



Annual Report 2007 Talanx AG

talanx.

Talanx AG at a glance

	2007	2006	2005	2004	2003
Figures in EUR thousand					
Income from participating interests	431,789	286,317	392,130	199,591	203,291
Net interest income	-48,510	-109,550	-28,154	-10,950	-17,664
Other operating income	161,507	95,983	76,262	34,353	29,910
Other operating expenditure	96,101	35,239	28,354	36,361	17,895
Profit or loss on ordinary activities before tax	448,685	237,511	411,884	186,633	197,642
Extraordinary profit or loss	4,908	-42,561	-3,000	—	—
Tax expenditure	210,569	38,739	30,724	54,698	19,937
Profit or loss for the financial year	243,024	156,211	378,160	131,935	177,705
Allocation to other retained earnings	—	—	189,080	—	—
Disposable profit	243,024	156,211	189,080	131,935	177,705
Financial assets	5,439,715	4,623,900	2,979,164	2,958,967	3,382,022
Capital and reserves					
Subscribed capital	260,000	260,000	260,000	260,000	260,000
Capital reserve	629,529	629,529	629,529	629,529	629,529
Retained earnings	2,452,576	2,296,366	2,107,286	1,890,272	1,757,567
Disposable profit	243,024	156,211	189,080	131,935	177,705
Total	3,585,129	3,342,106	3,185,895	2,911,736	2,824,801
Borrowed funds with a term in excess of 1 year	1,717,440	1,072,182	967,151	695,547	698,742

For mathematical reasons rounding differences of ± one unit may occur in the tables.

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Report of 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 2007 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 two extraordinary meetings of the Supervisory Board. As in the previous year, the Federal Financial Supervisory Authority (BaFin) exercised its legal powers and sent two representatives to attend one of these meetings. The committees formed by the Supervisory Board in accordance with § 107 Para. 3 German Stock Corporation Act (AktG), namely the Finance and Audit Committee and the Personnel Committee, met on three and two occasions respectively. The Mediation Committee prescribed under the Co-Determination Act again had no reason to meet in 2007. 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 in the 2007 financial year. 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. All in all, within the scope of our legal responsibilities and those prescribed by the Articles of Association we assured ourselves of the lawfulness, expediency, regularity and efficiency of the actions of the Board of Management.

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

In the year under review compliance units were set up at Talanx AG and its major subsidiaries; they draw up guidelines for the lawfulness of corporate actions and monitor their observance.

Key areas of discussion

The business development of the company and the individual Group segments, the planning for 2008 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 further focus of our deliberations was on the integration of the group of Gerling primary insurance companies, in particular – following the squeeze-out of the minority shareholders of Gerling-Konzern Allgemeine Versicherungs-AG in May 2007 – of the Gerling non-life insurers, into the Talanx Group. In this regard we received reports on the status of measures taken under company law as well as negotiations over a settlement of interests and social compensation plan, and we adopted the resolutions necessary for attainment of the target structure. In addition, the new strategy developed for the Talanx Group was presented to us and we were updated on preparations for a possible Initial Public Offering of Talanx AG.

The extension of the sales cooperation with Postbank and the associated corporate acquisitions were explored in detail at two meetings. The discussion and the adoption of a resolution in this context took place without Dr. Petram, thereby preempting from the outset any possible conflicts of interest in view of his seats on the Executive Board of Deutsche Post AG and the Supervisory Board of Deutsche Postbank AG. Following completion of the corporate acquisitions we endorsed the newly developed holding structure for the bancassurance division, approved the related transfer transactions and took due note of the considerations relating to the personnel make-up of the holding company's Board of Management.

Along with preparations for discussion and adoption of resolutions in the full Supervisory Board, the Finance and Audit Committee of the Supervisory Board considered the company's quarterly financial statements compiled on a voluntary basis as well as the acquisition of an insurance company in Ukraine and the establishment of two insurance companies in Croatia. The Finance and 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 2006.

Furthermore, at two extraordinary meetings the Supervisory Board explored acquisition and cooperation projects in Italy which were intended to promote expansion of bancassurance activities in Europe.

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.

Corporate Governance

The Supervisory Board devoted special attention to the issue of Corporate Governance. It adopted new Rules of Procedure for the Board of Management and the Supervisory Board that reflect the development of good and responsible enterprise management and supervision. In addition to greater involvement of the Board of Management and Supervisory Board in personnel decisions within the Group and modification of the approval requirements, a Nomination Committee was formed on the level of the Supervisory Board. Along with the Chairman of the Supervisory Board, the members of the Nomination Committee are Dr. Lindner and Dr. Rogowski (on the composition and function of the committees cf. page 6 of the Annual Report). The committee met for the first time in April 2008 and in this context recommended suitable candidates to the Supervisory Board; the latter will propose these candidates to the 2008 Annual General Meeting for election to the Supervisory Board.

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, Wirtschaftsprüfungsgesellschaft, Hannover. The full Supervisory Board selected the auditor and the Finance and Audit Committee awarded the concrete audit mandate. In addition to the usual audit tasks, the audit focused particularly on the fair value disclosures/recognition of goodwill as well as on the adequacy of the provisions for pensions.

The audits conducted by the auditors 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 examined in detail at a meeting of the Finance and Audit Committee on 17 June 2008 and at a meeting of the Supervisory Board on 18 June 2008. The auditor took part in the deliberations of the Finance and Audit Committee and 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, the corresponding management reports and the audit reports, we concurred with the opinion of the auditors 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 statements made in the management reports regarding the further development of the company. After examination of all relevant considerations we agree with the Board of Management's proposal for the appropriation 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, Wirtschaftsprüfungsgesellschaft, 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

In light of the significantly enlarged investment volume in the Group's AmpegaGerling segment and the more exacting challenges facing asset management activities, Mr. Harry Ploemacher left the Board of Management of Talanx AG on 31 December 2007 by mutual agreement. Mr. Ploemacher continues to serve as Managing Director of AmpegaGerling Asset Management GmbH and as Chairman of the Supervisory Boards of AmpegaGerling Investment GmbH and AmpegaGerling Immobilien Management GmbH.

The Supervisory Board expressed its thanks and appreciation to Mr. Ploemacher for his work on the Board of Management of Talanx AG. With effect from 1 January 2008 Dr. Immo Querner – in addition to his previous functions – has been the responsible member of the Board of Management of Talanx AG in charge of the Financial Services business segment.

Furthermore, the Supervisory Board and Mr. Dettmer agreed not to continue their cooperation in view of their differing views on the strategic business policy. Mr. Dettmer's mandate and contract of service were therefore terminated by mutual agreement. The Supervisory Board expressed its thanks and appreciation to Mr. Dettmer for his work on the Board of Management of Talanx AG. Effective 1 June 2008 Dr. Thomas Noth was appointed as a member of the Board of Management of Talanx AG. His area of competence and the general schedule of responsibilities within the Board of Management are set out on page 7 of the Annual Report.

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 once again notable for its special challenges. Their contributions were vital to the gratifying development of results.

Hannover, 18 June 2008

For the Supervisory Board

Wolf-Dieter Baumgartl
(Chairman)

Boards and officers

Supervisory Board

Wolf-Dieter Baumgartl

Former Chairman of the Board of Management of Talanx AG, Berg
Chairman



Johannes Funck

Employee, HDI Direkt Versicherung AG, Mülheim
Deputy Chairman



Prof. Dr. Eckhard Rohkamm

Former CEO of ThyssenKrupp Technologies AG, Hamburg
Deputy Chairman



Reinhard Faßhauer

(since 01.03.2008)
Senior executive, HDI-Gerling Sach Serviceholding AG, Langenhagen



Götz Hartmann

(until 29.02.2008)
Senior executive, Talanx AG, Gehrden



Gerald Herrmann

Trade union secretary, Norderstedt



Dr. Thomas Lindner

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



Otto Müller

Employee, Hannover Rückversicherung AG, Hannover



Rudolf Müller

Employee, Gerling Kundenservice Firmen und Privat GmbH, Leverkusen



Dr. Hans-Dieter Petram

Former Member of the Executive Board of Deutsche Post AG, Bonn



Ralf Rieger

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



Dr. Michael Rogowski

Chairman of the Supervisory Board of Voith AG, Heidenheim



Dr. Erhard Schipporeit

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



Barbara Schulze

Employee, HDI-Gerling Industrie Versicherung AG, Bochum



Jürgen Stachan

Trade union secretary, Sarstedt



Bodo Uebber

Member of the Board of Management of Daimler AG, Stuttgart



Eggert Voscherau

Former Deputy Chairman of the Executive Board of BASF SE, Ludwigshafen



Supervisory Board Committees*

Finance and Audit Committee

Wolf-Dieter Baumgartl
Chairman



Johannes Funck



Dr. Thomas Lindner



Prof. Dr. Eckhard Rohkamm



Dr. Erhard Schipporeit



Personnel Committee

Wolf-Dieter Baumgartl
Chairman



Reinhard Faßhauer



Prof. Dr. Eckhard Rohkamm



Mediation Committee

Wolf-Dieter Baumgartl
Chairman



Johannes Funck



Prof. Dr. Eckhard Rohkamm



Barbara Schulze



Nomination Committee

Wolf-Dieter Baumgartl
Chairman



Dr. Thomas Lindner



Dr. Michael Rogowski



*Current members

The Supervisory Board has formed four committees from among its ranks. They support the full Supervisory Board in the performance of its tasks

Tasks of the committees

Finance and Audit Committee

- Preparation of financial decisions for the full Supervisory Board
- Decisions in lieu of the full Supervisory Board on certain financial matters, including the establishment of companies, acquisition of participations and capital increases at subsidiaries within defined value limits

Personnel Committee

- Preparation of personnel matters for the full Supervisory Board
- Decisions in lieu of the full Supervisory Board on certain personnel matters such as the content of service contracts with Board members

Mediation Committee

- Proposal for the appointment of a Board member if the necessary two-thirds majority is not achieved in the first ballot (§ 31 Para. 3 Co-Determination Act)

Nomination Committee

- Proposal of suitable candidates for the Supervisory Board's nominations to the General Meeting

Board of Management

	Current mandate in the Talanx Group	Responsible on the Talanx Board of Management for
Herbert K. Haas <i>Chairman</i>	Chairman of the Board of Management HDI Haftpflichtverband der Deutschen Industrie V.a.G., Hannover	<ul style="list-style-type: none"> ■ <i>Investor Relations</i> ■ <i>Human Resources</i> ■ <i>Public Relations</i> ■ <i>Legal Affairs/Executive Staff Functions</i> ■ <i>Internal Auditing</i> ■ <i>Corporate Development</i>
Werner Dettmer (until 21.04.2008)	—	—
Dr. Christian Hinsch	Member of the Board of Management HDI Haftpflichtverband der Deutschen Industrie V.a.G. Chairman of the Board of Management HDI-Gerling Sach Serviceholding AG, Hannover	<ul style="list-style-type: none"> ■ <i>Domestic and Foreign Property/Casualty Primary Insurance segment</i>
Norbert Kox	Chairman of the Board of Management Proactiv Holding AG, Hilden	<ul style="list-style-type: none"> ■ <i>Domestic and Foreign Bancassurance Division</i>
Dr. Hans Löffler	Chairman of the Board of Management HDI-Gerling Leben Serviceholding AG, Cologne	<ul style="list-style-type: none"> ■ <i>Domestic and Foreign Life Insurance Division</i>
Dr. Thomas Noth (from 01.06.2008)	Member of the Board of Management HDI-Gerling Sach Serviceholding AG, Hannover	<ul style="list-style-type: none"> ■ <i>Information Technology</i>
Harry Ploemacher (until 31.12.2007)	Chairman of the Executive Board of AmpegaGerling Asset Management GmbH, Cologne	—
Dr. Immo Querner	Member of the Board of Management HDI Haftpflichtverband der Deutschen Industrie V.a.G., Hannover	<ul style="list-style-type: none"> ■ <i>Finance/Participating Interests</i> ■ <i>Financial Services segment</i> ■ <i>Real Estate</i> ■ <i>Planning and Controlling</i> ■ <i>Quantitative Risk Management</i> ■ <i>Accounting/Taxes</i>
Wilhelm Zeller	Chairman of the Executive Board Hannover Rückversicherung AG, Hannover	<ul style="list-style-type: none"> ■ <i>Reinsurance segment</i>

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 Group. The Board of Management of Talanx AG defines the basic strategy of the Group in consultation with the Supervisory Board and decides on business-policy objectives. It also sets out guidelines for situations and circumstances in which a consistent Group-wide approach is desirable or necessary. At the same time Talanx AG is charged with optimizing the equity and debt capital of the Group as a whole. In its management of the Group it relies upon the tried-and-tested organizational principle of recent years: as locally as possible, as centrally as necessary. In this way the individual segments are best able to make the most of their growth opportunities. In this context the overriding maxim is always: growth only in strict compliance with profit targets and risk limits.

The Talanx Group is a group that operates with multiple brands. In this way it is able to optimally cater to the needs of different customer groups, regions and cooperation partners. New companies can also be integrated efficiently into the Group. What is more, this structure promotes a highly developed capacity for cooperation, which can be geared to a broad variety of partners and business models.

