurance agents. Cancellation may also create a cost risk if new business collapses and the fixed costs – unlike the variable costs – cannot be directly reduced. Cost controlling and a focus on variable sales costs through distribution channels such as multiple agents limit this risk.

The interest guarantee risk arises if a guaranteed interest rate is agreed upon inception of a life insurance policy. The insurance premiums must be invested on appropriate terms in order to generate this return. Yet the market interest rate level fluctuates over time; future premiums are thus subject to the risk of poorer interest rate conditions. What is more, the duration of the investments is generally shorter than the duration of the insurance contracts, hence creating a reinvestment risk. Talanx reduces the interest guarantee risk primarily by constantly monitoring its assets. The surplus distributions paid in addition to the guaranteed interest rate can be adjusted according to the state of the market. The large proportion of new business attributable to unit-linked life insurance policies minimizes the interest guarantee risk because with this type of insurance the investment risks and opportunities are borne by policyholders.

In **life and health reinsurance** the previously described biometric risks as well as lapse and credit risks are of special importance. The reserves in life and health reinsurance are based principally upon the information provided by ceding companies. The plausibility of the figures is checked using reliable biometric actuarial bases. Furthermore, local insurance regulators ensure that the reserves calculated by ceding companies satisfy all requirements with respect to actuarial methods and assumptions (e.g. use of mortality and morbidity tables, assumptions regarding the lapse rate etc.). The lapse and credit risks are also of crucial importance with regard to the prefinancing of cedants' new business acquisition costs. The interest rate risk, on the other hand, is of only minimal risk relevance due to contractual exclusions.

### Default risks under insurance business

Bad debts may arise on receivables due under insurance business. This applies, in particular, to receivables due from reinsurers, retrocessionaires, policyholders and insurance agents.

Talanx counteracts the default risk at reinsurers and retrocessionaires by carefully selecting them with the aid of expertly staffed Security Committees, constantly monitoring their credit status and – where necessary – taking appropriate measures to secure receivables. Depending upon the type and expected run-off period of the reinsured business, the selection of reinsurers is guided by the minimum ratings of the rating agencies Standard & Poor's and A. M. Best.

Allowance is made for the default risk at policyholders and insurance agents through the putting up of sound collateral and the establishment of adequate general bad debt provisions. Agents are also subject to credit checks.

### Major investment risks

Investment risks should be considered in the context of the investment policy. The investment policy at the individual Talanx subsidiaries is regulated by the supervisory framework applicable to each particular company and by internal investment guidelines. The consistent principle underlying investment activities is the goal of generating a risk-appropriate contribution to the business result.

In our own interests and especially those of policyholders the investment policy adopted by Talanx – building upon the basic legal parameters – is guided by the following maxims:

- Optimizing the return on investments while at the same time preserving a high level of security
- Ensuring liquidity requirements are satisfied at all times (solvency)
- Risk diversification (mix and spread)

Risks in the investment sector consist most notably of market, credit and liquidity risks. The market risk arises from the potential loss due to adverse changes in market prices and may be attributable to changes in interest rates, equity prices and exchange rates. The credit risk refers to the possible loss due to the failure or change in quality of a debtor. The liquidity risk is the risk of being unable to meet payment obligations – especially those arising out of insurance contracts – at all times.

An essential component of risk management is the principle of separation of functions – i.e. keeping a distinction between portfolio management, settlement and risk controlling. Risk controlling – which is also organizationally separate from the portfolio management performed by AmpegaGerling – bears responsibility for monitoring all risk limits, evaluating financial products and verifying that all transactions are effected in line with market conditions. In this respect our management and control mechanisms are geared particularly closely to the standards adopted by the Federal Financial Supervisory Authority (BaFin) and the respective local supervisory authorities.

Detailed investment guidelines are in force for the individual companies, compliance with which – in addition to compliance with statutory and regulatory requirements – is constantly monitored. These investment guidelines are used to define the framework of the investment strategy. Monitoring of the quotas and limits set out in these guidelines is the responsibility of Group Risk Controlling and the Chief Financial Officer of each company. Any significant modification of the investment guidelines and/or investment policy must be approved by the Board of Management of each company and brought to the attention of the Supervisory Board.

#### Major operational risks

Operational risks encompass the risk of losses occurring because of

- Inadequacy or failure of internal procedures
- Human error or system failure
- External events

Multifaceted and cause-oriented risk management and an efficient internal control system minimize such risks, which may be associated with business activities of all types, human resources or technical systems.

The failure of data processing systems and data security rank among the most significant operational risks. Ensuring the availability of applications and protecting the confidentiality and integrity of data are of vital importance to Talanx. Since the global sharing of information increasingly takes place via e-mail, this creates a vulnerability to computer viruses. Systematic investment in the security and availability of information technology preserves and enhances the existing high level of security.

Operating risks may also arise in the area of human resources, for example due to a lack of the skilled experts and managers necessitated by an increasingly complex business with a strong client orientation. Talanx therefore attaches great importance to further and advanced training activities. With the aid of individual development plans and appropriate skills enhancement opportunities members of staff are thus able to respond to the latest market requirements. What is more, state-of-the-art management tools and appropriate incentive schemes – both monetary and non-monetary – foster strong employee motivation. The human resources sector also gives rise to potential fraud risks. Talanx counters such risks with internal guidelines governing areas of competence and processing workflows as well as with specialist checks and audits.

Legal risks may arise in connection with contractual agreements and the general legal environment, especially in the areas of commercial and tax law. Insurers and reinsurers are also dependent on the political and economic framework conditions on their respective markets. These external risks are subject to intense monitoring by the Talanx Board of Management on behalf of the entire Group and as part of an ongoing exchange of information with local management.

Legal risks may result, in particular, from the envisaged amendment of the Insurance Contract Act: the present draft legislation regarding the reform of the Insurance Contract Act, which is expected to enter into force on 1 January 2008, would give rise to considerable additional financial strains for life insurers. This is especially true of the extension of the surrender value regulations (minimum surrender values) envisaged in this connection. What is more, the early participation of life insurance customers in the hidden reserves as provided for in the draft legislation would bring about a reduction in risk-carrying capacity and hence a risk-averse short-term investment policy on the part of companies and would ultimately result in diminished returns to the detriment of customers and stockholders.

With the acquisition of Gerling Beteiligungs-GmbH and its subsidiaries by Talanx AG, the Group is looking at far-reaching changes and fresh opportunities. The integration of organizational structures, business strategies and corporate cultures within the scope of this acquisition will pose a considerable challenge. Among other things, it will be necessary to define and organize the future allocation and delimitation of tasks and responsibilities, the integration of staff and the standardization of systems and tools, while at the same time ensuring that insurance operations are maintained at all locations. These activities are taking place as part of a project parallel to operational business under the supervision of a project office. Risks are subject to constant monitoring and are reported to the responsible steering committees.

## Non-financial performance indicators

### Public relations and advertising

As a holding company without products under its own name, the public relations activities of Talanx AG are aimed not so much at a broad audience as they are at the financial community – analysts, banks and fund managers – and business journalists. The company enhances awareness among these target groups through its participation in selected events and by way of targeted advertising and sponsoring activities.

On every trading day since January 2005 a two-part TV commercial has been broadcast before and after the market wrap “Börse im Ersten” spotlighting Talanx’s role as sponsor. This has significantly boosted awareness of the company. Recognition of the Talanx brand has risen to 45% compared to 32% in the previous year.

Talanx places advertisements in selected media that are read particularly widely by persons who have a professional interest in the financial sector.

### Human resources

The functions performed by the financial and management holding company Talanx AG encompass enterprise planning, controlling and risk management, internal auditing, accounting and taxation, legal affairs, public relations as well as the coordination of IT and human resources. In total, an average of 48 (49) staff were employed during the financial year just-ended.

