

Munich Re Group
Annual Report 2008
Knowledge at work



Münchener Rück
Munich Re Group

Key figures (IFRS)

Munich Re Group

		2008	2007 ¹	2006 ¹	2005	2004
Gross premiums written	€bn	37.8	37.3	37.4	38.2	38.1
Operating result	€m	3,262	5,057	5,477	4,143	3,025
Taxes on income	€m	1,373	801	1,648	1,014	712
Consolidated result	€m	1,528	3,923	3,519	2,751	1,887
Attributable to minority interests	€m	25	83	94	72	54
Investments	€bn	175.0	176.2	176.9	177.2	178.1
Return on equity	%	6.7	15.3	14.1	12.5	9.5
Equity	€bn	21.3	25.4	26.3	24.3	20.5
Valuation reserves not recognised in balance sheet ²	€bn	2.3	0.6	1.9	2.6	3.2
Net technical provisions	€bn	157.2	152.4	153.9	154.0	154.3
Staff at 31 December		44,209	38,634	37,210	37,953	40,962

¹ Adjusted pursuant to IAS 8.

² Including amounts attributable to minority interests and policyholders.

Reinsurance¹

		2008	2007 ²	2006 ²	2005	2004
Gross premiums written	€bn	21.8	21.5	22.2	22.3	22.4
Investments	€bn	77.9	81.9	85.0	87.0	81.2
Net technical provisions	€bn	55.6	55.4	59.6	63.4	58.2
Reserve ratio property-casualty	%	270.5	272.0	280.9	295.8	243.8
Large and very large losses (net) ³	€m	1,507	1,126	585	3,134	1,084
Natural catastrophe losses ³	€m	832	634	139	2,603	713
Combined ratio property-casualty	%	99.5	96.4	92.6	111.7	98.9

¹ Before elimination of intra-Group transactions across segments.

² Adjusted pursuant to IAS 8.

³ Previous years adjusted owing to a change in methodology.

Primary insurance¹

		2008	2007	2006	2005	2004
Gross premiums written	€bn	17.4	17.3	16.7	17.6	17.5
Investments	€bn	114.3	109.3	107.4	105.9	115.0
Net technical provisions	€bn	101.6	97.0	94.3	90.8	96.1
Reserve ratio property-casualty	%	117.0	121.4	124.9	113.1	116.8
Combined ratio property-casualty	%	91.2	93.4	90.8	93.1	93.0

¹ Before elimination of intra-Group transactions across segments.

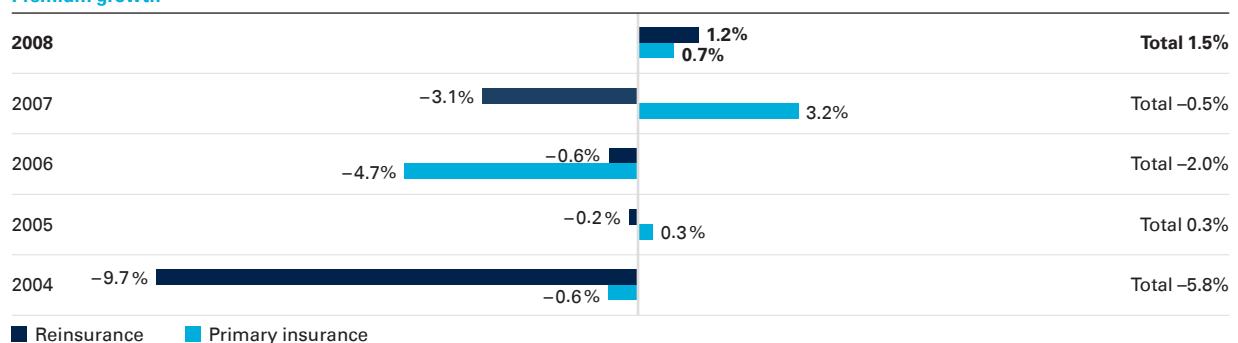
Our shares

		2008	2007 ¹	2006	2005	2004
Earnings per share	€	7.48	17.83	15.05	11.74	8.01
Dividend per share	€	5.50	5.50	4.50	3.10	2.00
Amount distributed	€m	1,074	1,124	988	707	457
Share price at 31 December	€	111.00	132.94	130.42	114.38	90.45
Munich Re's market capitalisation at 31 December ²	€bn	22.9	29.0	29.9	26.3	20.8

¹ Adjusted pursuant to IAS 8.

² This includes own shares earmarked for retirement.