Macroeconomic environment and industry-specific conditions

Macroeconomic developments

The global economic upturn gathered further impetus in 2007. The growth rate of 5.2% was similar to that of the previous year, once again driven principally by dynamic expansion in emerging markets and the Eurozone. Even the crisis on financial markets that began to set in during the second half

of the year had no significant impact. In the United States, on the other hand, there can be no mistaking the initial softening tendencies: after the economy had picked up modestly in the first half-year, growth was curtailed by the incipient sub-prime crisis. The resulting repercussions for the financial and capital markets took their toll on growth as the year progressed. Consumer prices rose considerably more sharply than in the previous year on an annual average. The core inflation rate of 2.4% was also in excess of the 2% target envisaged by the Federal Reserve Board. The favorable movement on the labor market slowed somewhat, and the increase of slightly more than 2% in gross domestic product failed to live up to potential.

The gratifying cyclical trend in Europe pushed the aggregate gross domestic product up by 2.6%, hence cementing the positive growth already recorded in the previous year. Considerable differences were observed between the individual member states: a modest upturn in France, Italy and Portugal contrasted with sharply higher growth rates in Finland, Greece, Austria and Spain. In Germany, too, the largest national economy in the Eurozone, business activity built on the positive tone of the previous year. The labor market also profited from the favorable mood, as reflected in a slightly lower unemployment rate of 7.4% across Europe. EU-wide harmonized consumer prices were still higher than the target level set by the European Central Bank.

Capital markets

Against the backdrop of rising inflation expectations and positive growth prospects in the Eurozone, the yield on 10-year German federal government bonds climbed from 3.95% to 4.65% in the first half of the year. As the effects of the US real estate crisis began to spill over to the European financial sector too, fears were quickly awakened of darker clouds looming on the Eurozone growth horizon. The market for government bonds was considered a safe haven. The yield on 10-year German federal government bonds stood at 4.31% as at year-end.

The US bond market was driven by rising inflation expectations and a slackening in economic growth during the first half of the year. The yield on 10-year US treasury bonds had increased from 4.70% to 5.23% by the beginning of June. After the Federal Reserve moved in September – citing growth risks – to initiate a cycle of interest rate cuts and reduced key rates by one percentage point to 4.25% by the end of the year, US yields began to rally. The yield on treasury bonds stood at 4.02% as at year-end.

Movements on stock markets varied in 2007. The Dow Jones EURO STOXX50 closed the year just a shade higher than at the end of the previous year. The German DAX index, on the other hand, built on the good performance of prior years with a gain of 22.3%. In the United Kingdom the FTSE 100 put on 3.8%, hence outperforming most other European indices. The Dow Jones in the United States closed the year 6.4% higher, while the Japanese Nikkei 225 index slipped 11.1%. The mood on equity markets in the first half of the year was driven by strong liquidity, healthy corporate profits and a vigorous wave of mergers and acquisitions. Many stock indices had consequently soared to new record highs by the middle of July. From August onwards the subprime crisis prompted a reassessment of risks. An increasingly risk-averse stance on the part of investors led to a flight to safety and increased selling pressure on equities. Towards the end of the year equity markets began to rally again.

Insurance industry

The improved state of the economy failed to generate any growth impetus for the German insurance industry. The insurers that are members of the German Insurance Association (GDV) reported premium growth of 0.8% for the full 2007 financial year (previous year: 2.5%). While life insurers booked a modest increase (0.6%), property and casualty insurers recorded further slight premium erosion (–0.4%). Private health insurance generated the most appreciable premium growth. Industry-specific effects such as fierce competition and the implications of political reforms were not the only

factors to curtail premium growth. Continued uncertainty – despite falling jobless figures – is still reflected in marked caution among some sections of the population when it comes to long-term decisions affecting retirement provision. As a further factor, it is always the case that an improved economic climate can only be expected to deliver impetus to the insurance industry after a certain time lag.

In **life insurance** the trend in favor of policies with a long-term orientation towards individual old-age provision was sustained: retirement products offering payment in the form of an annuity accounted for the bulk of new business – at around 52% – in 2007; the so-called Riester pension, in particular, built on its success of the previous year. The number of new policies taken out in life insurance – in the stricter sense of the term – declined slightly by 5%; the total premiums of EUR 78.9 billion were marginally higher than in the previous year (EUR 78.5 billion).

In **property and casualty insurance** the business prospects in 2007 were, if anything, less promising. This can be attributed to a contraction in premium income (–0.4%) against the backdrop of a simultaneous rise of around 8% in claim payments. This reflects first and foremost the severe winter storm “Kyrill” in January 2007, which led to total compensation payments of some EUR 2.4 billion for insured customers as well as 2.4 million individual claims settled. In terms of absolute costs, therefore, “Kyrill” was the most expensive single event in the history of the German insurance industry. The development of premium income was crucially shaped by motor insurance, the largest non-life line measured by volume. Premium income in motor business continued to contract by around 2%; the result just broke even despite higher claims expenditure. The volume trend in property and casualty insurance was also adversely impacted by property insurance, which saw a premium decline of 0.3%. Minimal premium increases (1% each) were booked in general third liability, personal accident and marine insurance, while legal protection insurance generated stronger premium growth of 2.5%.

The results recorded by **reinsurance companies** are greatly dependent on the major claims and natural catastrophe losses incurred in a particular year. Overall, although very large losses were relatively few and far between in 2007, the numerous natural disasters had significantly more serious consequences than in 2006; yet their impact was far removed from that of the record year in 2005. Insurers counted altogether 950 natural disasters in 2007 – the highest number since systematic records began to be kept in 1974.

Overview of the business development

Despite the rather difficult market conditions described above, the profit on ordinary activities and the profit for the year reported by Talanx AG in the 2007 financial year comfortably exceeded the previous year's figures. All business segments – and especially Reinsurance – played a part in this good performance. The acquisition of BHW Lebensversicherung and BHW Pensionskasse as well as the remaining 50% interests in the PB insurers previously held by Postbank brought the sought-after more balanced structure of the Talanx business segments a step closer. New companies established in Turkey and Russia, which will commence active business operations in 2008, are set to further strengthen the Life Primary Insurance segment.

Net income, financial position and assets

Net income

The profit on ordinary activities climbed by 89% to EUR 449 (238) million. The main factor here was sharply higher income from participating interests (EUR 133 million as against EUR 4 million in the previous year). This increase was driven principally by the dividend of EUR 1.60 per share paid by Hannover Re, equivalent to a total of EUR 97 million. No dividend had been paid in 2006. The income from participating interests also included an amount of EUR 21 million from Gerling Beteiligungs-GmbH and a dividend of EUR 6 million paid by PB Lebensversicherung AG due to repayment of the establishment fund that was not needed.

In the primary insurance segments Talanx now operates with intermediate holding companies under which the various operational companies are grouped together. Within the HDI-Gerling non-life group, therefore, the profits of the individual companies are now transferred by HDI-Gerling Sach Serviceholding AG (renamed from: HDI Service AG). In the fall of 2007 Gerling-Konzern Allgemeine Versicherungs-AG (GKA) was merged into HDI-Gerling Industrie Versicherung AG and partial portfolios were transferred to the various restructured HDI-Gerling companies. The business experience prompted the release of claims equalization reserves: the profit transfer from HDI-Gerling Sach Serviceholding in amount of EUR 146 million (previous year not comparable) accounted for almost half the total profit transfers (EUR 301 million).

The intermediate holding company Proactiv Vermögensverwaltungs-AG – now trading as Proactiv Holding AG – was newly established to oversee the Bancassurance Division. The transfer of the domestic CiV and PB insurers to this intermediate holding company explains the growth in other operating income, which amounted to altogether EUR 162 (96) million. The other operating expenses increased from EUR 27 million to EUR 84 million, primarily reflecting losses (EUR 52 million) associated with the fact that the amount recognized for the transfer of Neue Leben Holding AG was below book value.

Interest expenditure, which was lower overall than in the previous year, was influenced in particular by the interest allocation to the provision for pensions (EUR 26 million) and – in an amount of EUR 7 million – by recourse to a line of credit for purchase of the BHW and PB interests.

Whereas an extraordinary expense had been incurred in 2006 due to the merger with Gerling Leben Holding, extraordinary income of EUR 5 million was booked in 2007 due to the spin-off of GKA. Expenses for taxes on income rose disproportionately sharply from EUR 39 million to EUR 211 million. In addition to the charge resulting from the allocation to the provision for audit risks (EUR 45 million), this can be attributed in particular to the revaluation of deferred tax assets due to the reduction of tax rates brought about by the 2008 corporate tax reform (EUR 33 million).

The profit for the year and hence the disposable profit amounted to EUR 243 (156) million, an increase of 56% compared to the previous year.

Financial position

The liquidity needed to meet current payment obligations is ensured by means of ongoing cash planning. This cash planning is performed by the accounting department at least once a month, and at shorter intervals if required.

The company's inflow of funds derives principally from profit transfer agreements with affiliated companies, dividend income and interest income on loans. As part of the cash planning the anticipated cash flows from profit transfers are regularly reconciled with Group Controlling within the scope of constantly updated budget accounting.

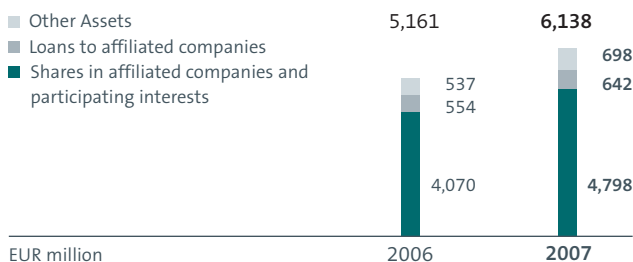
The company has to spend funds, on the other hand, principally for debt servicing on liabilities. On account of its status as a holding company activities relating to the acquisition or disposal of enterprises may give rise to short-term cash outflows or inflows. Lines of credit have already been secured and are available to the company at short notice if required. The total amount of these callable lines of credit was EUR 950 million as at the balance sheet date.

Assets

The balance sheet of Talanx AG continues to be shaped by its function as a holding company. Total assets grew by 19% to EUR 6.1 billion.

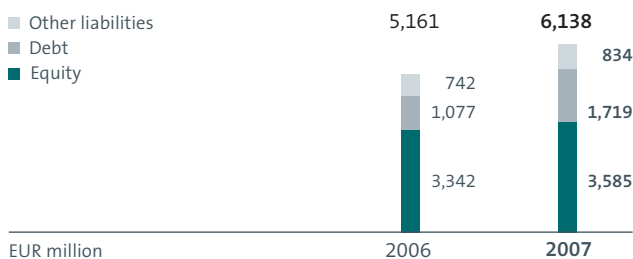
On the assets side of the balance sheet this increase derived very largely from additions relating to shares in affiliated companies, which rose from EUR 4.0 billion to EUR 4.8 billion as a consequence of acquisitions (BHW companies and 50% interests in the PB insurers) and new establishments (CIV companies in Russia and Turkey). The level of cash in banks was substantially in excess of the previous year's level and includes inter alia the profit that was not distributed in the previous year.

Assets



On the liabilities side of the balance sheet the most notable increase was in liabilities to banks, since the purchase of the PB interests and BHW companies was financed through a loan. For this purpose an amount of EUR 550 million was called on a line of credit of altogether EUR 1.5 billion.

Liabilities



The equity ratio stood at 58.4 (64.8) %.

Development of the major participations

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 243,024 thousand.

The following section describes the development and 2007 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 income from participating interests and profit/loss transfers from the individual companies. The key figures of the domestic companies are determined in accordance with the German Commercial Code (HGB); HDI-Gerling International Holding presents its foreign subsidiaries in accordance with International Financial Reporting Standards (IFRS) so as to facilitate their comparability. Most domestic companies are linked with Talanx AG via control and profit transfer agreements; these are listed in the Notes under "Other information/Major agreements". The classification of companies is based on the business segments of Talanx Group.

In primary insurance business the target structure with holding company arrangements for HDI-Gerling non-life, HDI-Gerling life and bancassurance was almost finalized in 2007. Gerling Beteiligungs-GmbH (GBG) is no longer discussed below because its operations were discontinued in the course of the year. Effective 31 March 2008 HDI-Gerling Sach Serviceholding AG acquired the interest in GBG from Talanx AG.

The Hannover Re Group corresponds to the "Reinsurance" segment. The sale of the US subsidiary Praetorian Financial Group, Inc., New York, to the Australian QBE Insurance Group Ltd., Sydney, which had been agreed in December 2006, was closed effective 31 May 2007 once official authorization had been given. Since that date Hannover Re has concentrated on its core business of traditional reinsurance, Clarendon Insurance Group, Inc., which had previously written specialty business in the primary sector, is now focusing on the run-off of the existing portfolio and is therefore of minor importance.

Property/Casualty Primary Insurance

The areas of concentration within this segment are worldwide industrial insurance as well as property and casualty business with private and commercial customers in Germany and Europe as a whole. The principal distribution channels are direct sales, independent agents and our own field

organization. This business segment is dominated first and foremost by the following companies, which are grouped together under HDI-Gerling Sach Serviceholding AG and the development of which is described below: HDI-Gerling Industrie Versicherung AG, HDI-Gerling Firmen und Privat Versicherung AG, HDI Direkt 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: HDI-Gerling Rechtsschutz Versicherung AG and the foreign subsidiaries of HDI-Gerling Industrie. As personal accident insurers whose business is closely linked with the corresponding life insurers, the non-life insurers belonging to the Bancassurance Division (CIV, PB and Neue Leben) are now reported within the Life Primary Insurance segment.