The low number of employees is conducive to an efficient, concentrated working style at Talanx AG. Short chains of communication and close cooperation lead to a productive working climate characterized by a marked sense of cohesion. Against this backdrop the employees played a vital part in the accomplishment of the company’s strategic objectives and its positive business performance in the financial year just-ended. The Board of Management thanks all members of staff most sincerely for their good work and considerable dedication in the 2006 financial year.

## Forecast

### Economic environment

#### Future macroeconomic situation

One of the greatest risks for the future development of the world economy derives from the current cyclical weakness in the United States, where the pace of growth flagged markedly in 2006. For 2007, however, there are good prospects of other important economic regions taking on the mantle of growth engine, hence causing global growth to stabilize. In Europe and Japan, key regions for the worldwide economy, the economic climate again improved appreciably. Significant growth rates in the range of 8–10% were also posted by the emerging population giants of China and India, which are poised on the verge of an economic boom.

In the Eurozone, too, the forces of economic recovery will be sustained in 2007. Yet despite the good level of cyclical activity, the economic strength of the entire European Union still lags far behind other regions such as the United States.

Turning to the German economy, the prospects of a continued upswing are good. Growth forecasts for the German economy in 2007 range as high as 2.8%, although the restraining effect associated with the increase in value-added tax and insurance tax as well as other financial policy decisions will be sustained, placing a strain on the inflation rate and curbing private consumer spending through the drain on purchasing power. On balance, though, it can be anticipated that lower social security contributions and the improved state of the labor market will help to revive private consumption. There may be a temporary contraction in demand, reflecting the fact that purchases were brought forward to pre-empt the increase in value-added tax on 1 January 2007. Despite the anticipated cool-down in the global economy, the German export industry can again look forward to a favorable environment and good prospects overall in 2007, since key sales markets such as Eastern Europe and Asia will likely continue to enjoy vigorous growth. For 2008 too a protracted period of economic upswing can be expected in Germany – provided there are no unforeseen disruptive factors.

### Future state of the industry

Impulses from the macroeconomic environment generally have a somewhat delayed effect on the insurance industry. They are overlaid and often diluted by industry-specific influencing factors such as changes in legislation. Following fluctuations as a consequence of the Retirement Income Act, the pattern of sales and demand for the German life insurance sector is returning to normal. The trend towards unit-linked products – offering policyholders the chance to share directly in the opportunities and risks of the capital market – has been sustained. In view of the demographic trend, the tendency is away from “traditional” endowment insurance towards annuity policies. Against a backdrop of sluggish or even declining conventional business, sales of private annuity policies as well as the “Basisrente” and “Riester-Rente” annuity products are therefore likely to continue rising, despite the fact that in Riester business no new step came into force in 2007. Stronger demand for specific provision solutions will in all likelihood prompt an enlargement of the range of annuity products. Above-average opportunities are expected to open up in the coming years in the senior citizens’ segment, not least because on average this target group has sufficient financial means to take advantage of provision solutions tailored to the needs of their age group.

In German property and casualty insurance the indicators for 2007 suggest that the muted growth in premium income will be sustained. This can be attributed first and foremost to the high degree of saturation in the German market, hence restricting the potential for further growth. Gains in market share can therefore be generated almost exclusively through elimination of rival players, which will doubtless be reflected not least in fiercer price competition. It is to be anticipated that this trend will be extended and exacerbated in 2007, especially in motor and industrial property insurance.

For the international markets in life insurance and life/health reinsurance we continue to expect a favorable environment in 2007 and 2008 that will enable us to achieve our strategic and operational objectives. Irrespective of the differences between the various social, legal and economic framework conditions, funded products for old-age provision are playing an increasingly prominent role worldwide. They are intended to guarantee policyholders – preferably lifelong – provision and a share in future prosperity. The wide range of specific insurance solutions that can be identified today is expected to be further expanded in the years ahead and supplemented with new product variations. The special challenge in international business, in our assessment, will be to offer products that are compatible with the cultural and ethical standards of local market players. By way of example here we may cite so-called takaful insurance products that take account of the prohibition under Islam of gambling and interest income – this includes the principle on which insurance is based – and are therefore acceptable to the Islamic world, which still has a very low insurance density.

In international property/casualty primary insurance and reinsurance there are growing signs of incipient market softening, which are likely to multiply in the course of 2007. Now that the hard market has passed its peak, the pressure on prices and conditions in most markets and important lines is intensifying overall, albeit to differing degrees. Generally speaking, the price level is still relatively high. Rising insured values and the increasing number of natural disasters are stimulating demand for insurance protection and opening up scope for business expansion. When it comes to maximizing these market opportunities, it will be more vital than ever before to keep a strict focus on profitability and to limit the risk by means of an optimal portfolio structure and targeted risk-minimizing measures.

#### Orientation of the company over the next two financial years

The core objective for the next two financial years will be to ensure the future sustainability of the Talanx AG business model and to take the appropriate measures with this aim in mind. What does this mean in concrete terms? The overriding priority is preservation of independence through safeguarding of the ownership structure. Building upon an assessment of the relevant external framework parameters, we are currently refining the strategic orientation of Talanx. We have thus defined specific profit targets which are measured by the increase in value of the employed capital. In 2007 and 2008 the order of the day will also be to progressively enhance the tools needed for execution of the strategy and to further integrate them into the controlling cycle.

The continuing diversification and consolidation of the portfolio of participating interests as well as the reinforcement of our financial flexibility will remain central to our strategy. With a view to optimizing the portfolio of participating interests we are striving, above all, to further enlarge our private customer business. In this context we attach considerable importance to growth in our defined markets. This expansion will enable Talanx to dilute its hitherto heavy concentration on primary business in the German insurance market and to improve the regional risk diversification of the portfolio. Further preferred areas of expansion are life/health reinsurance and the financial services/asset management sector. There are, however, no plans for acquisitions in the latter segment. A more substantial strategic acquisition will be financed by Talanx AG's going public. The additional funds from the stock market flotation will cement Talanx's financial flexibility on a lasting basis and establish the foundation for further organic growth and acquisitions.

#### Sales markets

The Group's market presence has been strengthened appreciably following the acquisition of the Gerling companies. The integration of Gerling's business activities has significantly enlarged the number of markets, extended the range of services and product offerings and improved our market position in various countries. As soon as the legal requirements have been satisfied, the operational units are to be regrouped – wherever possible and sensible – in 2007 and 2008 in order to achieve broader and better market coverage in the individual countries.

In segments that have not been directly impacted by the acquisition of the Gerling companies, our focus for the coming two years will be on preserving and optimizing our competitiveness and tapping into new earnings potentials. By way of example, new insurance undertakings have been established in Turkey and Russia in the area of bancassurance and cooperation with postal service providers. Taking their lead from the extremely successful German business model, they are tasked with opening up their respective local markets. On an international level, reference may be made to the broad range of activities in the reinsurance sector, which are discussed in greater detail in the forecast contained in the Annual Report of the Hannover Re Group. Going forward, as in the past, cultivation of new markets will be conditional without reservation on sustainable profitability and value creation.

#### New methods, products and services

When it comes to the adoption of new methods and the deployment of new products and services, Talanx AG will continue to be guided by the fundamental principles of responsible allocation of resources and the paramount importance of safeguarding the interests of clients and stakeholders.

We consider efficient business processes, supported by modern IT systems, to be a crucial performance factor. In the future, therefore, we shall continue to keep a special eye on boosting the efficiency of processes and practices. Drawing on our flexibility, speed of response, quality and low costs, we shall thus strive to make our competencies available on a needs-oriented basis and at attractive prices.