Premium growth



The Munich Re Group

Munich Re Group	
Reinsurance segment	Primary insurance segment
Munich Re	 Münchener Rück Munich Re Group
Munich Reinsurance America	 Munich Re America Munich Re Group
The Midland Company	
Sterling Life Insurance Company	 STERLING Life Insurance Company
Munich American Reassurance Company	 MARC Munich Re Group
Munich Reinsurance Company of Canada	 MROC Munich Re Group
Temple Insurance Company	
Munich Holdings of Australasia	 MHA Munich Re Group
Munich Reinsurance Company of Africa	 MROA Munich Re Group
Münchener Rück Italia	 Münchener Rück Italia Munich Re Group
New Reinsurance Company	
Great Lakes Reinsurance (UK)	
Munich-American RiskPartners	 MARP Munich Re Group
ERGO Insurance Group	
	
Europäische Reiseversicherung	
	
Victoria	
	
Hamburg-Mannheimer	
	
Deutsche Krankenversicherung	
	
Deutscher Automobil Schutz	
	
KarstadtQuelle Versicherungen	
	
Bank Austria Creditanstalt Versicherung AG	
	
ERGO Previdenza	
	
ERGO Hestia	
	
ERGOISVIÇRE	
	
Mercur Assistance	
	
Munich Re Underwriting	
	
Asset management	
MEAG MUNICH ERGO AssetManagement 	

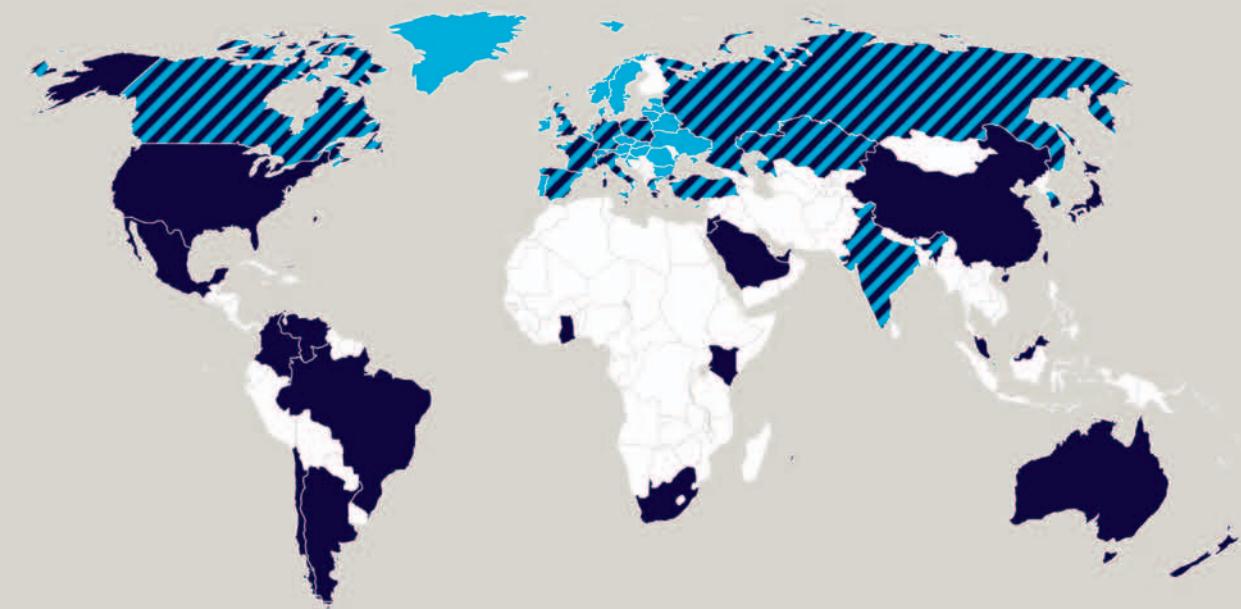
Our operations encompass all aspects of risk assumption in primary insurance and reinsurance. We are one of the world's largest reinsurers, and one of the largest primary insurers in Germany.

Reinsurance: We have been in the business of insuring insurers since 1880.