In the 2007 financial year this segment was dominated by the ongoing integration of the Gerling companies into the Talanx Group. For the non-life group of companies the integration essentially means a concentration of central functions in Hannover and amalgamation of local units at the other locations.

HDI-Gerling Sach Serviceholding AG

HDI-Gerling Sach Serviceholding AG, which was created in the fall of 2007 following the renaming of HDI Service AG, does not transact any operational insurance business itself but is instead the intermediate holding company for the companies belonging to the HDI-Gerling non-life insurance group. It performs services for its subsidiaries and for Talanx AG, of which it is a wholly owned subsidiary and with which it is linked via a profit transfer agreement. In preparation for the renaming, the former HDI companies were transferred/acquired at the end of the 2006 financial year. With regard to the operational companies of the Gerling Group, the reorganization under company law was completed on 14 May 2007 with the squeeze-out procedure of Gerling-Konzern Allgemeine Versicherungs-AG (GKA). GKA was reorganized with retroactive economic effect as from 1 January 2007 in September 2007. The newly formed non-life insurance companies HDI-Gerling Firmen und Privat Versicherung AG, HDI Direkt Versicherung AG as well as the companies belonging to HDI-Gerling International Holding AG were brought together under the umbrella of HDI-Gerling Sach Serviceholding AG. The latter has concluded profit transfer agreements with the operational risk carriers. Following

the merger of the HDI and Gerling companies all service functions are now concentrated centrally in HDI-Gerling Sach Serviceholding AG.

The sales revenues of HDI-Gerling Sach Serviceholding AG, which derive from services billed internally within the Group, were significantly higher than in the previous year at EUR 123 million (EUR 92 million). Personnel expenses and other operating expenses increased accordingly, the latter from EUR 46 million to EUR 67 million. In addition to the services also performed in prior years, the 2007 business experience was influenced in particular by non-recurring effects associated with the growth in the portfolio of participating interests. Interest and similar expenses were also considerably higher than in the previous year. This was attributable to a loan extended by Talanx AG in connection with the structural changes within the non-life group, interest on which was payable for the first time for the full financial year.

The increase in total assets from EUR 978 million to EUR 2,201 million similarly reflects the reorganization of the company under corporate law as well as income from profit transfer agreements. The expenses from loss transfers were attributable exclusively to HDI-Gerling Firmen und Privat Versicherung AG. The profit for the 2007 financial year of EUR 146 (0.1) million was transferred to Talanx AG on the basis of the profit transfer agreement. This result makes allowance for extraordinary expenses associated with provisions for anticipated losses, integration costs and restructuring expenditures.

A central issue in the current year will be the completion of the HDI-Gerling integration. Among other things, the processes in the new set-up are to be further optimized and the service agreements existing with companies in the Talanx Group readjusted as necessary. The profit transfers anticipated from the subsidiaries should produce a clearly favorable result in 2008.

HDI-Gerling Industrie Versicherung AG

HDI Industrie Versicherung AG was renamed HDI-Gerling Industrie Versicherung AG (HDI-Gerling Industrie) in September 2007 following the merger with Gerling Allgemeine Versicherungs-AG (GKA). The bulk of GKA's industrial portfolio

and business with large clients remained with HDI-Gerling Industrie after the merger, while the portfolio of contracts with commercial customers and freelance professionals was transferred by way of spin-off to HDI-Gerling Firmen und Privat Versicherung AG (see below).

The company transacts insurance business with industrial clients through eleven German branches, 15 foreign branches, four foreign companies and a global cooperation network.

Due, inter alia, to the assumption of GKA's industrial business HDI-Gerling Industrie booked gross premium income of around EUR 2.8 billion. A comparison with the previous year is not possible on account of the restructuring. The level of retained premium in total business was 37.3%. Both the gross and net loss ratios were relatively high at 79.8% and 80.5% respectively; the net combined ratio was 103.7%, while the gross ratio stood at just 98.4%. The harmonization of the reserving level for the former Gerling portfolio with the HDI level took a toll on the result. This gave rise to a deficit of EUR 63 million before the change in the equalization reserve – producing a profit of EUR 96 million after withdrawals from the equalization reserve in an amount of EUR 159 million.

The non-technical result reached EUR 149 million, thanks in large measure to strong investment income. All in all, a profit of EUR 183 million was recognized for transfer to HDI-Gerling Sach Serviceholding AG.

The strategic objective for 2008 is progressive expansion of HDI-Gerling Industrie to become one of Europe's leading industrial insurers. The foreign network is to be stabilized by stepping up business with major European enterprises through the company's own locations in all European industrial insurance markets.

HDI-Gerling Firmen und Privat Versicherung AG

HDI-Gerling Firmen und Privat Versicherung AG emerged from Aspecta Versicherung AG when the latter was renamed in the fall of 2007. It then assumed insurance contracts of the former HDI Privat Versicherung AG, the former HDI Industrie Versicherung AG and the former GKA. Since September 2007 it has transacted insurance for property and

casualty risks with private and commercial customers as well as self-employed professionals; the company ranks among the leading providers in the “professions” and “commercial” subsegments. In this context the company relies primarily on its own field service organization and on insurance brokers.

The company can look back on a year that was dominated by the integration processes. Both on the production and operational sides and in the area of claims handling it was necessary to integrate or realign existing structures. Not only that, the company was faced with sustained very difficult market conditions, as a consequence of which the development of business was patchy: commercial business showed modest growth, while premium income in private customer insurance declined. Claims expenses were higher than budgeted owing to natural disasters and an unusually large number of major claims: the gross loss ratio stood at 110.1%.

Underwriting business closed with an overall deficit of EUR 50 million. After making allowance for the similarly negative performance of non-underwriting business, including the loss transfer from HDI-Gerling Rechtsschutzversicherung AG, extraordinary expenses and expenditure on taxes, a loss of EUR 71 million was transferred to HDI-Gerling Sach Serviceholding AG.

The overriding objective of HDI-Gerling Firmen und Privat Versicherung AG is to write profitable business – while maintaining and moving forward with structured expansion of the “full range of products and services” – so as to generate stable premium income overall with modest growth in defined product segments. From 2009 onwards profit-oriented growth should set in, driven primarily by the development of new products. After the heavy strain incurred by HDI-Gerling Firmen und Privat Versicherung AG in 2007 from winter storm “Kyrill”, the loss ratio is expected to normalize in 2008.

HDI Direkt Versicherung AG

HDI Direkt Versicherung AG (HDI Direkt) was created in the fall of 2007 through the renaming of HDI Privat Versicherung AG (HDI Privat), into which portions of GKA's private customer business were integrated. In return, the private customer portfolio of the former HDI Privat written through

brokers was transferred to HDI-Gerling Firmen und Privat Versicherung AG. Figures for the previous year are therefore only to a limited extent comparable.

HDI Direkt transacts insurance business with private and commercial customers through 11 German branches with numerous business offices as well as through other sales channels such as the Internet. It now focuses on highly standardized, price-sensitive property and motor business with an emphasis on the motor line. On account of sustained fierce competition HDI Direkt recorded a drop in premium income and policy numbers in motor insurance in 2007.

As a consequence of the new business structure, the composition of HDI Direkt's portfolio changed substantially. Whereas in the past the motor line had clearly dominated with 62% of policies, the share of the liability, personal accident and property lines has now risen to 52%. The total number of policies in the portfolio also increased by 10.4% to reach 2.9 million. Premium income, however, fell 7.8% short of the previous year's level at EUR 591 million (EUR 641 million) – a decrease that can be attributed to the differing features of the business transferred to HDI-Gerling Firmen und Privat Versicherung AG and the affinity business assumed in return.

Reflecting the market trend, the claims situation at HDI Direkt similarly deteriorated appreciably year-on-year: the gross loss ratio of 79.1% was 7.8 percentage points higher than in the previous year. With a combined ratio of 101.8%, the gross result showed a deficit of EUR 11 million. The net underwriting result after changes in the equalization reserve stood at EUR 48 million.

In 2008, too, the premium volume is expected to contract on the back of the drop in the average premium in motor insurance – a decline that parallels the market trend. The company anticipates a marked improvement in competitiveness, however, due to the introduction of a favorable second motor tariff. In addition, active involvement in the growing online market is being pursued with the establishment and expansion of the Internet as a separate marketing channel via the Web platform hdi24.de. In combination with greater market

penetration this should generate growth in the medium term. Assuming a normal claims year and making allowance for tariff measures in the motor sector, HDI Direkt expects a lower loss ratio for 2008.

HDI-Gerling International Holding AG

HDI-Gerling International Holding AG, a wholly owned subsidiary of HDI-Gerling Sach Serviceholding AG, is responsible for steering and controlling the foreign-based legally independent insurance companies operating in the Property/Casualty Primary Insurance segment. Foreign units that provide service exclusively for industrial business are steered by the foreign section of HDI-Gerling Industrie Versicherung AG.

In the 2007 financial year the foreign units taken over from the former Gerling Group – with the exception of HDI-Gerling Slovensko A.S. – are still included in the profit and loss account of HDI-Gerling Industrie Versicherung AG; the transfers to HDI-Gerling International Holding will be completed upon granting of appropriate regulatory approval.

With a premium volume of EUR 1.7 (1.8) billion, a portfolio of some 6.4 million policies and close to 3,500 staff worldwide, this area has evolved into a major pillar of the Talanx Group. For the seventh consecutive year the international insurers improved their performance and (with the exception of HDI Sigorta A.Ş. acquired in 2006) again reported profits: the cumulative operating profit (EBIT) of this area totaled EUR 111 (104) million. HDI-Gerling International Holding AG is now represented by subsidiaries in twelve countries; Austria, Belgium, Brazil, Bulgaria, the Czech Republic, Hungary, Italy, the Netherlands, Poland, Slovakia, Spain and Turkey. The major sales markets are Southern, Central and Eastern Europe, Turkey and Latin America, where the growth market of Brazil occupies a key position. Measured by gross premium income, the Italian subsidiary is currently the largest participating interest with a volume of EUR 558 (743) million.

Altogether 81 (82)% of premium income in international business derived from private customers; the remainder was attributable to industrial business.

The balance sheet structure of the company is shaped by the shares in affiliated companies. The book values of the participations increased by EUR 9 million to altogether EUR 556 (547) million as at 31 December 2007. Largely due to dividend payments received from participating interests, HDI-Gerling International Holding AG generated income of altogether EUR 33 (47) million. On the basis of the existing control and profit transfer agreement, its profit of EUR 28 (44) million was transferred to HDI-Gerling Sach Serviceholding AG as contractually agreed.

As anticipated, the **Italian** company HDI Assicurazioni – the only subsidiary of HDI-Gerling International Holding active in both life and non-life business – was unable to build on the premium growth of the previous year. The lower premium income of EUR 558 (743) million was primarily due to the expiry of a cooperation agreement, although going forward it will be offset by the expansion of other marketing channels. The Italian distribution network comprised of general agents, representative offices and sales outlets was considerably enlarged in 2007.

Following the merger of the two **Brazilian** companies the expansion of business moved forward briskly. HDI Seguros now has 54 branches of its own in private customer business and – on the basis of a long-term sales agreement – uses the roughly 1,000 branches of HSBC bank to market its insurance products. The company generated gross premium income of EUR 339 (321) million and posted a slightly reduced operating profit.

Represented by what is currently the sixth largest insurance company in the country by premium volume, HDI Asekuracja TU S.A., Talanx enjoys the second-largest distribution network in **Poland** with 331 sales outlets. Gross written premium totaled EUR 226 (212) million in 2007, 84 (83) % of which derived from motor insurance. The operating profit came in at EUR 11 (12) million. Professional industrial insurance solutions are offered through HDI-Gerling Polska TU S.A. For operational purposes the company is now under the steering of HDI Asekuracja, although as at 31. December 2007 it still belonged to HDI-Gerling Industrie Versicherung AG.

The acquisition of a **Turkish company**, now trading as HDI Sigorta A.Ş., in 2006 marked the entry into a market of the future that offers considerable growth potential. The hallmark of 2007 was the company's realignment with the goal of moving up to join the country's top ten insurers in the medium term on a solid foundation of secure profitability. The gross written premium volume totaled EUR 88 (37) million, making HDI Sigorta A.Ş. the fastest growing insurer in the country. The company is expected to move into the black for the first time in 2008.

HDI-Gerling International AG strives for value-based and profit-oriented growth. In addition, it seeks to complement the organic growth of the portfolio of participations with acquisitions in further markets. Target regions continue to be Western, Eastern and Southern Europe as well as Latin America. As far as existing participations and the acquisition of new companies or cultivation of new countries and regions are concerned, the focus remains on private and commercial business.

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, tied agents as well as cooperations with banks and postal service partners (bancassurance).

The Life Primary Insurance segment is subdivided into life insurance and bancassurance, each of which is led by a holding company (in the case of bancassurance since January 2008).