Turning to our products and services, we regard our multi-brand strategy and the Group's decentralized organizational structure as a major advantage. They enable us to optimally align ourselves with the needs of different customer groups and cooperation partners. We shall strive to further enhance these strengths and to constantly adjust to new realities as they arise.

### Anticipated profitability and financial position of the company

We expect the 2007 financial year to bring a sharp rise in income from participating interests and profit transfers to Talanx AG. This will be due in large part to the resumed dividend distribution by Hannover Rückversicherung AG, which omitted to pay a dividend in 2006 following the devastating hurricane damage of 2005.

Other operating income and expenses were still heavily influenced in 2006 by special effects connected with the integration of the Gerling companies and the associated restructuring within the Group. In our forecast for 2007 and 2008 we anticipate a broadly normal business experience. Due to special effects that on balance produced an improved operating profit in 2006, the pre-tax result for 2007 is expected to come in on a par with the previous year despite higher income from participating interests and increased profit transfers. The 2008 financial year is likely to see steady improvement in the total amount of income from participating interests and profit transfers, hence also leading to a significantly higher pre-tax result.

The cash forecast for Talanx AG is constantly updated and envisages a harmonized pattern of cash inflows and outflows in 2007. Following the planned reduction in liquidity in 2006 on account of the Gerling acquisition, we expect the current year to bring a rising liquidity balance based on the net income from participating interests.

### Opportunities

Two important controlling tools constitute the essential driving forces and guarantees that will ensure Talanx continues to make the most of the available opportunities over the next two years: strategy and risk management. Our strategy defines the path that we intend to follow in developing our future earnings potentials. Targets enable us to control implementation of the strategy using defined benchmarks. The Group-wide risk management process coordinated by Talanx AG – with special attention devoted to risk monitoring and controlling – puts the focus on enhanced transparency. Yet this transparency is not only geared to bringing out potentially negative developments in the future economic situation (risks), it is also intended to highlight favorable possibilities (opportunities). Further expansion of this system will be a core task for 2007 and 2008.

### Opportunities associated with the development of the general business environment

As the general business environment evolves the key factor will be progress towards a harmonized Europe-wide – or better worldwide – regulatory system, a development that can be summed up by the phrase “Solvency II”. This also encompasses issues such as risk management, risk-adequate capital management and transparency. Opportunities lie in the prompt reaching of a consensus concerning a methodologically sophisticated and at the same time viable set of standards. At the same time, however, there is a risk that companies will find themselves carrying a greater burden.

With a view to consolidating and ideally strengthening its competitive position, it is particularly important for Talanx AG and its operational subsidiaries to identify the impending changes in the general business environment at an early stage. In property and casualty insurance a central role is played by cycle management. In life insurance, on the other hand, key impetus for change will derive from the reform of the Insurance Contract Act and the EU Mediation Directive. Within the scope of the reform of insurance contract law it will be necessary to overhaul all products so as to accommodate the amendment of major contractual elements – such as the prospective customer’s duty to disclose prior medical conditions before materialization of a contract, the cancellation rights of policyholders, the surplus participation and the surrender value. The goal is to develop “smart”, primarily unit-linked products. Yet this reform also brings the risk of additional financial burdens for life insurers. We attach similarly high importance to the EU Mediation Directive, implementation of which will be accompanied by extensive qualification and coaching activities.

#### Opportunities created by the company

For the Talanx Group, it is our expectation that the opportunities associated with the acquisition of the Gerling companies will be progressively exploited over the coming years. There is a risk inasmuch as it may not be possible to realize the synergies expected from the amalgamation of the companies to the extent anticipated or as quickly as hoped, or that undesirable departures of personnel may occur.

We continue to work Group-wide on the expansion of successful products and business models, for example by carrying them over to affiliates and their sales organizations which hitherto failed to use such products. Targeted preparatory steps are needed for this purpose, ranging from the modification of technical infrastructure to the stepping up of marketing activities and training of sales staff.

We shall stand by our strategic objective of generating organic growth in countries with a lower degree of saturation. In preferred regions such as the Mediterranean, (Eastern) Europe and selected Latin American markets we shall monitor and consider opportunities for acquisitions with a particularly close eye. Based on the already existing broad diversification of our portfolio, we see promising openings for further expansion and complementation of our product range. In general terms, however, we clearly prioritize profitability prospects over the mere boosting of market shares. Last but not least, we believe that harmonization of the IT landscape and further enhancement of its efficiency also offer considerable potential for maximizing future opportunities. Other notable areas of action are the refinement of our personnel management tools and the ongoing work on our quantitative risk management system.

## Balance sheet as at 31 December 2006

### Assets

Figures in EUR thousand		31.12.2006	31.12.2005
<b>A. Fixed assets</b>			
I. Intangible assets			
1. Franchises, trademarks, patents, licenses and similar rights	240	676	
2. Advances paid on intangible assets	—	—	
		<b>240</b>	<b>676</b>
II. Property, plant and equipment			
1. Other equipment, fixtures, fittings and equipment	464	317	
2. Advance payments and plant and machinery in process of construction	—	—	
		<b>464</b>	<b>317</b>
III. Financial assets			
1. Shares in affiliated companies	4,028,760	2,901,063	
2. Loans to affiliated companies	553,700	33,700	
3. Participating interests	41,440	44,401	
4. Other loans	—	—	
		<b>4,623,900</b>	<b>2,979,164</b>
<b>B. Current assets</b>			
I. Receivables and other assets			
1. Receivables from affiliated companies – thereof with a remaining term of more than one year: EUR 2,379,000 (previous year: EUR 2,335,000)	308,748	338,853	
2. Other assets – thereof with a remaining term of more than one year: EUR 17,581,000 (previous year: EUR —)	26,396	13,816	
		<b>335,144</b>	<b>352,669</b>
II. Marketable securities			
Shares in affiliated companies		—	35,190
III. Cash in banks		<b>77,592</b>	<b>838,498</b>
<b>C. Prepayments and accrued income</b>		<b>2,576</b>	<b>2,111</b>
<b>D. Probable tax relief in subsequent financial years in accordance with § 274 Para. 2 of the Commercial Code (HGB)</b>		<b>120,933</b>	<b>134,084</b>
<b>Total assets</b>		<b>5,160,849</b>	<b>4,342,709</b>

**Liabilities**

Figures in EUR thousand		31.12.2006	31.12.2005
<b>A. Capital and reserves</b>			
I. Subscribed capital	260,000		260,000
II. Capital reserve	629,529		629,529
III. Retained earnings	2,296,366		2,107,286
IV. Profit for the year (previous year: Disposable profit)	156,211		189,080
		<b>3,342,106</b>	<b>3,185,895</b>
<b>B. Provisions</b>			
1. Provisions for pensions and similar obligations	443,964		3,837
2. Provisions for taxation	58,375		68,753
3. Other provisions	5,095		6,173
		<b>507,434</b>	<b>78,763</b>
<b>C. Liabilities</b>			
1. Debenture loans	9,000		9,000
– thereof convertible: EUR — (previous year: EUR —)			
– thereof with a remaining term of up to one year: EUR — (previous year: EUR —)			
2. Liabilities to banks	68,308		71,705
– thereof with a remaining term of up to one year: EUR 4,768,000 (previous year: EUR 4,554,000)			
3. Accounts due to affiliated companies	1,217,291		989,926
– thereof with a remaining term of up to one year: EUR 217,648,000 (previous year: EUR 98,924,000)			
4. Other liabilities	10,745		538
– thereof for taxes: EUR 54,000 (previous year: EUR 57,000)			
– thereof for social security: EUR 12,000 (previous year: EUR 66,000)			
– thereof with a remaining term of up to one year: EUR 10,745,000 (previous year: EUR 538,000)			
		<b>1,305,344</b>	<b>1,071,169</b>
<b>D. Deferred charges</b>		<b>5,965</b>	<b>6,882</b>
<b>Total liabilities</b>		<b>5,160,849</b>	<b>4,342,709</b>