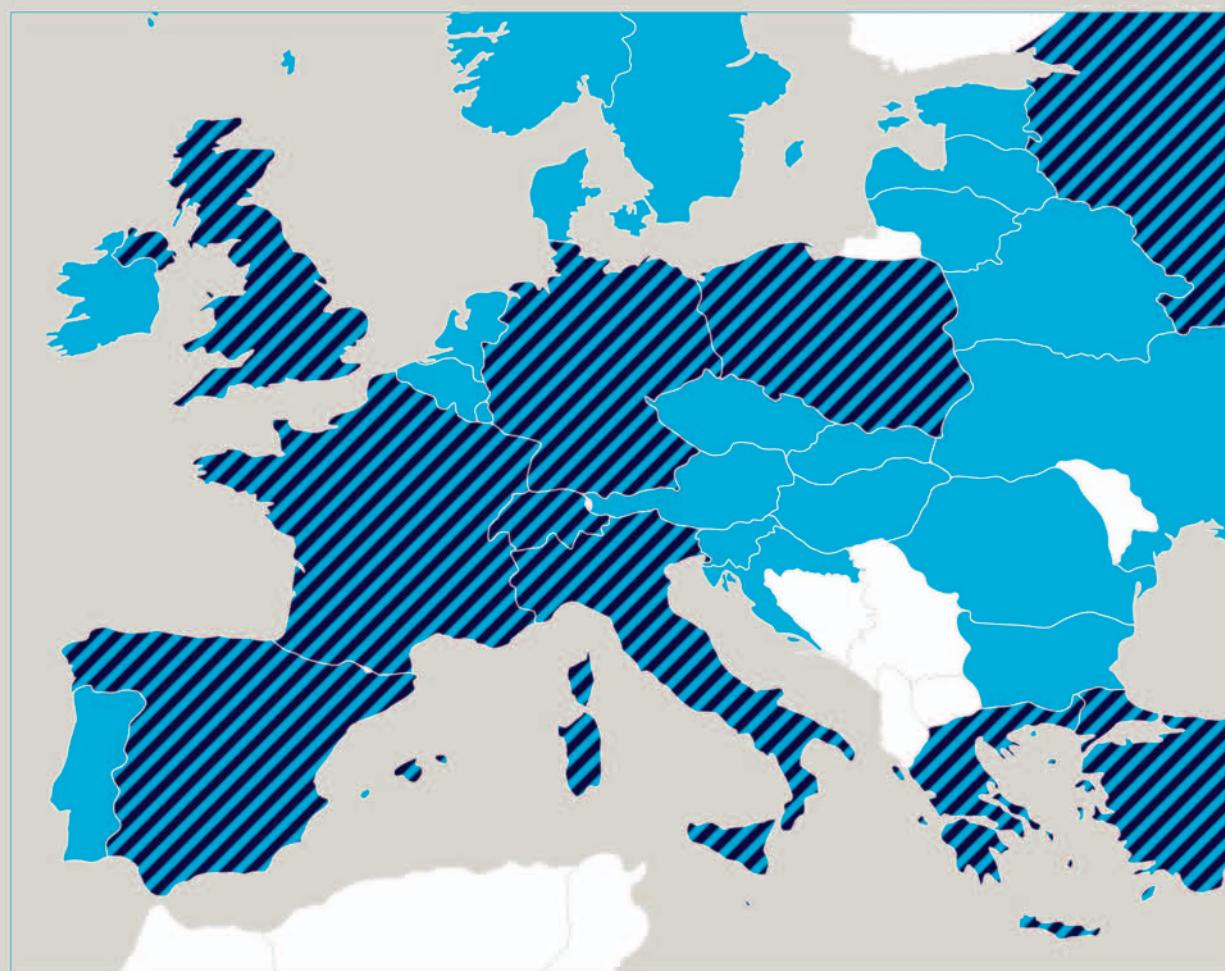
Primary insurance: Our primary insurers offer security mainly for private clients and for small and medium-sized businesses.

Our subsidiary MEAG manages our assets and offers investment products for private clients and institutional investors.

Global presence of the Munich Re Group



- Reinsurance
- Primary insurance
- Reinsurance and primary insurance



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Dear Shareholders,



2008 was probably the most turbulent year in Munich Re's recent history. Unparalleled upheavals on the financial markets and substantial major losses in reinsurance impacted our result.

Against this background, we are presenting figures to you which I could not be satisfied with under normal circumstances, given that we did not achieve our ambitious targets for 2008. The fact is, though, that our objectives for the past business year were set under conditions that ceased to exist months ago. And I fear it will be some considerable time before we can again take such assumptions as a basis for our planning. Therefore it is only logical, in view of the new reality, to abandon our earnings per share target for the year 2010. But we are adhering to our objective of a 15% return on risk-adjusted capital (RORAC) over the cycle, even though this appears much more ambitious now than it did one or two years ago.