For all life insurers within the Group the 2007 financial year was dominated by the reform of the Insurance Contract Act and the amendment of the Insurance Supervision Act as well as the resulting legal and technical upheavals. Enormous effort was needed to adjust tariffs and modify contract and sales documentation.

Life Insurance Division

HDI-Gerling Leben Serviceholding AG

As the holding company of the HDI-Gerling life group, HDI-Gerling Leben Serviceholding holds participating interests in domestic and foreign insurance companies and other enterprises. Its core function is to continually and innovatively refine as well as to successfully coordinate the life insurance activities of the HDI-Gerling and Aspecta brands under uniform management.

Several changes took place within the portfolio of participating interests held by HDI-Gerling Leben Serviceholding during the financial year with the aim of streamlining and simplifying corporate structures. Thus, for example, Gerling Pensionsmanagement GmbH was merged into HDI Pensionsmanagement AG and the company name was changed to HDI-Gerling Pensionsmanagement AG. In the first half of 2008, additionally the two Polish life insurance companies – Aspecta Życie TU S.A. and Gerling Polska TU na Życie S.A. – are to merge.

Under service agreements the companies belonging to the HDI-Gerling life group have commissioned HDI-Gerling Leben Serviceholding to perform tasks in the areas of internal auditing, legal affairs, taxation, advertising, marketing and corporate communications. The sales revenues generated for the first time on this basis – including EUR 2 million from factoring – amounted to EUR 6 million. Further income derived inter alia from profit transfers in an amount of EUR 3 million (previous year: EUR 61,000) and from participating interests in an amount of EUR 25 (23) million. After allowance for personnel and other expenses, a result of EUR 23 (25) million was achieved before the profit transfer.

The realization of synergies and economies of scale in the newly formed life group will make itself felt in the current and subsequent financial years. Not only that, the pooling of expertise and selling power at the subsidiaries – which were repositioned in the year under review – will serve to further boost the company's profitability.

HDI-Gerling Lebensversicherung AG

In a weak market climate and despite the challenges posed by integration-related changes like workplace relocations, HDI-Gerling Lebensversicherung AG (HDI-Gerling Life) was able to successfully assert its position in the market. With only a

modest premium decline of 3% to EUR 361 million, new business was maintained on the high level of the previous year. It was driven by widely acclaimed unit-linked products, which continued to gain in importance with growth of 8% to reach EUR 158 million. Annuity policies, in particular, impressed with their outstanding features.

Gross written premium increased by 0.7% to reach EUR 2.0 (2.0) billion. The primary factor here was the rise in single premiums, which climbed by 9% to EUR 168 million as a result of the successful sales performance with unit-linked products for individual retirement provision, while regular premiums were on a par with the previous year at EUR 1.8 billion.

The current income from investments of EUR 856 million (excluding investments for the account and risk of holders of unit-linked life insurance policies) was slightly lower, inter alia as a result of sales of sizeable real estate portfolios. The US mortgage meltdown affected HDI-Gerling Life only indirectly since its investments in this sector are marginal. Write-downs of EUR 72 million were taken as a precautionary measure in order to ensure market-consistent valuation – inter alia on securities issued from the financial and corporate sectors. The net interest return of 4.5% did not quite match up to the previous year's rate of 4.6%, which had developed especially favorably due to extraordinary income. Despite integration-related extraordinary expenses of EUR 22 (32) million, the profit for the financial year was boosted to EUR 34 (31) million.

Current developments on capital markets have particularly highlighted the advantages of the practiced cautious investment policy, which is notable for a comparatively low equity allocation as well as cost-effective hedging of assets against capital market volatility. The guarantee commitments given to customers are thus secured permanently even if the situation on financial markets were to deteriorate further. Completion of the integration activities will have a positive effect on the profitability of HDI-Gerling Life.

Aspecta Lebensversicherung AG

Aspecta Lebensversicherung AG (Aspecta) is the specialist within the life group for unit-linked life insurance products. For the company's workforce the most notable feature of the second half of 2007 was the change of employment location.

The head office of Aspecta was moved from Hamburg to Cologne effective 9 January 2008 upon entry in the commercial register. Almost half the staff in Hamburg took up the offer to continue their employment in Cologne.

Despite this additional strain Aspecta enjoyed a gratifying business development overall: gross written premium reached EUR 533 million, an increase of 4% that was comfortably in excess of the industry average. Growth was once again driven by unit-linked life and annuity policies, which now account for 84% of total premiums. The regular premium income of EUR 434 million generated by this business was 6% higher than in the previous year.

The company was scarcely affected by the repercussions of the market turmoil unleashed by the US mortgage meltdown. Indeed, the net interest return was actually boosted appreciably from 4.5% to 5.0%. The 2007 business result was shaped, as in the previous year, by the strategic reorientation of the Talanx Group: Aspecta incurred extraordinary expenses of EUR 12 (13) million in connection with integration activities in the year under review. Despite the difficult market climate, improvements on both the underwriting and non-technical sides produced a good result of EUR 3.2 (0.1) million before profit transfer.

Aspecta considers itself to be superbly positioned going forward. With a reduced lapse rate for in-force business and stable portfolio, it expects to generate another increase in volume in excess of the market average. All in all, therefore, the company anticipates a favorable business development for 2008 and subsequent years.

International Aspecta companies

The development of Aspecta's foreign activities was highly gratifying. In these markets it relies on offering state-of-the-art unit-linked products and cooperation with independent agents. Recording growth of around 20% compared to the previous year, gross written premiums from business in Poland, Liechtenstein, Switzerland, Italy, Spain, France and the Benelux countries reached around EUR 350 million. Operations in Poland and Italy were particularly successful with growth rates of 40% and 72% respectively. Going forward, the

company expects foreign products to gain in importance – not only abroad but also on the German market.

Bancassurance Division

Proactiv Holding AG

The Bancassurance Division was restructured with effect from 1 January 2008. Based in Hilden, the intermediate holding company Proactiv Vermögensverwaltungs-AG (now renamed Proactiv Holding AG) bundles the bancassurance activities of the Talanx Group and assumes central and cross-sectional functions for the individual insurance companies. The companies belonging to Proactiv Holding are

- the CiV insurers with their cooperation partner Citibank,
- the PB insurers as partners of Postbank, supplemented in 2007 by the newly acquired BHW Lebensversicherung,
- the Neue Leben companies as partners of numerous Sparkasse savings institutions and
- the Magyar Posta insurers in Hungary.

A rapidly growing division with premium income of around EUR 2.6 billion in 2007, bancassurance is a major factor in the success of Talanx AG.

Neue Leben Group

Neue Leben Holding AG is the wholly owned parent of Neue Leben Lebensversicherung AG and Neue Leben Unfallversicherung AG. It holds a participating interest of 49% in Neue Leben Pensionsverwaltung AG. The majority stockholder of Neue Leben Holding AG is Proaktiv Holding with a stake of 67.5%. Additional interests are held indirectly and directly by seven Sparkasse savings institutions.

The profit for the year reported by Neue Leben Holding AG surged appreciably in the 2007 financial year, primarily due to the increase in the dividend paid by Neue Leben Lebensversicherung AG from EUR 5 million to EUR 11 million. In addition, Neue Leben Holding AG booked income from the profit transfer of Neue Leben Unfallversicherung AG in an amount of EUR 4 (4) million after an allocation to the statutory reserve. Neue Leben Pensionsverwaltung AG closed the financial year with a profit for the year of EUR 341,000 (262,000), 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 significantly higher income from participating interests than in the previous year of EUR 16 (10) million; at the same time other operating expenses decreased by EUR 0.8 million to EUR 0.3 million. The profit for the year posted by Neue Leben Holding AG totaled EUR 15 (9) million, of which EUR 0.6 million was allocated to retained earnings – leaving a disposable profit of EUR 14.6 million.

Following the successful business development in 2007 the Neue Leben companies continue to have their sights set high for the current financial year. The focus for 2008 remains on securing long-term profitable growth, outstanding cost efficiency and excellent quality. As before, the main drivers of growth will be the intensification of existing relationships with stockholding and partner Sparkasse savings institutions as well as the successful acquisition of new cooperation partners. The Neue Leben Group anticipates a good year-end result for the current financial year.

CiV Lebensversicherung AG

At the end of 2007 Talanx AG transferred 94.9% of the shares in CiV Lebensversicherung AG (CiV Leben) to the newly established Proactiv Holding, which concentrates activities in the Bancassurance Division. CiV Leben 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 measured by policies sold per employee. Working together with Citibank, CiV Leben develops tailored products that are fully integrated into the bank's Corporate Design and product portfolio.

In the financial year just-ended CiV Leben was unable to divorce itself from the muted growth in new business on the insurance markets. New policies taken up totaled 354,000 (390,000). Total premiums paid in new business amounted to EUR 3.4 (4.1) billion. Growth in the number of new "Riester" pension products was again gratifying, with an increase of 38% compared to the previous year.

CiV Leben booked gross written premiums in direct written business of altogether EUR 803 (834) million in the financial year just-ended. Regular gross premiums increased to

EUR 496 (490) million, while single premiums – the bulk of which derive from credit life insurance – stood at EUR 307 (344) million.

The administrative expense ratio was held virtually on a par with last year's low level at 1.4%. Current income from investments was boosted from EUR 87 million to EUR 104 million. Profits on disposals surged from EUR 6 million to EUR 57 million, driven principally by proceeds from the sale of the interest in E+S Rückversicherung AG to Hannover Re. Making allowance for expenses incurred for investments, the investment result improved by 42% to EUR 124 (87) million. The net return on current investments generated by CiV Lebensversicherung AG relative to the average portfolio amounted to 5.1% (previous year: 4.6%). The net interest return of 6.3% in 2007 (previous year: 4.8%) was exceptionally high. The substantially higher year-end result for 2007 of EUR 33 (23) million (increase of 44 % relative to the previous year) was transferred to Talanx AG on the basis of the control and profit transfer agreement that remains in force.

The goals for CiV Leben in 2008 are once again ambitious: with a new sales and marketing strategy it is seeking to outperform the market. With a view to maintaining a high level of efficiency and keeping administrative expenses well below the market average, business processes will be regularly reviewed with an eye to any need for optimization and the automation of routine business processes will be consistently extended.

PB Lebensversicherung AG and BHW Lebensversicherung AG

The Hilden-based PB Lebensversicherung AG was previously 50% owned by Talanx AG. Effective 30 September 2007 Talanx AG acquired the remaining 50% interest in the company; at the same time it took over BHW Lebensversicherung AG and BHW Pensionskasse AG from Deutsche Postbank AG. The interests in these companies were transferred to the newly established Proactiv Holding as at 31 December 2007.

Working together with Postbank, PB Lebensversicherung AG (PB Life) offers insurance products that are optimally tailored to the needs of Postbank customers. All products are developed exclusively for the seven distribution channels of Deutsche Postbank AG and are fully integrated into the bank's Corporate Design and product portfolio.

The effects of the restrained growth in new business on the insurance market also left their mark on PB Life. The number of new policies taken out contracted by 17% to just over 76,000 (91,000). Growth in credit life insurance was highly gratifying, recording an increase of 13% with total premiums paid of EUR 28 million.

PB Life boosted its gross written premium by 6% from EUR 253 million to EUR 269 million. Gross regular premiums increased by 6% to EUR 135 (127) million, of which EUR 21 million was attributable to endowment policies and EUR 114 million to annuity products. Single premiums climbed by 6% to EUR 134 (126) million. Investment income surged by 66% to EUR 25 (15) million. PB Life distributed a dividend of EUR 6 million out of repayment of the establishment fund that was not required.

BHW Lebensversicherung AG developed as anticipated in the year under review. Overall, new business was brokered with a sum insured of EUR 1.9 (2.2) billion or a volume of EUR 45 (48) million in relation to regular premiums for one year. Sales in individual business achieved a virtually unchanged level of new business with a sum insured of EUR 1.3 billion. In 2007 new business was dominated by state-assisted products – most notably “Riester” annuities and unit-linked insurance policies. In the area of unit-linked “Riester” annuities BHW Lebensversicherung AG boosted its new business – relative to the sum insured of policies taken up – by 92% year-on-year.

Net premiums earned were altogether 15% higher than in the previous year at EUR 385 million. Individual policies accounted for EUR 318 million – equivalent to 82% – of written premiums, thereby underscoring the large proportion of retirement provision products.

New business in individual life insurance, which was previously written by the PB insurers, is to be handled by BHW Lebensversicherung AG from 2008 onwards; PB Life will concentrate on credit life business. This year too the focus will be on securing long-term profitable growth, outstanding cost efficiency and the excellent quality of products and services.

Reinsurance

The Reinsurance segment of the Talanx Group (non-life and life/health reinsurance) is comprised primarily of the Hannover Re Group, one of the foremost reinsurance groups in the world. Talanx AG holds a stake of 50.2% in Hannover Rückversicherung AG (Hannover Re), while the remaining shares of this listed company are held by institutional and private investors.

Hannover Re writes active reinsurance solely in foreign markets; its subsidiary E+S Rückversicherung AG (E+S Re) concentrates on the German market. In the year under review Hannover Re raised its interest in E+S Rück from 55.8% to 63.8%. Reciprocal retrocessions ensure regionally balanced risk spreading between the two companies.