## Profit and loss account for the 2006 financial year

Figures in EUR thousand	2006	2005
1. Income from participating interests – thereof from affiliated companies: EUR 3,179,000 (previous year: EUR 18,761,000)	3,548	18,965
2. Other operating income – thereof from affiliated companies: EUR 88,157,000 (previous year: EUR 69,458,000)	95,983	76,262
3. Personnel expenses		
a) Wages and salaries	6,337	5,356
b) Social security, pensions and other benefit costs – thereof for pensions: EUR 496,000 (previous year: EUR 413,000)	999	905
4. Depreciation and amortization costs and other write-offs on intangible assets and plant and equipment	555	979
5. Other operating expenses	27,348	21,114
6. Income from other long-term securities and loans – thereof from affiliated companies: EUR 656,000 (previous year: EUR 2,530,000)	656	2,530
7. Other interest and similar income – thereof from affiliated companies: EUR 127,000 (previous year: EUR 63,000)	11,262	25,391
8. Interest and similar expenses – thereof to affiliated companies: EUR 49,750,000 (previous year: EUR 45,193,000)	121,468	56,075
9. Income from profit transfer agreements	296,105	392,490
10. Expenses from loss transfers	13,336	19,325
11. Profit or loss on ordinary activities before tax	<b>237,511</b>	<b>411,884</b>
12. Extraordinary expenses	42,561	3,000
13. Taxes on profit and income	38,622	30,722
14. Other taxes	117	2
15. Profit for the financial year	156,211	378,160
16. Allocation to other retained earnings	–	189,080
17. Disposable profit	<b>156,211</b>	<b>189,080</b>

# Notes

Due to the merger with Gerling Leben Holding GmbH, Cologne, certain items in the annual accounts have increased by exceptional amounts. For the sake of comparison, therefore, the previous year's figures of both companies are shown together in a merger balance sheet on pages 46 and 47.

## General information

The annual accounts for the 2006 financial year were compiled in accordance with the provisions of the German Commercial Code (HGB) and the German Stock Corporation Act (AktG).

## Information on accounting and valuation

Intangible assets were valued at acquisition cost less scheduled depreciation.

Property, plant and equipment were carried at purchase cost; the carrying value of fixtures, fittings and equipment was reduced by the depreciation permitted under tax law. Depreciation was taken using the straight-line method; the useful life varied from 3 to 13 years. Low-value items were written off entirely in the year of acquisition.

Shares in affiliated companies were valued at purchase cost.

Loans to affiliated companies were carried at acquisition cost.

Participating interests were shown at acquisition cost less capital repayments.

Other loans were shown at acquisition cost.

Receivables, other assets, bank deposits as well as cash in banks were recognized at nominal value.

The provisions take into account all identifiable risks and uncertain liabilities known at the time of compilation of the balance sheet with the amounts required according to prudent commercial judgment.

Liabilities were shown at the amounts repayable.

The profit and loss account was drawn up using the cost-summary method. The breakdown of individual items in the profit and loss account differs from the legally required method of itemization in order to ensure that the items shown in the profit and loss account reflect the special features of a holding company. For this purpose the income from participating interests was shown at the beginning in view of its considerable significance.

## Merger balance sheet of Talanx AG as at 1 January 2006

<b>Assets</b>	Talanx AG	Gerling Leben Holding GmbH	Merger	Talanx AG
Figures in EUR thousand	31.12.2005	31.12.2005		1.1.2006
<b>A. Fixed assets</b>				
I. Intangible assets				
1. Franchises, trademarks, patents, licenses and similar rights	676	—		676
2. Advances paid on intangible assets	—	—		—
	<b>676</b>	<b>—</b>		<b>676</b>
II. Property, plant and equipment				
1. Other equipment, fixtures, fittings and equipment	317	—		317
2. Advance payments and plant and machinery in process of construction	—	—		—
	<b>317</b>	<b>—</b>		<b>317</b>
III. Financial assets				
1. Shares in affiliated companies	2,901,063	630,095	-612,585	2,918,573
2. Loans to affiliated companies	33,700	200		33,900
3. Participating interests	44,401	—		44,401
4. Other loans	—	—		—
	<b>2,979,164</b>	<b>630,295</b>		<b>2,996,874</b>
<b>B. Current assets</b>				
I. Receivables and other assets				
1. Receivables from affiliated companies – thereof with a remaining term of more than one year: EUR 2,335,000 (previous year: EUR 2,361,000)	338,853	26,435		365,288
2. Other assets	13,816	1		13,817
	<b>352,669</b>	<b>26,436</b>		<b>379,105</b>
II. Marketable securities				
Shares in affiliated companies	35,190	—		35,190
III. Cash in banks	838,498	3,001		841,499
<b>C. Prepayments and accrued income</b>	<b>2,111</b>	<b>—</b>		<b>2,111</b>
<b>D. Probable tax relief in subsequent financial years in accordance with § 274 Para. 2 of the Commercial Code (HGB)</b>	<b>134,084</b>	<b>—</b>		<b>134,084</b>
<b>Total assets</b>	<b>4,342,709</b>	<b>659,732</b>	<b>-612,585</b>	<b>4,389,856</b>

Liabilities	Talanx AG	Gerling Leben Holding GmbH	Merger	Talanx AG
Figures in EUR thousand	31.12.2005	31.12.2005		1.1.2006
<b>A. Capital and reserves</b>				
I. Subscribed capital	260,000	25	-25	260,000
II. Capital reserve	629,529	569,999	-569,999	629,529
III. Retained earnings	2,107,286	—		2,107,286
Merger deficit	—	—	-42,561	-42,561
IV. Disposable profit	189,080	—		189,080
	<b>3,185,895</b>	<b>570,024</b>		<b>3,143,334</b>
<b>B. Provisions</b>				
1. Provisions for pensions and similar obligations	3,837	—		3,837
2. Provisions for taxation	68,753	—		68,753
3. Other provisions	6,173	65		6,238
	<b>78,763</b>	<b>65</b>		<b>78,828</b>
<b>C. Liabilities</b>				
1. Debenture loans	9,000	—		9,000
– thereof convertible: EUR — (previous year: EUR — )				
– thereof with a remaining term of up to one year: EUR — (previous year: EUR 175,000,000)				
2. Liabilities to banks	71,705	60,600		132,305
– thereof with a remaining term of up to one year: EUR 11,154,000 (previous year: EUR 4,352,000)				
3. Accounts due to affiliated companies	989,926	4,246		994,172
– thereof with a remaining term of up to one year: EUR 103,170,000 (previous year: EUR 36,278,000)				
4. Liabilities to partners	—	24,788		24,788
– thereof with a remaining term of up to one year: EUR 24,788,000 (previous year: EUR —)				
5. Other liabilities	538	9		547
– thereof for taxes: EUR 57,000 (previous year: EUR 9,544,000)				
– thereof for social security: EUR 66,000 (previous year: EUR 54,000)				
– thereof with a remaining term of up to one year: EUR 547,000 (previous year: EUR 9,814,000)				
	<b>1,071,169</b>	<b>89,643</b>		<b>1,160,812</b>
<b>D. Deferred charges</b>				
	6,882	—		6,882
<b>Total liabilities</b>	<b>4,342,709</b>	<b>659,732</b>	<b>-612,585</b>	<b>4,389,856</b>