With a profit of €1.5bn, however, we have no reason at all to be despondent. In the given situation, this profit for the year is a respectable result, especially in direct comparison with our competitors. In other words, Munich Re has come through the crisis relatively well so far, an achievement reflected in our share price. We have our strategy to thank for this and the fact that we have "practised what we preach" in our risk management.

Dr. Nikolaus von Bomhard
Chairman of Munich Re's
Board of Management

Our integrated business model, focused on risks from reinsurance, primary insurance and the international healthcare market, has proved its effectiveness. It has also been endorsed, in my view, by the activities of some of our competitors who, having increasingly extended their business models beyond the borders of insurance in recent years, are now rethinking their strategies. Unreasonably high result expectations in the financial sector have been disappointed; sustained returns on equity of 20% or more cannot be earned if a sensible approach is taken to risk.

Which brings us back to risk management: in January 2009, the German Federal Financial Supervisory Authority published its circular on the minimum supervisory requirements for the risk management of insurance companies. A draft had been available since the beginning of 2008, when we already met most of these requirements, having devoted ourselves intensively to this topic since 2004. In order to satisfy the standards in every respect, we set about taking the measures still necessary without delay. In the light of the financial crisis, I can say that our efforts over many years have paid off – our risk management has passed an extremely severe test.

And you, ladies and gentlemen, are evidently convinced of this as well. In these difficult times, you have remained loyal to us. I thank you sincerely, also on behalf of my colleagues on the Board of Management and all staff in the Group. We are delighted that we will be able to propose an unchanged dividend of €5.50 per share at the Annual General Meeting.

In the first few months of 2009, the crisis has continued to hold the markets firmly in its grip: almost every day, we are confronted with reports of new record losses and the threat of insolvencies at leading companies. The future development of the economy is uncertain at present. You can read our assessment of the perspectives and the outlook for the capital markets later on in this annual report, in the prospects section of the management report.

Times will remain difficult. But I am not going to join the general chorus of lamentation. We are guardedly optimistic of weathering this crisis well, having created the best possible foundations for doing so. We do not have to change the basic points of our strategy and can continue to realise projects that we launched at the end of 2007.

These projects included an initiative of our Changing Gear programme for profitable growth which has led to an extensive restructuring of our reinsurance group. The first step was to redefine the tasks of our central divisions and optimise their interfaces with each another and with the operational divisions. A short time later, we gave our operational units an even greater client focus. Both projects have now been concluded. The renewal of a large portion of our treaty business at 1 January 2009 took place using the new structure. We reported the satisfactory outcome to the public on 4 February 2009.

In ERGO's case, we last year initiated a project for constantly improving its competitiveness. ERGO is remaining true to its strategy of "One entity with strong brands" and is exploiting the economies of scale that result from the combination of business segments and central functions in the ERGO Group. This project will significantly reduce the expense ratio in due course and ensure the necessary high quality of products and client service.

We cannot determine our market environment, but we can prepare ourselves for it. With our financial strength and our risk-carrying capacity, we are ideally equipped. In a setting characterised by great uncertainty, this should prove a competitive advantage and open up opportunities for profitable new business for us. We are renowned for our risk knowledge and have strong marketing teams for business with private clients. We can deploy various risk carriers and service providers as needed to offer our clients appropriate solutions. We thus systematically cover the individual elements of the value chain in the insurance industry, as illustrated particularly clearly in the business field of International Health. And, finally, we have the financial wherewithal to assume a shaping role in the expected consolidation of the markets, always provided the crisis does not take an even more dramatic turn. You can rely on us to continue applying the care and discipline in our business to which you are accustomed and rightly expect from us.

Our maxim of profitability before growth remains unchanged. I will neither make any concessions in this respect nor tolerate any deviations. Because next year I again want to present a result to you that underlines Munich Re's leading status in our industry.

Yours sincerely,



Nikolaus von Bomhard
Chairman of Munich Re's Board of Management



From left to right

Thomas Blunck

Special and Financial Risks | Reinsurance Investments | Central Procurement

Torsten Jeworek

Chairman of the Reinsurance Committee

Reinsurance Development | Corporate Underwriting | Accounting, Controlling and
Central Reserving for Reinsurance | Information Technology | Global Business Architecture |
Geo Risks Research/Corporate Climate Centre

Jörg Schneider

Group Reporting | Group Controlling | Corporate Finance Mergers & Acquisitions |
Integrated Risk Management | Group Legal, Compliance | Group Taxation |

Investor and Rating Agency Relations

Ludger Arnoldussen

Germany, Asia Pacific and Africa | Services



Nikolaus von Bomhard

Chairman of the Board of Management | Chairman of the Group Committee

Group Development | Group Investments | Group Communications | Group Audit | Group Executive Affairs

Peter Röder

Global Clients and North America

Wolfgang Strassl

Board member responsible for personnel and welfare matters, within the meaning of Section 33
of the German Co-Determination Act

Life (until 31 December 2008) | HealthCare | Human Resources

Georg Daschner

Europe and Latin America

Notable events in 2008

Personalia



Joachim Wenning: New Board member in charge of the Life Division.