Hannover Rückversicherung AG

The gross written premium in total business contracted as anticipated by 13% to EUR 6.7 (7.6) billion. The retention remained virtually unchanged at 73.9% (74.2%). Net premium earned fell by 12% to EUR 5.0 (5.7) billion. The profit for the year of EUR 272 (196) million comfortably surpassed the previous year's level.

The development of non-life reinsurance was thoroughly satisfactory for Hannover Re in the 2007 financial year. Whereas the previous year had been all but spared natural disasters, the burden of major losses was higher in the year under review. Winter storm “Kyrill” was the largest single loss event with a net strain of EUR 34 million. Total net expenditure on major claims and catastrophe losses amounted to 4.4% of net premium, a figure below the expected level for the year of 8%. The combined ratio in the year under review stood at 105.2 (98.1%).

The renewals as at 1 January 2007 revealed initial softening tendencies in the pricing structure. For the most part, though, rates are comfortably adequate.

Hannover Re was satisfied with the development of its international life and health reinsurance. The crucial long-term growth factors – such as the demographic trend in industrialized nations, the entry into retirement of the baby boomer

generation and the rapid emergence of a middle class in many developing countries – remain in place. After the premium volume in the previous year had been influenced by special effects, gross premium in the year under review contracted as expected by 10% to EUR 2.9 (3.2) billion.

Given the market conditions described above in non-life and life/health reinsurance, Hannover Re is looking to a good business result in 2008 and indeed 2009 – provided the burden of catastrophe losses and major claims does not significantly exceed the expected level of 10% of net premium and as long as there are no dramatic adverse movements on capital markets. In non-life reinsurance Hannover Re does not pursue any growth targets, but is instead guided exclusively by profit targets. In life/health reinsurance, on the other hand, it aspires to an annual growth target in the range of 12–15% as regards both the premium volume and operating profit (EBIT).

E+S Rückversicherung AG

As the specialist reinsurer for the German market, E+S Rückversicherung AG (E+S Re) further cemented and extended its position as the second-largest reinsurer in the year under review. It acquired additional customer relationships in 2007 and also enlarged its treaty shares under existing accounts.

Gross written premium contracted slightly by 3% to EUR 2.37 (2.44) billion following the relinquishment of low-margin business. With the level of retained premium almost unchanged, net premium earned also fell by 3% to EUR 1.78 (1.84) billion. The profit for the year climbed to EUR 180 (70) million.

The share of the total portfolio attributable to non-life reinsurance remained virtually stable in the year under review at 59 (57)%. Compared to the primary insurance sector, the reinsurance market in Germany was still characterized by favorable market conditions. Despite initial softening tendencies E+S Re was again able to obtain improvements in terms and conditions and act on attractive business opportunities in the year under review. Although the result for its domestic market was impacted by a net loss burden of EUR 49 million from the severe winter storm “Kyrill”, E+S Re was highly satisfied overall with the development of its portfolio.

E+S Re enjoyed gratifying treaty renewals in its home market: stronger demand emerged for catastrophe covers on the back of the loss expenditure associated with “Kyrill” in January 2007. The prospects for life and health reinsurance in 2008 are bright. E+S Re anticipates another good year-end result for 2008, provided the loss experience in natural catastrophe business is within the expected bounds and capital markets are spared any adverse upheavals.

Financial Services

Operating under the “AmpegaGerling” brand, the Financial Services segment encompasses both asset management functions for the Talanx Group and asset management as well as funds business for institutional and retail clients. The Asset Management GmbH, Investment GmbH and Immobilien Management GmbH are grouped together under this brand. Upon completion of the merger of the former Ampega and Gerling companies all AmpegaGerling employees were brought together at the Cologne location, where joint business operations commenced in May 2007.

AmpegaGerling Asset Management GmbH

AmpegaGerling Asset Management GmbH (AMG) 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 renders its financial services exclusively for enterprises within the Talanx Group.

In addition to performing asset management tasks for the Talanx Group companies, the business activities of AMG encompass administrative services such as investment accounting including taxes and reporting in accordance with the German Commercial Code (HGB) and IFRS, performance measurement, investment/risk controlling, compliance, investment reporting as well as financial analysis and asset/liability management in coordination with the insurance carriers. Provision of a full-service program for Group clients ensures that earning capacities can be quantitatively and qualitatively safeguarded and expanded.

As at the end of the financial year the total volume of assets under management – at EUR 48.4 billion – was EUR 1.6 billion in excess of the previous year's level. Due to the reorganization of commission structures and business segments among the AmpegaGerling companies, a profit on ordinary activities of EUR 29 (41) million – excluding income from participating interests and profit transfer agreements – was generated, with a cost income ratio of 0.52.

Making allowance for the reorganization of commission structures and against the backdrop of a rise in operating expenses, especially due to project and consulting costs incurred as part of the further expansion of performance structures, an operating profit of EUR 26 million (excluding income from participating interests and profit transfer agreements) is planned for 2008, with the volume of assets under management set to grow to EUR 50 billion.

AmpegaGerling Investment GmbH

AmpegaGerling Investment GmbH (AIG) is an investment company under German law pursuant to § 2 Para. 6 of the Investment Act (InvG). AIG is owned by AmpegaGerling Asset Management GmbH (94.9%) and Alstertor Erste Beteiligungs- und Investitionssteuerungs-GmbH & Co. KG (5.1%), a subsidiary of Talanx AG.

AIG manages various types of separate fund assets, performs financial portfolio management tasks and conducts custodian business. All in all, AIG had 157 (previous year: 134) portfolios under management as at the balance sheet date with a total asset volume of EUR 14.1 (13.4) billion, including 35 (34) special funds and 67 (48) retail funds with a combined volume of EUR 9.7 (10.0) billion. In addition, the company administered 55 (52) financial portfolios with a volume of EUR 4.4 (3.4) billion.

The focus is on retail business involving funds designed primarily with private investors in mind. Despite the difficult market environment for investment companies with close ties to the insurance industry, AIG maintained its volume in retail business almost on a par with the previous year at EUR 3.2 billion. Growth was driven by administrative mandates with label funds for asset managers, the administration and management of policy portfolios and the placement of AmpegaGerling funds in the unit-linked policies of the Group's own life insurers.

AIG also engages in institutional business. In 2007 it not only enlarged the volume of already existing mandates, it also acquired new mandates. The volume of institutional business climbed to EUR 3.2 billion, hence accounting for 23% of the total volume of assets under management by AIG.

The asset portfolios managed for Talanx Group companies fell slightly short of the previous year's volume (EUR 8.1 billion) at EUR 7.7 billion.

Against the backdrop of the reorganization of business segments and commission structures among the AmpegaGerling companies, fees and commission income of EUR 26 (22) million were generated in the year under review. The profit on ordinary activities increased by EUR 9 million relative to the previous year's result to reach EUR 17 million, while the cost income ratio improved from 0.66 to 0.46.

The flat-rate tax on investments (Abgeltungssteuer) set to enter into force in 2009 is likely to boost volumes under existing equity funds and funds of funds in retail business and should generate additional administrative mandates for label funds. For 2008 the company anticipates modest growth in Group investments and a further rise in assets under management for third-party clients.

Events of special significance after the end of the financial year

Protection Reinsurance Intermediaries AG

In addition to the AmpegaGerling companies, Protection Reinsurance Intermediaries AG (Protection Re) also belongs to the Financial Services segment. Based in Hannover, the company is wholly owned by Talanx AG and is the professional reinsurance advisor and broker for reinsurance cessions (non-life business) of the Talanx Group.

The major tasks in supporting Group cedants are as follows:

- Advising on reinsurance issues
- Optimizing the various reinsurance structures
- Brokering/purchasing and documenting the necessary reinsurance capacity
- Developing/implementing security guidelines for Talanx AG
- Long-time safeguarding of the required reinsurance capacity
- Continual enhancement of workflows relating to the administration of passive reinsurance

The list of cedants served by Protection Re changed appreciably in 2007 – and will show further changes in 2008 – as it now reflects the significantly modified Group structure after completed integration of the Gerling companies into the Talanx Group. The positive overall development of the Talanx Group led to further strengthening of the company; given the placement volume handled in 2007 in excess of EUR 1.5 billion in ceded premium, the company ranks among Europe's major reinsurance brokers. The entire profit for the year of EUR 15 (9) million was transferred to Talanx AG on the basis of the existing profit transfer agreement.

In January 2008 the Russian insurance regulator awarded the Talanx subsidiary CiV Life Russia a full license to sell life and personal accident insurance backdated to 29 December 2007. Also in January, the Talanx subsidiary CiV Hayat Sigorta received a full license as a life and personal accident insurer from Turkish insurance regulators. Talanx thus enjoys two further international bancassurance cooperations with Citibank. The Moscow-based life insurer CiV Life develops products exclusively for Citibank and sells them through the latter's distribution channels; sales activities commenced at the beginning of March 2008. The Istanbul-based CiV Hayat Sigorta tailors insurance products exclusively for Citibank, which are then marketed through the partner bank's distribution channels in Turkey.

In January 2008 HDI-Gerling International Holding AG purchased a 94% stake in the Ukrainian non-life insurer Alcona. The company, which has been in existence since 1992 and concentrates primarily on motor products and personal accident insurance, ranks twelfth in the Ukrainian market. The acquisition of Alcona, which is still subject to approval from the competent authorities, is in line with the foreign strategy of investing in growth markets of Southern, Central and Eastern Europe as well as Latin America and establishing a position as one of the leading non-life insurers in these markets.

In April Hannover Re received a license from the China Insurance Regulatory Commission which puts it on an equal footing with Chinese providers. This will enable the company to transact life and health reinsurance through a Shanghai branch earlier than anticipated – probably starting in the second half of May 2008.

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.

We use a value-based approach (Intrinsic Value Creation) to manage our business activities. One of the most important parameters within this process is the risk capital, i.e. the capital required to conduct our business activities. By taking risk capital as a controlling parameter, we are able to optimize the allocation of capital within the Group.

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 and quantify 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 with the aid of an internal risk model. This is currently based on the so-called GDV model by the German Insurance Association and is used for the analysis and measurement of individual risks as well as of the Group's overall risk position. The purpose of the risk quantification is to calculate the risk capital on the basis of a 99.5% Value at Risk. The time horizon considered under the model is a calendar year. Quarterly 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 as necessary.

The Risk Committee of the Talanx Group monitors the capitalization and risk profile of the entire Group and ensures that the relationship between these two parameters is appropriate. The Risk Committee is also tasked with ensuring that comprehensive risk awareness is firmly anchored in the Talanx Group and with further enhancing risk controlling. In order to remain constantly updated on the risk situation at the subsidiaries, Group Risk Management holds quarterly discussions with the responsible risk officers at the subsidiaries. The responsible risk officers at the subsidiaries notify significant changes in the risk position by way of ad hoc reports to Group Risk Management.

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 and appropriate countermeasures. 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 detailed due diligence tests conducted in cooperation with independent professional consultants and auditors as well as intensive monitoring of the business development. 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. 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 2007 the ratio of provisions and liabilities to total liabilities stood at 41.5 (35.1)%.

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 number and amount of claims are caused by random factors and may therefore exceed the claims expectancy. This risk cannot be excluded even if the claims distribution is known. The risk of error refers to the risk of the actual claims distribution diverging from the assumed claims distribution. A distinction is made here between the diagnostic risk and the forecasting risk. The diagnostic risk lies in the possibility that the actual 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 risk that the probability distribution of the total loss changed unexpectedly after the time when the estimate was made.

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. In addition to the reserves for losses reported to us by our clients, Talanx establishes extra reserves where necessary on the basis of our own claims investigations. Furthermore, we constitute a so-called IBN(E)R (incurred but not (enough) reported) reserve for claims that have probably already occurred but have not yet been (adequately) reported to us. In order to reduce the reserving risk the level of the reserves is also regularly reviewed by external actuaries.

Typical risks in **life primary insurance** arise out of the fact that contracts provide long-term benefit guarantees: while the premiums for a defined benefit are fixed at the beginning of the contract for the entire period, the underlying parameters (interest rate level, biometric assumptions) may change.

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. Epidemics or a worldwide shift in lifestyle habits may pose special risks to contracts under which death is the insured risk. Under annuity policies the risk derives first and foremost from the continuous improvement in medical care and social conditions, thereby increasing longevity – with the result that insureds draw benefits for a longer time than calculated.

The constant ability to fulfill these contracts is safeguarded by way of reserves calculated on the basis of assumptions regarding the development of biometric data such as mortality or disability. Specially trained life insurance actuaries ensure that the actual bases also make adequate allowance for risks of change through safety loadings.

Life insurance policies additionally 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 hold a sufficiently large asset portfolio in short-term investments. Furthermore, they regularly match and control the duration of their assets and liabilities. What is more, receivables due from insurance agents may be lost in the event of cancellation if the accounts receivable from intermediaries cannot be collected. Insurance agents are therefore carefully selected. Cancellation may also create a cost risk if

new business declines sharply 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 brokers limit this risk.