## Information on the balance sheet – assets

	Acquisition cost 1.1.2006	Position as at 1.1.2006
Change in asset items	EUR thousand	EUR thousand
<b>A. I. Intangible assets</b>		
1. Franchises, trademarks, patents, licenses and similar rights	3.158	676
2. Advances on intangible assets	—	—
3. Total A.I.	<b>3.158</b>	<b>676</b>
<b>A. II. Property, plant and equipment</b>		
1. Other equipment, fixtures, fittings and equipment	526	317
2. Advance payments and plant and machinery in process of construction	—	—
3. Total A.II.	<b>526</b>	<b>317</b>
<b>A. III. Financial assets</b>		
1. Shares in affiliated companies	2,901,063	2,901,063
2. Loans to affiliated companies	33,700	33,700
3. Participating interests	44,401	44,401
4. Other loans	—	—
5. Total A.III.	<b>2,979,164</b>	<b>2,979,164</b>
<b>Sum total</b>	<b>2,982,848</b>	<b>2,980,157</b>

<sup>1)</sup>after merger with Gerling Leben Holding GmbH as at 1.1.2006

Position as at 1.1.2006 <sup>1)</sup>	Additions	Transfers	Disposals	Write-ups	Cumulative depreciation	Depreciation in financial year	Position as at 31.12.2006
EUR thousand	EUR thousand	EUR thousand	EUR thousand	EUR thousand	EUR thousand	EUR thousand	EUR thousand
676	1	—	—	—	2.482	437	240
—	—	—	—	—	—	—	—
<b>676</b>	<b>1</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>2.482</b>	<b>437</b>	<b>240</b>
317	268	—	3	—	209	118	464
—	70	—	70	—	—	—	—
<b>317</b>	<b>338</b>	<b>—</b>	<b>73</b>	<b>—</b>	<b>209</b>	<b>118</b>	<b>464</b>
3,531,159	2,327,611	—	1,830,010	—	—	—	4,028,760
33,900	551,160	—	31,360	—	—	—	553,700
44,401	—	—	2,961	—	—	—	41,440
—	—	—	—	—	—	—	—
<b>3,609,460</b>	<b>2,878,771</b>	<b>—</b>	<b>1,864,331</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>4,623,900</b>
<b>3,610,453</b>	<b>2,879,110</b>	<b>—</b>	<b>1,864,404</b>	<b>—</b>	<b>2,691</b>	<b>555</b>	<b>4,624,604</b>

## Notes on the balance sheet – assets

### A.III. Financial assets

The company's major shareholdings are shown below. The complete statement of shareholdings is shown in the separate list of shareholdings.

Name and registered office of the company	Participation (current)	Capital and reserves 31.12.2005*)	Result for the 2005 financial year*)
A.III.1. Shares in affiliated companies	%	EUR thousand	EUR thousand
<b>Companies resident in Germany</b>			
AmpegaGerling Asset Management GmbH (previously: Ampega Asset Management GmbH), Hannover <sup>1), 5)</sup>	100.00	5,400	26,027 **)
AmpegaGerling Investment GmbH (previously: GERLING INVESTMENT Kapitalanlagegesellschaft mbH), Cologne <sup>2), 5)</sup>	100.00	5,201	497
ASPECTA Lebensversicherung AG, Hamburg	100.00	42,243	8,286
ASPECTA Versicherung AG, Hamburg	100.00	5,351	-584
CiV Lebensversicherung AG, Hilden	100.00	33,315	16,561 **)
CiV Versicherung AG, Hilden	100.00	6,342	14,912 **)
E+S Rückversicherung AG, Hannover	38.01	442,281	22,000
GERLING Beteiligungs-GmbH, Cologne <sup>6)</sup>	100.00	1,100,466	46,731
GERLING FRIEDRICH WILHELM Rückversicherungs-AG, Cologne <sup>6)</sup>	100.00	39,619	112,667
Gerling Gesellschaft für IT-Dienstleistungen mbH, Cologne <sup>6)</sup>	97.74	307	205
Gerling Kundenservice Firmen und Privat GmbH, Cologne <sup>6)</sup>	95.48	25	1,457
GERLING Pensions-Management GmbH, Cologne	100.00	501	-229
Gerling Vertrieb Deutschland GmbH, Cologne <sup>6)</sup>	95.48	25	-633
Gerling Vertrieb Firmen und Privat AG, Cologne <sup>6)</sup>	96.84	55	-3,097
Gerling Vertrieb Makler Firmen und Privat GmbH, Cologne <sup>6)</sup>	95.48	246	146
Gerling Zentrale Verwaltungs-GmbH, Cologne <sup>6)</sup>	96.84	1,902	1,877
Gerling-Konzern Allgemeine Versicherungs-AG, Cologne <sup>6)</sup>	95.48	317,139	18,900
Hannover Rück Beteiligung Verwaltungs-GmbH, Hannover	50.22	2,465,000	92,285
Hannover Rückversicherung AG, Hannover	50,22	1.590.816	374.597

<sup>1)</sup>based on the companies' local individual financial statements

\*\*)/subject to a profit transfer agreement

<sup>1)</sup>merger of Gerling-Konzern Gesellschaft für Vermögens-Management mbH into Ampega Asset Management GmbH

<sup>2)</sup>merger of Ampega Investment AG into GERLING INVESTMENT Kapitalanlagegesellschaft mbH

<sup>3)</sup>merger of HDI Lebensversicherung AG into Gerling-Konzern Lebensversicherungs-AG

<sup>4)</sup>merger of HDI Pensionskasse AG into Gerling Pensionskasse AG

<sup>5)</sup>figures for capital and reserves and the result refer to 2005 annual financial statement of the acquiring company

<sup>6)</sup>figures for capital and reserves and the result refer to 2005 annual financial statement of the company before acquisition in 2006

Name and registered office of the company	Participation (current)	Capital and reserves 31.12.2005*)	Result for the 2005 financial year*)
A.III.1. Shares in affiliated companies	%	EUR thousand	EUR thousand
<b>Companies resident in Germany (continued)</b>			
HDI Industrie Versicherung AG, Hannover	100.00	169,990	22,165 **)
HDI Pensionsmanagement AG, Hilden	100.00	5,848	-16,392 **)
HDI Privat Versicherung AG, Hannover	100.00	161,000	38,462 **)
HDI Rechtsschutz Versicherung AG, Hannover	100.00	6,744	3,865 **)
HDI Service AG, Hannover	100.00	501	-394 **)
HDI Verwaltungs-Service GmbH (previously: HDI Verwaltungs-Service AG), Hannover	100.00	658,855	24,294 **)
HDI-Gerling International Holding AG (previously: HDI International Holding AG), Hannover	100.00	527,165	33,131 **)
HDI-Gerling Leben Serviceholding AG (previously: ASPECTA Global Group AG, Hamburg), Cologne	100.00	112,193	180,147 **)
HDI-Gerling Lebensversicherung AG (previously: Gerling-Konzern Lebensversicherungs-AG), Cologne <sup>3), 5)</sup>	100.00	179,599	30,000 **)
HDI-Gerling Pensionskasse AG (previously: Gerling Pensionskasse AG), Cologne <sup>4)</sup>	100.00	12,180	850
IVEC Institutional Venture and Equity Capital AG, Cologne <sup>6)</sup>	98.92	215,622	4,086
neue leben Lebensversicherung AG, Hamburg	67.50	47,531	8,000
neue leben Unfallversicherung AG, Hamburg	67.50	2,581	3,301
PB Lebensversicherung AG, Hilden	50.00	15,895	-1,810
Protection Reinsurance Intermediaries AG, Hannover	100.00	387	8,623
Zweite Hannover Rück Beteiligung Verwaltungs-GmbH, Hannover	50.22	379,996	-4
Zweite HDI Beteiligungsgesellschaft mbH, Hannover	100,00	658.836	23.748 **)