Changes on Munich Re's Board of Management

In November 2008, the Supervisory Board appoints Joachim Wenning, formerly CEO of New Re in Geneva, to the Munich Re Board of Management, where he assumes responsibility for the Life Division on 1 January 2009. Wolfgang Strassl – whose responsibilities thus far included life reinsurance – focuses his full attention on the Human Resources Division, his broadened responsibilities as Board member in charge of personnel and welfare matters, and the expansion of the rapidly growing International Health field of business.

New Board members at ERGO

Jochen Messemer, previously member of the Board of Management at DKV and Victoria, is appointed to the ERGO Board of Management on 1 October 2008, with responsibility for international operations as from 1 January 2009. As from 1 April 2008, Ulf Mainzer becomes ERGO Board member for Human Resources and General Services.

New head of IR in Munich

Christian Becker-Hussong succeeds Sascha Bibert as head of Investor and Rating Agency Relations in November 2008. He has many years of experience in capital market communications, having headed IR at Postbank and HVB.

The Group around the world

US strategy consistently implemented

At the end of December 2008, Munich Re announces that it will acquire a 100% stake in the Hartford Steam Boiler Group from US insurer AIG. The purchase price of US\$ 742m (€531m) will be fully financed from Munich Re's own resources. The transaction is expected to be completed at the end of the first quarter of 2009.

In April 2008, Munich Re finalises the acquisition of a 100% stake in US primary insurer The Midland Company. The purchase price for one of the US's leading specialist insurers in niche segments is around US\$ 1.3bn (€0.9bn).

Another acquisition successfully concluded in April for a price of US\$ 52.5m (around €33.7m) is Roanoke Companies Inc., the holding company of Roanoke Trade Services Inc., which is a major underwriting agency and broker for marine insurance in the USA. This expands Munich Re's managing agency business and improves its position in special segments of marine insurance.

The acquisition of Sterling Life Insurance Company is also completed in April. The purchase of the leading US provider of health insurance benefits for seniors strengthens the International Health business segment.

Munich Re sets up subsidiary in Brazil

Munich Re has had a representative office in São Paulo for ten years. In spring 2008, it takes advantage of the opening of the Brazilian reinsurance market to set up a subsidiary, thus securing the best possible market access.

Brazil is by far the largest insurance market in Latin America. Liberalisation of the insurance market coupled



The Midland Company's office buildings in Cincinnati, Ohio, USA.

with the country's overall economic development is expected to boost demand for reinsurance solutions in Brazil.

EUROPÄISCHE and Mercur

Assistance are now part of ERGO

Europäische Reiseversicherung and Mercur Assistance become part of the ERGO Insurance Group on 1 January 2009. This combines Munich Re's primary insurance activities and creates the opportunity to strengthen our position in the international travel market.

Insurance solutions and products

Securitisation optimises portfolio

Munich Re is increasingly offering capital-market solutions to supplement traditional reinsurance. In February 2008, it securitises pandemic risks for the first time. The bond programme provides cover against losses following severe pandemics or similar events in the USA, Canada, England, Wales and Germany. Wind-storm risks in Europe are placed on the capital markets under the "Queen Street" programme. It is the first time frequency risks have been securitised as well as peak risks. Furthermore, Munich Re also transfers earthquake risks to the capital markets for its Japanese client Zenkyoren.



Physicians in the quality healthcare network help reduce costs.

ERGO becomes fully-fledged health-care provider

The ERGO Insurance Group is one of the biggest providers of private health insurance in Germany. In the summer, our health insurers Victoria and DKV launch a competitive offensive that offers insureds advantages if they consult physicians in the company's quality healthcare network. Besides insurance cover, ERGO also provides services such as the health information hotline.



There are still no binding CO₂ targets for all countries.