An interest guarantee risk exists under life insurance policies with guaranteed interest payments. This risk arises if upon inception of a life insurance policy a guaranteed interest rate is agreed on the savings element of the premium. The interest guarantee risk has been exacerbated by the reform of the Insurance Contract Act inasmuch as policyholders are entitled to participate in the unrealized reserves. The insurance premiums must be invested at appropriate terms on the capital market in order to generate this guaranteed return. Yet the capital market fluctuates over time; future investments are thus subject to the risk of poorer conditions. What is more, the duration of the investments is generally shorter than the duration of the insurance contracts, hence creating a reinvestment risk.

An interest rate risk exists in connection with guaranteed surrender values. A rapidly rising interest rate level, for example, may give rise to hidden obligations. If contracts were to be terminated prematurely the policyholders would be entitled to the guaranteed surrender values and would not share in any incurred hidden losses. Upon disposal of the corresponding investments the hidden losses would have to be borne by the life insurers, and in theory it is possible that the fair market value of the investments would not suffice to cover the guaranteed surrender values. For a large part of our life insurance portfolio this risk is reduced through contractual provisions. As a further factor, the change in the distribution of acquisition costs brought about by amendment of the Insurance Contract Act will lead to higher surrender values in the initial phase.

The Group reduces the interest guarantee risk primarily by constantly monitoring the asset portfolios and capital markets and taking appropriate countermeasures. To some extent interest rate hedging instruments, known as swaptions and book yield notes, are used. The surplus distributions paid

in addition to the guaranteed interest rate can be adjusted according to the state of the capital 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 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 importance with regard to the prefinancing of cedants' new business acquisition costs. The interest guarantee risk, on the other hand, is of only minimal risk relevance due to the structure of the contracts.

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.

The Talanx Group 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 and retrocessionaires is guided by our own credit assessments as well as the minimum ratings of the rating agencies Standard & Poor's and A.M. Best.

The default risk at policyholders is countered first and foremost by means of an effective collection procedure and the reduction of outstandings. Agents are subject to credit checks. In addition, adequate general bad debt provisions are established to allow for the default risk.

Major investment risks

Investment risks should be considered in the context of the investment policy. Based on Group investment guidelines, 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. The 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 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 its 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. Talanx counters the risk of personnel committing fraudulent acts to the detriment of the company with internal guidelines governing areas of competence and processing workflows as well as with regular specialist checks and audits.

Legal risks may arise in connection with contractual agreements and the general legal environment, especially with respect to business-specific imponderables of commercial and tax law as they relate to an internationally operating life/health and non-life (re)insurance enterprise. 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.

Last year we reported at this juncture on potential risks associated with reform of the Insurance Contract Act. The legislation amending the Insurance Contract Act has now entered into force. Since the regulations governing minimum surrender values in life insurance and the distribution of acquisition costs do not apply to in-force business, we take a considerably more relaxed view of the risk situation in this area than was the case in the previous year. Nevertheless, the spreading of the acquisition costs over five years in the initial contract years under endowment policies will lead to higher surrender values. It remains essential to act appropriately on the implications of the framework conditions determined by insurance supervision law, including the Regulation on Minimum Premium Refunds (Mindestzuführungsverordnung), also in light of risk considerations.

The integration of the former Gerling Group companies into the Talanx Group has led and will continue to lead to far-reaching changes and fresh opportunities. The integration of organizational structures, business strategies and corporate cultures within the scope of this acquisition poses a considerable challenge. Among other things, it is necessary to organize the integration of staff and the simplification of systems and tools while at the same time ensuring that insurance operations and customer satisfaction are maintained at all locations. These activities have still to be completed and are taking place parallel to operational business. Given the scale and complexity of such a project, business processes and workflows as well as technical systems can of course be affected by disruptions and impairments, which may also have implications for sales activities. Identifying, resolving and eliminating such problems is a matter of the highest priority. Integration 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 that does not offer 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 among viewers has improved to 52% compared to 45% 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 2007 a department was set up for Quantitative Risk Management; it anchors the Group-wide assessment of opportunities and risks and coordinates/facilitates calculations of embedded value and actuarial balance sheet items within the Group. In total, an average of 65 (48) staff were employed at Talanx AG 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 2007 financial year.

Forecast

Economic environment

Global economic growth in 2008 is expected to lag behind the previous year at a little over 4%. Once again, growth will be driven by the booming emerging markets with a rate of increase in excess of 8% in real terms. This will again comfortably surpass the growth of the G7 countries. In the Eurozone the potential growth of 2% will be undershot, although in Germany it will be achieved at 1.6%. The marked improvement in the state of the labor market will stabilize the economic trend in Europe as a whole and Germany in particular. All in all, we expect to see a cooldown in global economic growth originating from the United States.

The Fed will likely stand by its aggressive policy of cutting interest rates in order to stimulate growth, which is failing to live up to its potential. In this context monetary stability will take a back seat compared to the goal of economic revival. The ECB will also take due note of the looming cyclical slowdown and is expected to maintain the steady and consistent monetary policy pursued in past years.

Capital market

Interest rates are expected to rise on US and European capital markets in the second half of 2008. The yield curve has already begun to steepen from the short end, a development that is likely to continue over the course of the year. The positive climate for European industrials would still appear to be largely intact: in recent years most industrial enterprises have fundamentally strengthened their balance sheets and generated substantial free cash flows. The historically low global failure rates for lower quality securities are set to increase, but no significant rise in failure rates is to be expected in the investment grade segment. The spreads in the short- and medium-duration segment offer some interesting opportunities.

The moderate valuation of European and especially Germany equities opens up price potential for 2008 subject to a slowing but not recessionary macroeconomic trend. The prevailing risk aversion and hence the required risk premiums will diminish appreciably as the year progresses. The sustained strength of the euro against the US dollar will act as a drag on European and particularly German export-oriented stocks. Overall, the valuation level will be close to the historic multiples.

Future state of the industry

Insurance demand is expected to gather impetus from the current cyclical upturn at the earliest in the course of 2008, but primarily in 2009 and later. Industry-specific factors – intensive competition in property/casualty insurance, the degree of market penetration already achieved and the effects of political reforms – are curtailing premium growth. Overall, therefore, the German insurance industry will probably grow by a very moderate 1.5% in 2008.

In **life insurance** the trend towards greater acceptance among the broader population of the retirement products marketed by life insurers is likely to be sustained in 2008. This should also be reflected in further vigorous new business with Riester annuity products. In addition, a special effect in 2008 will be the entry into force of what is for the time being the last increase in Riester assistance. “Basis-Rente” annuity products are also expected to enjoy significant growth. In general terms, the trend towards an increasing proportion of (unit-linked) annuity policies is set to continue. In this context, the provisions laid down in the reform of the Insurance Contract Act are likely to have both positive and inhibiting implications for sales of life insurance. The prospects for premium growth in life insurance remain moderate at around +2%.

Although the business climate has also improved somewhat for **property and casualty insurance** on the back of the favorable cyclical trend, the overall premium volume is likely to remain unchanged from the previous year. Fierce competition over premiums is still driving movement in the pricing components of insurance coverage in property/casualty business,

and this state of affairs is tending to spread to more and more lines and subsegments. In **motor insurance**, the most important single line, the average annual premiums are on a very low level viewed from the perspective of a longer-term comparison. The tendency towards offering more attractive tariffs nevertheless seems to be continuing and intense competition remains the hallmark of this line. The premium volume in motor insurance must be expected to contract by around another 2%. A further drop in premiums roughly on a par with the two previous years (-2.3%) is also to be anticipated in **industrial property insurance**. Here too the business environment will likely be shaped by fierce competition. In **private property insurance** and **marine insurance**, on the other hand, premium growth in the low single-digit percentage range can be expected.

Orientation of the company over the next two financial years

Sales markets

With a view to optimizing the portfolio of participating interests we are targeting first and foremost further expansion in private customer business. In all primary insurance segments our stated aim is to continue to grow selectively in foreign markets. In the years ahead the spread of our premium income should develop in such a way that it becomes more balanced than is currently the case, with half deriving from the German market and half emanating from markets abroad. Yet this strategy in no way implies a turning away from the German market, in which we have appreciably stepped up our presence in the core primary insurance segments through the acquisition of the Gerling, BHW and PB companies. Using this reinforced basis as our platform, we intend to continue offering domestic customers our know-how and expertise on the level to which they have become accustomed. In the reinsurance segment further strengthening – such as through acquisitions – is conceivable only in life/health reinsurance.

New methods, products and services

We regard the multi-brand strategy which enables us to tailor our products and services specifically to the needs of our customers and other stakeholders as one of our Group's major advantages. In our assessment, our decentralized approach is a proven strength, reflecting our Group's intimacy with its various markets and clients. In the coming years we shall continue to make use of this edge in order to cater quickly and professionally to our customers' expectations. Acting as an opposite force, Talanx AG assumes central tasks in any area where value added can thereby be generated for the Group, for example by leveraging synergies.

A key starting point for the generation of synergies within the Group companies is to be found, inter alia, in the organization of information technology – an area whose potential extends from the computer centre through procurement to software development. Over the coming years we shall consistently enhance our system landscape with the aim of putting in place state-of-the-art, flexible and secure systems that provide efficient support for our business processes. We do not see investment in IT merely as a necessary step to maintain our technical infrastructure, but rather as a match-winning performance factor in our competitive strength going forward.

Anticipated profitability and financial position of the company

Profit trend

In the period until the end of 2009 it is our expectation that the income from participating interests and profit transfers accruing to Talanx AG from its subsidiaries will continue to rise.

Taking as a basis a normalized pre-tax result for Talanx AG in 2007 – which is around EUR 100 million lower than reported after factoring out the effects of profits and losses on disposals –, it is our assessment that the next two years will bring

stable profitability for Talanx AG. Special effects associated with a possible Initial Public Offering, which would be reflected principally in non-recurring charges and pro-rata interest income from the inflow of funds, have been disregarded in this assessment. As a further factor, the company's tax expenditures will decrease from 2008 onwards as a consequence of corporate tax reform.

Financial position

The liquidity balance of Talanx AG will likely rise over the course of 2008. The expected inflows of cash from profit transfers and dividends paid by subsidiaries will comfortably surpass the planned payments for interest and other payment obligations. It is envisaged that the profit for the year will be reinvested each year until further notice.

Opportunities

Not only in the current financial year but also in the two subsequent years of 2009 and 2010, we expect to benefit increasingly from the systematic application of our integrated set of management tools – comprised of performance management, risk management, capital management and mergers & acquisitions management – not just with an eye to the more exacting requirements of capital markets, rating agencies and financial regulators but also with a view to acting quickly on opportunities as they present themselves.

Opportunities associated with the development of the general business environment

In view of the rapidly and dynamically shifting business environment, we believe that identifying changes in framework conditions at an early stage and arriving at coherent strategic options and measures ranks among our most important tasks as we strive to consolidate our competitive position.

The stimuli for insurance demand deriving from the currently favorable economic climate will probably not be felt until after a certain time lag – and even then only if the cyclical upturn is not already slowing again but is actually reflected in a sustained increase in the real incomes of insurance customers. What is more, we would have to see a cooling of the currently prevailing price competition in the various lines of property/casualty primary insurance. The expectations for life insurance can be assessed somewhat more favorably since there remains a considerable need for individual retirement provision. Annual overall growth for the German insurance market is scarcely likely to exceed 1%–2%.

Opportunities created by the company

Despite the rather muted development forecast for the German insurance market, we see good opportunities for selective premium growth in carefully chosen business segments such as unit-linked life insurance or offerings tailored to special target groups such as best agers/seniors. In addition, we identify attractive growth prospects for our foreign business in the Property/Casualty Primary Insurance segment. An Initial Public Offering of Talanx AG would open up additional fresh opportunities and perspectives, since this would put in place the financial foundation for further organic growth by the Group as well as for strategic acquisitions.