Name and registered office of the company	Participation (current)		Capital and reserves 31.12.2005*)		Result for the 2005 financial year*)
A.III.1. Shares in affiliated companies	%		Currency unit in thousand		
<b>Companies resident abroad</b>					
ASPECTA Assurance International AG, Vaduz/Liechtenstein	100.00	CHF	5,795	CHF	724
ASPECTA Assurance International Luxembourg S.A., Luxembourg/Luxembourg	100.00	EUR	10,026	EUR	10
E+S Reinsurance (Ireland) Ltd., Dublin/Ireland	50.22	EUR	153,559	EUR	6,572
Euro International Reinsurance S.A., Luxembourg/Luxembourg	100.00	EUR	10,026	EUR	—
Gerling America Insurance Company, New York/USA <sup>1)</sup>	95.48	USD	85,382	USD	3,328
Gerling Polska Towarzystwo Ubezpieczen na Zycie S.A., Warsaw/Poland <sup>1)</sup>	100.00	PLN	17,941	PLN	-8,608
Hannover Finance (Luxembourg) S.A., Luxembourg/Luxembourg	50.22	EUR	18,842	EUR	-19,089
Hannover Finance (UK) Ltd., Virginia Water/United Kingdom	50.22	GBP	111,084	GBP	-9
Hannover Finance Inc., Wilmington/USA	50.22	USD	683,778	USD	-63,685
Hannover Life Re of Australasia Ltd., Sydney/Australia	44.12	AUD	166,537	AUD	22,834
Hannover Life Reassurance (Ireland) Ltd., Dublin/Ireland	50.22	EUR	183,104	EUR	13,263
Hannover Life Reassurance (UK) Ltd., Virginia Water/United Kingdom	50.22	GBP	32,052	GBP	3,121
Hannover Life Reassurance Company of America, Orlando/USA	50.22	USD	113,145	USD	3,406
Hannover Re (Bermuda) Ltd., Hamilton/Bermuda	50.22	EUR	888,312	EUR	61,278
Hannover Re Real Estate Holdings, Inc., Orlando/USA	48.57	USD	131,776	USD	3,700
Hannover Reinsurance (Dublin) Ltd., Dublin/Ireland	50.22	EUR	234,083	EUR	29,554
Hannover Reinsurance (Ireland) Ltd., Dublin/Ireland	50.22	EUR	527,938	EUR	40,432
Hannover Reinsurance Group Africa (Pty) Ltd., Johannesburg/South Africa	50.22	ZAR	127,629	ZAR	24,450
HDI Asekuracja Towarzystwo Uberpieczen S.A., Warsaw/Poland	100.00	PLN	86,520	PLN	5,247
HDI Assicurazioni S.p.A., Rome/Italy	100.00	EUR	142,664	EUR	9,409
HDI HANNOVER International España, Cía de Seguros y Reaseguros S.A., Madrid/Spain	100.00	EUR	36,058	EUR	4,325
HDI Hannover Versicherung AG, Vienna/Austria	99.97	EUR	17,894	EUR	3,327
HDI Seguros S.A., São Paulo/Brazil	99.99	BRL	385,522	BRL	21,547
HDI Sigorta A.Ş., Istanbul/Turkey	99.99				acquired in 2006
HDI Verzekeringen N.V., Rotterdam/Netherlands	100.00	EUR	38,726	EUR	10,391
HDI-Gerling Polska Towarzystwo Ubezpieczen S.A. (previously: Gerling Polska Towarzystwo Ubezpieczen S.A.), Warsaw/Poland <sup>1)</sup>	95.48	PLN	47,079	PLN	5,247
International Insurance Company of Hannover Ltd., Bracknell/United Kingdom	50.22	GBP	74,669	GBP	1,328
Magyar Posta Biztosító Részvénytársaság, Budapest/Hungary	66.93	HUF	999,687	HUF	-397,500
Magyar Posta Életbiztosító Részvénytársaság, Budapest/Hungary	66.93	HUF	1,593,727	HUF	-312,110
Talanx Finanz (Luxemburg) S.A., Luxembourg/Luxembourg	99.95	EUR	5,475	EUR	177

<sup>\*)</sup>based on the companies' local individual financial statements

<sup>1)</sup>figures for capital and reserves and the result refer to 2005 annual accounts of the company before acquisition in 2006

**A.I.1. Franchises, trademarks, patents, licenses and similar rights**

An amount of EUR 240,000 was recognized for acquired software.

**A.III.1. Shares in affiliated companies**

The changes with respect to affiliated companies were influenced principally by the acquisition of the Gerling Group and the associated restructuring activities under company law.

Under an agreement dated 23 November 2005 100% of GERLING Beteiligungs-GmbH (GBG) and 5.01% of Gerling-Konzern Lebensversicherungs-AG (GKL) were acquired. The closing took place at midnight on 30 April 2006.

Under an agreement dated 7 July 2006 GBG then sold Gerling Leben Holding GmbH (GLH) to Talanx in exchange for the assumption of pension obligations. By means of the merger agreement dated 28 July 2006 GLH was subsequently merged into Talanx, the latter having the role of acquiring company. As a result, the subsidiaries of GLH, specifically Gerling-Konzern Gesellschaft für Vermögens-Management mbH and GKL, were transferred to Talanx. The merger was backdated with economic effect to 1 January 2006.

In addition, contributions to the capital reserve of ASPECTA Global Group AG (now: HDI-Gerling Leben Serviceholding AG) were made in this connection.

Talanx acquired all shares of HDI Service AG (SAG) from HDI Industrie Versicherung AG and from HDI Privat Versicherung AG. These companies were then transferred to SAG. Furthermore, HDI Rechtsschutz Versicherung AG and HDI-Gerling International Holding AG were sold by Talanx to SAG.

**A.III.2 Loans to affiliated companies**

This item consists of receivables from loans in an amount of EUR 550,000,000 in connection with the sale of participating interests to HDI Service AG as well as EUR 3,700,000 due from HBG Hannover Beteiligungsgesellschaft mbH & Co. KG, Hannover.

**A.III.3 Participating interests**

This amount includes the participation held in IGEPA Industrie- und Gewerbepark GmbH & Co. KG of EUR 41,426,000 – allowing for scheduled capital repayments – and the participations in Treuhandgesellschaft d. dt. Wertpapierbesitzes GmbH in an amount of EUR 14,000.

**B.I.1. Receivables from affiliated companies**

EUR thousand	31.12.2006	31.12.2005
	308.748	338.853

This item mainly comprises receivables from profit transfer agreements and receivables from regular business transactions.

### B.I.2. Other assets

EUR thousand	31.12.2006	31.12.2005
Other receivables	26,396	13,816

The other receivables consist mainly of receivables and claims due from various cooperation partners of the Talanx Group.

### C. Prepayments and accrued income

EUR thousand	31.12.2006	31.12.2005
	2,576	2,111

In addition to deferred administration costs, two debt discounts arising from the taking out of loans with Talanx Finanz (Luxemburg) S.A. and HDI-Gerling Lebensversicherung AG are carried here. The discounts are written back pro rata temporis.

### D. Probable tax relief in subsequent financial years in accordance with § 274 Para. 2 Commercial Code (HGB)

EUR thousand	31.12.2006	31.12.2005
	120,933	134,084

This item is established on the basis of the realistic assessment of the loss and loss expense reserves in the tax balance sheets of HDI Industrie Versicherung AG (IAG) and HDI Privat Versicherung AG (PAG). The probable tax relief was calculated on the difference between the tax balance sheet and the commercial balance sheet using a tax rate of 40%. IAG and PAG are in a group relationship with Talanx for the purposes of corporation and trade tax, and the differences between the commercial and tax balance sheets affect the parent company.

## Notes on the balance sheet – liabilities

### A.I. Subscribed capital

EUR thousand	31.12.2006	31.12.2005
Position at the beginning of the financial year	260,000	260,000
Capital increase	—	—
Position at the end of the financial year	260,000	260,000

The share capital consists of 260,000 no-par-value registered shares. HDI Haftpflichtverband der Deutschen Industrie Versicherungsverein auf Gegenseitigkeit, Hannover, holds 100% of the capital stock of our company.