Balance sheet as at 31 December 2007

Assets	31.12.2007	31.12.2006
Figures in EUR thousand		
A. Fixed assets		
I. Intangible assets		
1. Franchises, trademarks, patents, licenses and similar rights	264	240
2. Advances paid on intangible assets	—	—
	264	240
II. Property, plant and equipment		
1. Other equipment, fixtures, fittings and equipment	594	464
2. Advance payments and plant and machinery in process of construction	—	—
	594	464
III. Financial assets		
1. Shares in affiliated companies	4,754,858	4,028,760
2. Loans to affiliated companies	642,200	553,700
3. Participating interests	42,657	41,440
4. Other loans	—	—
	5,439,715	4,623,900
B. Current assets		
I. Receivables and other assets		
1. Receivables from affiliated companies	327,765	308,748
– thereof with a remaining term of more than one year: EUR 2,283,000 (previous year: EUR 2,379,000)		
2. Other assets	20,619	26,396
– thereof with a remaining term of more than one year: EUR 16,025,000 (previous year: EUR 17,581,000)		
	348,384	335,144
II. Cash in banks	219,905	77,592
C. Prepayments and accrued income	4,831	2,576
D. Probable tax relief in subsequent financial years in accordance with § 274 Para. 2 of the Commercial Code (HGB)	124,199	120,933
Total assets	6,137,892	5,160,849

Liabilities	31.12.2007	31.12.2006
Figures in EUR thousand		
A. Capital and reserves		
I. Subscribed capital	260,000	260,000
II. Capital reserve	629,529	629,529
III. Retained earnings	2,452,576	2,296,366
IV. Profit for the year	243,024	156,211
	3,585,129	3,342,106
B. Provisions		
1. Provisions for pensions and similar obligations	453,342	443,964
2. Provisions for taxation	214,943	58,375
3. Other provisions	8,861	5,095
	677,146	507,434
C. Liabilities		
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	613,605	68,308
– thereof with a remaining term of up to one year: EUR 4,489,000 (previous year: EUR 4,768,000)		
3. Accounts due to affiliated companies	1,232,054	1,217,291
– thereof with a remaining term of up to one year: EUR 116,907,000 (previous year: EUR 217,648,000)		
4. Other liabilities	15,911	10,745
– 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 15,911,000 (previous year: EUR 10,745,000)		
	1,870,570	1,305,344
D. Deferred charges	5,047	5,965
Total liabilities	6,137,892	5,160,849

Profit and loss account for the 2007 financial year

	2007	2006
Figures in EUR thousand		
1. Income from participating interests – thereof from affiliated companies: EUR 132,749,000 (previous year: EUR 3,179,000)	133,286	3,548
2. Other operating income – thereof from affiliated companies: EUR 157,569,000 (previous year: EUR 88,157,000)	161,507	95,983
3. Personnel expenses		
a. Wages and salaries	7,448	6,337
b. Social security, pensions and other benefit costs – thereof for pensions: EUR 274,000 (previous year: EUR 496,000)	948	999
4. Depreciation and amortization costs and other write-offs on intangible assets and plant and equipment	409	555
5. Other operating expenses	87,296	27,348
6. Income from other long-term securities and loans – thereof from affiliated companies: EUR 32,797,000 (previous year: EUR 656,000)	32,797	656
7. Other interest and similar income – thereof from affiliated companies: EUR 5,841,000 (previous year: EUR 127,000)	19,885	11,262
8. Interest and similar expenses – thereof to affiliated companies: EUR 55,010,000 (previous year: EUR 49,750,000)	101,192	121,468
9. Income from profit transfer agreements	301,305	296,105
10. Expenses from loss transfers	2,802	13,336
11. Profit or loss on ordinary activities before tax	448,685	237,511
12. Extraordinary income	4,915	–
13. Extraordinary expenses	7	42,561
14. Taxes on profit and income	210,566	38,622
15. Other taxes	3	117
16. Profit for the financial year	243,024	156,211
17. Allocation to other retained earnings	–	–
18. Disposable profit	243,024	156,211

Notes

General information

The annual accounts for the 2007 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.

Information on the balance sheet – assets

Change in asset items	Acquisition cost 01.01.2007	Position as at 01.01.2007
Figures in EUR thousand		
A. I. Intangible assets		
1. Franchises, trademarks, patents, licenses and similar rights	909	240
2. Advances on intangible assets	—	—
3. Total A.I.	909	240
A. II. Property, plant and equipment		
1. Other equipment, fixtures, fittings and equipment	736	464
2. Advance payments and plant and machinery in process of construction	—	—
3. Total A.II.	736	464
A. III. Financial assets		
1. Shares in affiliated companies	4,028,760	4,028,760
2. Loans to affiliated companies	553,700	553,700
3. Participating interests	41,440	41,440
4. Other loans	—	—
5. Total A.III.	4,623,900	4,623,900
Sum total	4,625,545	4,624,604

Additions	Transfers	Disposals	Write-ups	Cumulative depreciation	Depreciation in financial year	Position as at 31.12.2007
267	—	—	—	669	243	264
—	—	—	—	—	—	—
267	—	—	—	669	243	264
303	—	6	—	272	167	594
—	—	—	—	—	—	—
303	—	6	—	272	167	594
3,588,047	—	2,861,949	—	—	—	4,754,858
90,000	—	1,500	—	—	—	642,200
4,200	—	2,983	—	—	—	42,657
—	—	—	—	—	—	—
3,682,247	—	2,866,432	—	—	—	5,439,715
3,682,817	—	2,866,438	—	941	410	5,440,573

Notes on the balance sheet – assets

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

An amount of EUR 264,000 was recognized for acquired software.

A.III.1. Shares in affiliated companies

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	Capital and reserves	Result for the 2007
	(current)	31.12.2007 ¹⁾	financial year ¹⁾
	%	EUR thousand	EUR thousand
Companies resident in Germany			
AmpegaGerling Asset Management GmbH, Cologne	100.00	83,600	41,637 ²⁾
AmpegaGerling Immobilien Management GmbH, Cologne	100.00	2,837	460
AmpegaGerling Investment GmbH, Cologne	100.00	29,400	12,464
ASPECTA Lebensversicherung AG, Cologne	100.00	42,243	3,243 ²⁾
BHW Lebensversicherung AG, Hamelin	100.00	63,515	20,100
BHW Pensionskasse AG, Hamelin	100.00	6,787	-1,345
CiV Lebensversicherung AG, Hilden	100.00	33,315	32,915 ²⁾
CiV Versicherung AG, Hilden	100.00	6,342	18,391 ²⁾
E+S Rückversicherung AG, Hannover	32.03	600,281	180,000
GERLING Beteiligungs-GmbH, Cologne	100.00	28	796 ²⁾
Gerling Gesellschaft für IT-Dienstleistungen mbH, Cologne	100.00	99	4
Gerling Kundenservice Firmen und Privat GmbH, Cologne	100.00	25	1,572 ²⁾
Hannover Re Euro RE Holdings GmbH, Cologne	41.12	125	-37
Hannover Rück Beteiligung Verwaltungs-GmbH, Hannover	50.22	2,618,749	—
Hannover Rückversicherung AG, Hannover	50.22	1,865,816	271,955
HDI Direkt Versicherung AG (previously: HDI Privat Versicherung AG), Hannover	100.00	162,000	108,580 ²⁾
HDI-Gerling Firmen und Privat Versicherung AG (previously: ASPECTA Versicherung AG), Hannover	100.00	170,367	-70,702 ²⁾
HDI-Gerling Friedrich Wilhelm Rückversicherung AG (previously: GERLING FRIEDRICH WILHELM Rückversicherungs-AG), Cologne	100.00	39,619	15,275 ²⁾
HDI-Gerling Industrie Versicherung AG (previously: HDI Industrie Versicherung AG), Hannover ³⁾	100.00	301,709	182,807 ²⁾
HDI-Gerling International Holding AG, Hannover	100.00	569,165	28,156 ²⁾
HDI-Gerling Leben Betriebservice GmbH, Cologne	100.00	102	2
HDI-Gerling Leben Serviceholding AG, Cologne	100.00	955,965	22,637 ²⁾
HDI-Gerling Leben Vertriebsservice AG, Cologne (previously: HDI Pension Strategy & Management GmbH, Hamburg)	100.00	252	55
HDI-Gerling Lebensversicherung AG, Cologne	100.00	198,839	34,000
HDI-Gerling Pensionskasse AG, Cologne	100.00	26,737	1,150
HDI-Gerling Pensionsmanagement AG, Cologne (previously: HDI Pensionsmanagement AG, Hilden) ⁴⁾	100.00	6,391	41 ²⁾

Name and registered office of the company	Participation (current)	Capital and reserves 31.12.2007 ¹⁾	Result for the 2007 financial year ¹⁾
	%	EUR thousand	EUR thousand
Companies resident in Germany (continued)			
HDI-Gerling Rechtsschutz Versicherung AG (previously: HDI Rechtsschutz Versicherung AG), Hannover ⁵⁾	100.00	18,951	–30,784 ²⁾
HDI-Gerling Sach Serviceholding AG (previously: HDI Service AG), Hannover	100.00	1,056,000	146,269 ²⁾
HDI-Gerling Vertrieb Firmen und Privat AG, Hannover (previously: Gerling Vertrieb Firmen und Privat AG, Cologne)	100.00	55	371
HDI-Gerling Vertrieb Makler Firmen und Privat GmbH, Hannover (previously: Gerling Vertrieb Makler Firmen und Privat GmbH, Cologne)	100.00	100	502 ²⁾
HDI-Gerling Zentrale Verwaltung GmbH (previously: Gerling Zentrale Verwaltungs-GmbH), Cologne	100.00	1,601	1,576
IVEC Institutional Venture and Equity Capital AG, Cologne	100.00	286,414	35,599
neue Leben Lebensversicherung AG, Hamburg	67.50	56,781	12,000
neue Leben Unfallversicherung AG, Hamburg	67.50	3,526	4,410 ²⁾
PB Lebensversicherung AG, Hilden	100.00	16,909	1,013 ²⁾
PB Versicherung AG, Hilden	100.00	18,337	2,664
Proactiv Holding AG, Hilden (previously: ProACTIV Vermögensverwaltungs-AG, Hannover)	100.00	918,711	6 ²⁾
Protection Reinsurance Intermediaries AG, Hannover	100.00	387	14,952 ²⁾
Zweite Hannover Rück Beteiligung Verwaltungs-GmbH, Hannover	50.22	500,000	—

¹⁾ Based on the companies' local individual financial statements

²⁾ Subject to a profit transfer agreement

³⁾ Merger of Gerling-Konzern Allgemeine Versicherungs-AG into HDI-Gerling Industrie Versicherung AG

⁴⁾ Merger of Gerling Pensionsmanagement GmbH into HDI-Gerling Pensionsmanagement AG

⁵⁾ Merger of Gerling Schadenregulierungs-GmbH into HDI-Gerling Rechtsschutz Versicherung AG

As part of the restructuring of the Talanx Group all companies transacting insurance on the basis of cooperation with banks or postal service providers are to be brought together under one roof. They were transferred to ProACTIV Vermögensverwaltungs-AG (henceforth: Proactiv Holding AG), which was established for this purpose, by way of a non-cash contribution.

By way of spin-off for transfer of its assets, GERLING Beteiligungs-GmbH (GBG) transferred its 100% stake in Gerling-Konzern Allgemeine Versicherungs-AG (GKA) and the loan agreement between GBG and Talanx as a collective unity to HDI-Gerling Sach Serviceholding AG (HG-SSH) in exchange for shares in HG-SSH.

HDI Verwaltungs-Service GmbH and Zweite HDI Beteiligungsgesellschaft mbH were merged into Talanx with economic effect on 1 May 2007.

Name and registered office of the company	Participation (current) %	Capital and reserves 31.12.2007 ¹⁾		Result for the 2007 financial year ¹⁾	
Currency unit in thousands					
Companies resident abroad					
ASPECTA Assurance International AG, Vaduz/Liechtenstein	100.00	CHF	8,639	CHF	898
ASPECTA Assurance International Luxembourg S.A., Luxembourg/Luxembourg	100.00	EUR	9,103	EUR	-925
CiV Hayat Sigorta A.S., Istanbul/Turkey	100.00	TRY	8,664	TR	-1,636
Euro International Reinsurance S.A., Luxembourg/Luxembourg	100.00	EUR	10,265	EUR	—
Gerling Polska Towarzystwo Ubezpieczen na Zycie S.A., Warsaw/Poland	100.00	PLN	68,405	PLN	-8,628
Hannover Finance (Luxembourg) S.A., Luxembourg/Luxembourg	50.22	EUR	49,677	EUR	-33,267
Hannover Finance (UK) Ltd., Virginia Water/United Kingdom	50.22	GBP	131,129	GBP	-10
Hannover Finance Inc., Wilmington/USA	50.22	USD	484,733	USD	-140,873
Hannover Life Re of Australasia Ltd, Sydney/Australia	50.22	AUD	168,515	AUD	28,040
Hannover Life Reassurance (Ireland), Dublin/Ireland	50.22	EUR	278,346	EUR	38,686
Hannover Life Reassurance (UK) Ltd., Virginia Water/United Kingdom	50.22	GBP	48,233	GBP	9,595
Hannover Life Reassurance Bermuda Ltd., Hamilton/Bermuda	50.22	EUR	120,150	EUR	876
Hannover Life Reassurance Company of America, Orlando/USA	50.22	USD	136,570	USD	30,319
Hannover Re (Bermuda) Ltd., Hamilton/Bermuda	50.22	EUR	968,000	EUR	138,652
Hannover Re Real Estate Holdings, Inc., Orlando/USA	47.77	USD	111,641	USD	5,338
Hannover Reinsurance (Ireland) Ltd., Dublin/Ireland	50.22	EUR	443,732	EUR	9,188
Hannover Reinsurance Group Africa (Pty) Ltd., Johannesburg/South Africa	50.22	ZAR	182,048	ZAR	125,191
HDI Asekuracja Towarzystwo Ubezpieczen S.A., Warsaw/Poland	100.00	PLN	235,370	PLN	36,511
HDI Assicurazioni S.p.A., Rome/Italy	100.00	EUR	151,687	EUR	14,087
HDI HANNOVER International España, Cía de Seguros y Reaseguros S.A., Madrid/Spain	100.00	EUR	38,230	EUR	5,007
HDI Hannover Versicherung AG, Vienna/Austria	99.97	EUR	29,313	EUR	5,307
HDI Seguros S.A., São Paulo/Brazil	99.99	BRL	426,039	BRL	38,396
HDI Sigorta A.S., Istanbul/Turkey	99.99	TRY	20,245	TR	-10,142
HDI-Gerling Polska Towarzystwo Ubezpieczen S.A., Warsaw/Poland	100.00	PLN	49,476	PLN	7,535
HDI-Gerling Verzekeringen N.V. (previously: HDI Verzekeringen N.V.), Rotterdam/Netherlands	100.00	EUR	53,220	EUR	9,720
International Insurance Company of Hannover Ltd., Bracknell/United Kingdom	50.22	GBP	96,988	GBP	920
Magyar Posta Biztosító Részvénytársaság, Budapest/Hungary	66.93	HUF	1,726,263	HUF	51,058
Magyar Posta Életbiztosító Részvénytársaság, Budapest/Hungary	66.93	HUF	2,068,608	HUF	69,157
OOO Strakhovaya Kompaniya CiV Life, Moscow/Russia	100.00	RUB	196,688	RUB	-53,926
Talanx Finanz (Luxembourg) S.A., Luxembourg/Luxembourg	99.95	EUR	5,973	EUR	296

¹⁾Based on the companies' local individual financial statements

A.III.2. Loans to affiliated companies

This item consists of two loans in an amount of altogether EUR 640,000,000 due from HDI-Gerling Sach Service-holding AG as well as EUR 2,200,000 due from HBG Hannover Beteiligungsgesellschaft mbH & Co. KG, Hannover.