### A.II. Capital reserve

EUR thousand	31.12.2006	31.12.2005
Position at the beginning of the financial year	629,529	629,529
Capital increase	—	—
Position at the end of the financial year	629,529	629,529

### A.III. Retained earnings

EUR thousand	31.12.2006	31.12.2005
Position at the beginning of the financial year	2,107,286	1,890,272
Allocation to other retained earnings	189,080	217,014
Position at the end of the financial year	2,296,366	2,107,286

### B.1. Provisions for pensions and similar obligations

EUR thousand	31.12.2006	31.12.2005
	443,964	3,837

Under an agreement dated 7 July 2006 Talanx AG assumed pension provisions of EUR 438,023,000 from GERLING Beteiligungs-GmbH.

### B.3. Other provisions

EUR thousand	31.12.2006	31.12.2005
Emoluments	788	650
Remuneration paid to the Supervisory Board	771	687
Bonuses	850	700
Consulting expenses	1,815	3,402
Cost of the annual costs	592	595
Other items	279	139
	5,095	6,173

The provision for consulting expenses consists principally of expenditures of EUR 1,700,000 connected with the Group restructuring.

### C.1. Debenture loans

The disclosure refers to a share in the bearer debenture issued in 2003 which is held by a company that no longer belongs to the consolidated group.

### C.2. Liabilities to banks

EUR thousand	31.12.2006	31.12.2005
	68.308	71.705

This item shows loans payable for the financing of shares acquired as well as obligations assumed as part of the merger with HOS and mortgage installments not charged off at year-end. The total amount does not include any liabilities with a remaining term of more than five years.

**C.3. Accounts due to affiliated companies**

EUR thousand	31.12.2006	31.12.2005
	1.217.291	989.926

Talanx issued a further internal bearer debenture within the Group in order to strengthen its liquidity. Bearer debentures carrying interest consistent with market rates were taken up by various Group companies. They were carried in an amount of EUR 641.0 million as at the balance sheet date.

On 10 February 2005 Talanx Finanz (Luxemburg) S.A. issued subordinated debt in an amount of EUR 350.0 million with a term of twenty years. Repayment is guaranteed by Talanx AG. The proceeds of the issue were made available to Talanx AG in the form of a loan. The loan, which was paid out in a ratio of 99.358%, has a coupon of 4.5625% and a term until 29 June 2015.

HDI-Gerling International Holding AG and Hannover Re (Bermuda) Ltd. each made short-term loans of EUR 50.0 million available to Talanx AG.

In addition, this item includes liabilities arising out of loss transfers from affiliated companies, short-term time money and accounts due under regular business transactions with subsidiaries.

**C.4. Other liabilities**

EUR thousand	31.12.2006	31.12.2005
	10,745	538

This item consists of balance sheet provision in connection with the handling of the acquisition of the Gerling companies.

## Notes on the profit and loss account

### 1. Income from participating interests

EUR thousand	31.12.2006	31.12.2005
Dividend payments made by affiliated companies		
Ampega Immobilien Management GmbH, Hannover	—	41
HNG Hannover National Grundstücksverwaltung GmbH & Co. KG, Hannover	—	2,000
Hannover Rückversicherung AG, Hannover	—	13,720
neue leben Holding AG, Hamburg	3,179	3,000
	<b>3,179</b>	<b>18,761</b>
Dividend paid by IGEPA	369	204
	<b>3,548</b>	<b>18,965</b>

### 2. Other operating income

EUR thousand	31.12.2006	31.12.2005
	95.983	76.262

This item consists primarily of income from the disposal of shares in the following affiliated companies: AmpegaGerling Investment GmbH, HDI-Gerling International Holding AG, HDI-Gerling Lebensversicherung AG, HDI Rechtsschutz Versicherung AG, Alstertor Zweite Beteiligungs- und Investitionssteuerungs-GmbH & Co. KG.

### 3. Personnel expenses

EUR thousand	31.12.2006	31.12.2005
	7.336	6.261

This item shows remuneration paid to the Board of Management and salaries in the amount of EUR 6,337,000, pension payments to a former member of the Board of Management totaling EUR 39,000, the allocation of EUR 62,000 to the pension provision, indemnity claims of EUR 30,000 as well as social security, pension and other benefit costs of EUR 868,000.

### 4. Depreciation and amortization costs and other write-offs on intangible assets and plant and equipment

EUR thousand	31.12.2006	31.12.2005
	555	979

## 5. Other operating expenses

EUR thousand	31.12.2006	31.12.2005
Remuneration paid to the Supervisory Board	807	720
HDI service charge	1,227	792
Travel expenses	569	475
Auditing and consulting expenses	15,772	8,335
Other intra-group services	1,003	746
Advertising expenses	4,988	6,078
Other expenditure	2,982	3,968
	<b>27,348</b>	<b>21,114</b>

The advertising expenses derive mainly from the image campaign. The bulk of the consulting expenses are connected with the integration of the operational companies of the Gerling Group.

## 6. Income from other long-term securities and loans

EUR thousand	31.12.2006	31.12.2005
	656	2,530

The amount shown includes EUR 478,000 attributable to interest charged on profit-sharing accounts receivable issued by HDI Industrie Versicherung AG. This item also includes interest income on loans extended to affiliated companies.

## 7. Other interest and similar income

EUR thousand	31.12.2006	31.12.2005
	11,262	25,391

This item primarily consists of interest income on overnight and time money as well as on cash in banks.

## 8. Interest and similar expenses

EUR thousand	31.12.2006	31.12.2005
	121,468	56,075

The amount carried refers to interest paid on loans as well as interest expenditures incurred in connection with the debt placed with various Group companies in the 2003 and 2006 financial years, interest expenditures from the loan extended by Talanx Finanz (Luxemburg) S.A., interest connected with the acquisition of the Gerling companies, interest from the compounding of pensions and commitment interest.

The interest expenditures resulting from the assumption of pension obligations are also recognized here.

#### 9. Income from profit transfer agreements

EUR thousand	31.12.2006	31.12.2005
	296,105	392,490

The income reported here derives from the companies listed under "Major agreements" with which profit transfer agreements have been concluded, with the exception of the loss transfers specified under Item 10.

#### 10. Expenses from loss transfers

EUR thousand	31.12.2006	31.12.2005
	13.336	19.325

The losses assumed by our company under profit transfer agreements are recognized here.

#### 12. Extraordinary expenses

EUR thousand	31.12.2006	31.12.2005
	42.561	3.000

Gerling Leben Holding GmbH, Cologne, was merged into Talanx in the financial year. The resulting merger loss produced the aforementioned extraordinary expenses in the year under review.

#### 13. Taxes on profit and income

EUR thousand	31.12.2006	31.12.2005
	38.622	30.722

This item consists primarily of income tax for the financial year. It is charged solely against the profit on ordinary activities. The increase in tax expenditure resulting from the reduction in the deferred item for probable tax relief in subsequent financial years is included in an amount of EUR 13.2 million.

## Further information

### Stockholder

All shares of the company are held by HDI Haftpflichtverband der Deutschen Industrie Versicherungsverein auf Gegenseitigkeit, Hannover, as the sole stockholder.