A.III.3. Participating interests

This amount includes the participation held in IGEPA Industrie- und Gewerbebank GmbH & Co. KG of EUR 38,457,000 – allowing for scheduled capital repayments – and the participation in DFA Capital Management Inc. in an amount of EUR 4,200,000.

B.I.1. Receivables from affiliated companies

	31.12.2007	31.12.2006
Figures in EUR thousand		
	327,265	308,748

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

B.I.2. Other assets

	31.12.2007	31.12.2006
Figures in EUR thousand		
Other receivables	20,619	26,396

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

C. Prepayments and accrued income

	31.12.2007	31.12.2006
Figures in EUR thousand		
	4,831	2,576

In addition to deferred administration costs, two debt discounts arising from the taking out of loans with Talanx Finanz (Luxemburg) S.A., HDI-Gerling Industrie Versicherung AG 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)

	31.12.2007	31.12.2006
Figures in EUR thousand		
	124,199	120,933

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-Gerling Industrie Versicherung AG (HG-I), HDI-Gerling Firmen und Privat Versicherung AG (HG-FP) and HDI Direkt Versicherung AG (H-D). The probable tax relief was calculated on the difference between the tax balance sheet and the commercial balance sheet using a tax rate of 31.6% (previous year: 40%). HG-I, HG-FP and H-D are in a group relationship with Talanx for the purposes of corporation and trade tax, and differences between the commercial and tax balance sheets therefore affect the parent company.

Notes on the balance sheet – liabilities

A.I. Subscribed capital

	31.12.2007	31.12.2006
Figures in EUR thousand		
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

	31.12.2007	31.12.2006
Figures in EUR thousand		
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

	31.12.2007	31.12.2006
Figures in EUR thousand		
Position at the beginning of the financial year	2,296,366	2,107,286
Allocation to other retained earnings	156,211	189,080
Position at the end of the financial year	2,452,577	2,296,366

The allocation refers to the disposable profit for the 2006 financial year, which was transferred to retained earnings on the basis of the resolution adopted by the General Meeting on 22 June 2007.

B.1. Provisions for pensions and similar obligations

	31.12.2007	31.12.2006
Figures in EUR thousand		
	453,342	443,964

B.3. Other provisions

	31.12.2007	31.12.2006
Figures in EUR thousand		
Emoluments	848	788
Remuneration paid to the Supervisory Board	833	771
Bonuses	914	850
Consulting expenses	4,963	1,815
Cost of the annual accounts	751	592
Other items	552	279
	8,861	5,095

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

	31.12.2007	31.12.2006
Figures in EUR thousand		
	613,605	68,308

This item shows loans payable for the financing of share acquisitions as well as obligations assumed as part of the merger with HANNOVER Organisations-Systeme GmbH and mortgage installments not charged off at year-end.

Talanx AG financed the acquisition of the BHW companies and the remaining 50% stake in the PB companies with borrowed funds. To this end a loan was taken out in an amount of EUR 550,000,000 under the lead management of Bank of America, the term of which ends on 31 July 2012. The total amount does not include any liabilities with a remaining term of more than five years.

C.3. Accounts due to affiliated companies

	31.12.2007	31.12.2006
Figures in EUR thousand		
	1,232,054	1,217,291

Talanx AG issued bearer debentures carrying coupons consistent with market rates that were taken up by various Group companies. They were carried in an amount of EUR 696.0 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 made a short-term loan of EUR 25.0 million available to Talanx AG.

Hannover Re (Bermuda) Ltd. made a loan of EUR 50.0 million available to Talanx AG. The loan is due on 31 May 2013.

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

	31.12.2007	31.12.2006
Figures in EUR thousand		
	15,911	10,745

Notes on the profit and loss account

1. Income from participating interests

	31.12.2007	31.12.2006
Figures in EUR thousand		
Dividend payments made by affiliated companies:		
Alstertor Erste Beteiligungs- u. Investitionssteuerungs-GmbH & Co. KG, Hamburg	148	—
GERLING Beteiligungs-GmbH, Cologne	21,251	—
HNG Hannover National Grundstücksverwaltung GmbH & Co. KG, Hannover	4,000	—
Hannover Rückversicherung AG, Hannover	96,903	—
neue leben Holding AG, Hamburg	3,578	3,179
PB Lebensversicherung AG, Hilden	6,133	—
Talanx Finanz (Luxemburg) S.A., Luxembourg	737	—
	132,750	3,179
Dividend paid by IGEPA Industrie- und Gewerbepark GmbH & Co. KG	536	369
	133,286	3,548

In the case of PB Lebensversicherung AG the amount refers exclusively to payout of the establishment fund.

2. Other operating income

	31.12.2007	31.12.2006
Figures in EUR thousand		
	161,507	95,983

This item consists primarily of income from the disposal of shares in the following affiliated companies: CiV Lebensversicherung AG, CiV Versicherung AG, PB Lebensversicherung AG, PB Versicherung AG.

3. Personnel expenses

	31.12.2007	31.12.2006
Figures in EUR thousand		
	8,396	7,336

This item shows remuneration paid to the Board of Management and salaries in the amount of EUR 7,448,000, pension payments to a former member of the Board of Management totaling EUR 39,000, the allocation of EUR 69,000 to the pension provision, indemnity claims of EUR 66,000 as well as social security, pension and other benefit costs of EUR 774,000.

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

	31.12.2007	31.12.2006
Figures in EUR thousand		
	409	555

5. Other operating expenses

	31.12.2007	31.12.2006
Figures in EUR thousand		
Remuneration paid to the Supervisory Board	890	807
HDI-Gerling service charge	1,120	1,227
Travel expenses	753	569
Auditing and consulting expenses	21,933	15,772
Other intra-group services	400	1,003
Advertising expenses	4,700	4,988
Losses on disposal of shares in affiliated companies	52,394	—
Other expenditure	5,106	2,982
	87,296	27,348

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

	31.12.2007	31.12.2006
Figures in EUR thousand		
	32,797	656

This item refers to interest income on loans extended to affiliated companies.

7. Other interest and similar income

	31.12.2007	31.12.2006
Figures in EUR thousand		
	19,885	11,262

This item primarily consists of interest income on overnight and time money, from profit transfer agreements, from cash in banks and from swaps.

8. Interest and similar expenses

	31.12.2007	31.12.2006
Figures in EUR thousand		
	101,192	121,468

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 expenses from swaps, interest expenses from partial drawing on the line of credit, interest from the compounding of pensions and commitment interest.

9. Income from profit transfer agreements

	31.12.2007	31.12.2006
Figures in EUR thousand		
	301,305	296,105

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

	31.12.2007	31.12.2006
Figures in EUR thousand		
	2,802	13,336

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

12. Extraordinary income

	31.12.2007	31.12.2006
Figures in EUR thousand		
	4,915	—

By way of spin-off for transfer of its assets, GBG transferred its 100% stake in GKA and the loan agreement between GBG and Talanx as a collective unity to HG-SSH in exchange for shares in HG-SSH. The resulting spin-off profit produced the aforementioned extraordinary income in the year under review.

13. Extraordinary expenses

	31.12.2007	31.12.2006
Figures in EUR thousand		
	7	42,561

HDI Verwaltungs-Service GmbH, Hannover, and Zweite HDI Beteiligungsgesellschaft GmbH, Hannover, were merged into Talanx in the financial year. The resulting merger losses produced the aforementioned extraordinary expenses in the year under review.

14. Taxes on profit and income

	31.12.2007	31.12.2006
Figures in EUR thousand		
	210,566	38,622

This item consists primarily of income tax for the financial year which is charged solely against the profit on ordinary activities. The reduction in tax expenditure resulting from the increase in the deferred item for probable tax relief in subsequent financial years is included here in an amount of EUR 3.3 million.

In addition, a provision was set aside for taxes on income in previous years.

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

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 on 14 June 2001
- CiV Lebensversicherung AG on 22 October 2001, renewed on 20 June 2005 (effective 1 January 2006)
- Protection Reinsurance Intermediaries AG on 27 June 2003
- HDI-Gerling Sach Serviceholding AG (previously: HDI Service AG) on 27 November 2003 (effective 1 January 2004)
- AmpegaGerling Asset Management GmbH on 26 February 2004
- Partner Office AG on 30 November 2006
- ProACTIV Vermögensverwaltungs-AG on 12 December 2007
- HDI-Gerling Beschäftigungs- und Qualifizierungs-GmbH on 12 December 2007

The controlling and profit transfer agreements with PB Versicherung AG and PB Lebensversicherung AG dated 26 November 1998, which were concluded through a civil-law corporation in which Talanx AG and Deutsche Postbank AG held equal shares until 1 October 2007, were terminated effective 1 October 2007.

The controlling and profit transfer agreement with CiV Versicherung AG was rescinded with effect from the end of the 2007 financial year.

The controlling and profit transfer agreement with Gerling Beteiligungs-GmbH was rescinded effective 31 March 2008.

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 ProACTIV Vermögensverwaltungs-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.

On 18 July 2007 Talanx concluded a cooperation agreement with Deutsche Postbank AG regarding the distribution of products from the PB insurers. The cooperation agreement, which has a term of 15 years, follows on from the cooperation between HDI V.a.G. and Deutsche Postbank AG and puts it on a new footing.

Employees	2007	2006
Full-time	62	46
Part-time	3	2
Total	65	48

Board and officers

The names of the members of the Supervisory Board and the Board of Management are listed on pages 5–7 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 1,956,000; this included an amount of EUR 241,000 relating to the previous year. The remuneration paid to members of the Supervisory Board totaled EUR 890,000. The remuneration paid to former members of the Board of Management and their surviving dependants totaled EUR 1,876,000. An amount of EUR 444,000 was set aside for pension commitments to former members of the Board of Management and their surviving dependants.

Derivative financial instruments

In the year under review we took out interest rate swaps so as to hedge a floating-rate commitment against rising interest rates. This had been entered into in an amount of EUR 550 million with a value date of 28 September 2007 so as to finance the purchase price for the interests in BHW Lebensversicherung and BHW Pensionskasse as well as the remaining 50% stakes in PB Lebensversicherung AG and PB Versicherung AG. The floating rate tracks the 3-month EURIBOR (plus 22.5 BP). Four interest rate swaps were taken out with the same value date, also in a nominal amount of altogether EUR 550 million. We receive floating interest from these interest rate swaps in absolutely the same amount as we are required to pay on the basis of the liability, and in exchange we pay fixed interest. The selection of highly rated counterparties ensures that we avoid entering into any significant additional credit risk. The term of the swaps corresponds to the term of the underlying.

The individual counterparties are: LB Baden-Württemberg, DZ Bank and Calyon, each in an amount of EUR 150 million, as well as Morgen Stanley, in an amount of EUR 100 million.

The fair value of the interest rate swaps totaled +EUR 85,000 as at the balance sheet date; due to the absence of a liability overhang there was therefore no need to establish a provision for anticipated losses as at the balance sheet date. The fair value was calculated in the SimCorp Dimension investment management system used by AmpegaGerling Asset Management GmbH on the basis of the discounted cash flow method.

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 covering 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. Talanx AG is responsible pro rata for any shortfalls of Gerling-Versorgungskasse. Liability as co-guarantor also exists for pension commitments given to employees of AmpegaGerling Immobilien Management GmbH, AmpegaGerling Asset Management GmbH and Siemens Business Service GmbH & Co. OHG.

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 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 that are 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 341i Commercial Code (HGB), in which the company is also included. Talanx also compiles its own consolidated financial statements in accordance with IFRS on a voluntary basis. Both consolidated financial statements are published in the electronic Federal Register.

Hannover, 30 April 2008

Talanx Aktiengesellschaft

Board of Management

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

Certification by the Independent Auditors

To Talanx Aktiengesellschaft, Hannover:

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 2007. 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 May 2008

KPMG Deutsche Treuhand-Gesellschaft
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Prof. Dr. Geib
Auditor

Dr. Dahl
Auditor

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