### Major agreements

Controlling and profit transfer agreements were concluded between Talanx and

- HDI-Gerling Leben Serviceholding AG (previously: ASPECTA Global Group AG) on 14 June 2001
- CiV Lebensversicherung AG on 22 October 2001, renewed on 20 June 2005 (effective 1 January 2006)
- CiV Versicherung AG on 22 October 2001, renewed on 20 June 2005 (effective 1 January 2006)
- HDI Verwaltungs-Service GmbH (previously: HDI Verwaltungs-Service AG) on 28 October 2002
- Zweite HDI Beteiligungsgesellschaft mbH on 28 October 2002
- Protection Reinsurance Intermediaries AG on 27 June 2003
- HDI Service AG on 27 November 2003 (effective 1 January 2004)
- AmpegaGerling Asset Management GmbH (previously: Ampega Asset Management GmbH) on 26 February 2004
- GERLING Beteiligungs-GmbH on 28 June 2006
- Partner Office AG on 30 November 2006

As a consequence of the merger of Gerling Leben Holding GmbH into Talanx AG, Talanx AG – as the legal successor – entered into the controlling and profit transfer agreements of Gerling Leben Holding GmbH with GERLING Pensionsmanagement GmbH and GEREON Forderungsmanagement GmbH, each dated 16 February 2006. The controlling and profit transfer agreements were rescinded effective 31 December 2006.

In addition, Talanx has concluded controlling and profit transfer agreements effective 26 November 1998 with PB Versicherung AG and PB Lebensversicherung AG through a civil-law corporation in which Talanx AG and Deutsche Postbank AG hold equal shares.

The controlling and profit transfer agreements with AmpegaGerling Immobilien Management GmbH, HDI Industrie Versicherung AG, HDI International Holding AG (now: HDI-Gerling International Holding AG), HDI Pensionsmanagement AG, HDI Privat Versicherung AG and HDI Rechtsschutz Versicherung AG were rescinded with effect from the end of the 2006 financial year.

A cooperation agreement has existed with Magyar Posta Rt. since 17 April 2002 in order to be able to offer life and property insurance products to its customers through Hungarian joint ventures (subsidiaries of Talanx AG).

A framework agreement for cooperations on foreign markets in the bancassurance sector was concluded with Citibank on 22 December 2006 and agreement was reached on cooperation in Russia and Turkey.

## Employees

	2006	2005
Full-time	46	48
Part-time	2	1
<b>Total</b>	<b>48</b>	<b>49</b>

## Board and officers

The names of the members of the Supervisory Board and the Board of Management are listed on pages 4 and 5 of this report.

## Remuneration paid to executive bodies of the company

The total remuneration paid to members of the Board of Management amounted to EUR 1,931,000; this included an amount of EUR 432,000 relating to the previous year. The remuneration paid to members of the Supervisory Board totaled EUR 807,000. The remuneration paid to former members of the Board of Management and their surviving dependants totaled EUR 993,000. An amount of EUR 486,000 was set aside for pension commitments to former members of the Board of Management and their surviving dependants.

## Other financial obligations

Talanx AG has given the holders of the subordinated debt issued by its subsidiary Talanx Finanz (Luxemburg) S.A. in February 2005 in the amount of EUR 350.0 million a subordinated guarantee regarding payment of the amounts due in connection with the debt, such as interest and repayments. The debt has a term of 20 years. The funds totaling EUR 350.0 million raised through issuance of the debt were made available to Talanx AG by Talanx Finanz (Luxemburg) S.A. in the form of a loan. The loan is recognized in the balance sheet under the item "Accounts due to affiliated companies".

Through an assumption of debt effective 19 July 2006 Talanx AG took over – in the context of the acquisition of the shares in Gerling Leben Holding GmbH – the pension obligations of its subsidiary GERLING Beteiligungs-GmbH to the companies of the Gerling Group subject to the proviso that Talanx AG is responsible solely for fulfillment of the pension commitments within the internal relationship. As the legal successor of Gerling Leben Holding GmbH, Talanx AG shall be responsible for any shortfalls of Gerling-Versorgungskasse.

Talanx AG has also put up guarantees for the uncalled portions of capital increases at the subsidiaries CiV Lebensversicherung AG (EUR 59.0 million) and CiV Versicherung AG (EUR 8.9 million).

In addition, potential call commitments exist on shares that have not been fully paid of CiV Lebensversicherung AG (EUR 71.3 million), CiV Versicherung AG (EUR 13.5 million), PB Lebensversicherung AG (EUR 6.1 million), HDI Pensionsmanagement AG (EUR 6.0 million), PB Versicherung AG (EUR 1.5 million) and Protection Reinsurance Intermediaries AG (EUR 0.7 million).

In a transfer agreement regarding interests in HDI Reinsurance (Ireland) Ltd. concluded with our subsidiary Hannover Rückversicherung AG on 30 June 2003, our company committed itself to compensatory measures in the event that the business of HDI Reinsurance (Ireland) Ltd. existing on the transfer date does not correspond to the assumptions upon which valuation was based.

Talanx AG has made an establishment fund of EUR 3.3 million available to HDI Pensionskasse AG through HDI-Gerling Leben Serviceholding AG (previously: ASPECTA Global Group AG). For the first seven years – commencing with the 2002 financial year in which the license to conduct business operations was granted – we have undertaken to reimburse amounts required to offset an incurred loss for the year not covered by withdrawals from the establishment fund.

#### Consolidated financial statements

The company is an affiliated company of HDI Haftpflichtverband der Deutschen Industrie Versicherungsverein auf Gegenseitigkeit. As the parent company, HDI compiles consolidated financial statements in accordance with Section 341 i Commercial Code (HGB), in which the company is also included. The consolidated financial statements are published in the electronic Federal Register. Talanx also compiles its own consolidated financial statements in accordance with IFRS on a voluntary basis.

Hannover, 11 April 2007

Talanx Aktiengesellschaft

Board of Management

Haas	Dettmer	Dr. Hinsch	Kox
Dr. Löffler	Ploemacher	Dr. Querner	Zeller

## Certification by the Independent Auditors

We have audited the original German financial statements – consisting of the balance sheet, profit and loss account and notes –, including the accounting and the management report of Talanx Aktiengesellschaft, Hannover, for the financial year from 1 January to 31 December 2006. The accounting and the preparation of these annual financial statements and the management report in accordance with the provisions of German commercial law and the additional requirements of the Articles of Association are the responsibility of the company's Board of Management. Our responsibility is to express an opinion on these annual financial statements, including the accounting, and on the management report on the basis of our audit.

We conducted our audit of the annual financial statements in accordance with § 317 of the German Commercial Code (HGB) and in compliance with the generally accepted auditing standards set out by the Institut der Wirtschaftsprüfer (IDW = German Institute of Certified Public Accountants). These standards require that we plan and perform the audit in such a way as to identify with reasonable assurance inaccuracies and misstatements which significantly impact the view of the assets, financial position and net income given by the annual financial statements in compliance with generally accepted accounting principles and by the management report. The determination of auditing procedures makes allowance for knowledge of the business activity and of the economic and legal environment of the company as well as the expectations of possible errors. Within the scope of the audit, the efficiency of the accounting-related internal controlling system as well as the evidence supporting the figures in the accounting, annual financial statements and management report are evaluated largely on the basis of random tests. The audit also includes assessing the accounting principles used and the significant estimates made by the Board of Management, as well as evaluating the overall presentation of the annual financial statements and the management report. We believe that our audit provides a sound basis for our opinion.

Our audit gave rise to no objections.

In our assessment based on the insights gained from the audit, the annual financial statements comply with statutory requirements and the additional provisions of the Articles of Association and give a true and fair view of the assets, liabilities, financial position and net income of Talanx Aktiengesellschaft in accordance with generally accepted accounting principles. The management report is in keeping with the annual financial statements, correctly represents the company's overall state of affairs and accurately reflects the opportunities and risks associated with its future development.

Hannover, 30 April 2007

KPMG Deutsche Treuhand-Gesellschaft  
Aktiengesellschaft  
Wirtschaftsprüfungsgesellschaft

Prof. Dr. Geib  
Auditor

Dr. Dahl  
Auditor

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**talanx.**