MEAG launches KlimaStrategie equity fund

With its new KlimaStrategie equity fund, MEAG gives customers the opportunity to invest in a widely diversified portfolio of companies benefiting from measures in connection with climate change. The fund invests worldwide in companies that work in areas concerned with adapting to climate change or provide solutions for reducing greenhouse gas emissions.

Climate change: Trends and initiatives

Natural catastrophe figures for 2008

A large number of tropical cyclones and the earthquake in Sichuan make 2008 one of the most devastating years on record. Six tropical cyclones hit the US coast in close succession, the severest being Ike. Throughout the world, more than 220,000 people die as a result of natural catastrophes in 2008. Overall losses come to around US\$ 200bn and insured losses rise to US\$ 45bn, exceeding the previous year's figure by 50%.



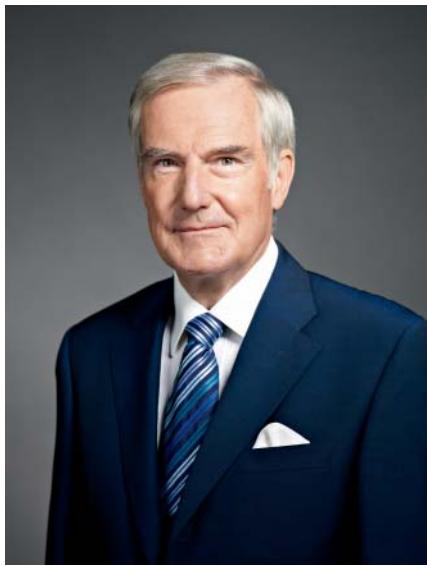
Before the storm: Hurricane Ike approaching the coast of Texas in September 2008.

Munich Re active in important climate initiatives

Munich Re is one of the first companies to sign the Climate Principles, the initiative called into being by the Climate Group. The aim of the initiative is to emphasise the important role that financial service providers play in the transition to a low-carbon energy industry. The signatories declare that they will gear their management, business strategy, products and consulting services more strongly to the demands of climate change.

The Munich Climate Insurance Initiative (MCII) succeeds in incorporating insurance solutions for the developing nations into the Intergovernmental Panel on Climate Change. Under the Kyoto Protocol, which is valid until 2012, insurance options have not yet been explicitly formulated.

Report of the Supervisory Board



Dr. Hans-Jürgen Schinzler
Chairman of the Supervisory Board

Ladies and gentlemen,

In the 2008 financial year, the Supervisory Board at all times fulfilled the tasks and duties incumbent upon it under the law, the Articles of Association and the rules of procedure. We advised the Board of Management in its running of the Group and constantly monitored and supervised its activities.

The Board of Management satisfied all its reporting obligations towards the Supervisory Board. We were informed directly of all decisions of fundamental significance and, where necessary, granted our approval after detailed consultation and examination. The Board of Management reported to us regularly both orally and in writing about all important business transactions. We debated these reports at our meetings and regularly discussed suggestions and proposals for improvement. The Board of Management sought our advice in its deliberations and decisions. Collaboration between the Boards was always open, constructive and characterised by a spirit of mutual trust.

Between the meetings, the Board of Management reported to us on an ad-hoc basis concerning current activities in the Group – for example, the key figures of the 2007 financial statements, the setting-up of a reinsurance subsidiary in Brazil, a further primary insurance joint venture in India, and the losses due to Hurricanes Gustav and Ike. The Board of Management informed us several times (also in writing) of the development of the financial crisis and its effects on Munich Re, as well as of the resulting opportunities for the Group. We were also involved in Munich Re's participation in the rescue package for Hypo Real Estate and in the purchase of the Hartford Steam Boiler Group, a former AIG subsidiary.

As Chairman of the Supervisory Board, I regularly discussed with the Chairman of the Board of Management questions of strategy, planning, the Company's current business performance and risk management, and events of particular significance in the Group. Dr. Albrecht Schmidt, as Chairman of the Audit Committee, also remained in close contact with Dr. Jörg Schneider between meetings. The shareholder representatives and employee representatives had the opportunity prior to the Supervisory Board meetings to discuss important topics separately with the Chairman of the Board of Management.

At no time in the year under review did we see cause to carry out inspection measures in accordance with Section 111 para. 2 sentence 1 of the German Stock Companies Act.

Focal points of the meetings of the full Supervisory Board

In 2008, the Supervisory Board held four regular meetings and one preparatory meeting. There was virtually full attendance on every occasion, only four members having to absent themselves, once in each case. Two representatives of the German Federal Financial Supervisory Authority (BaFin) took part as guests at one of the meetings and the associated preliminary meeting.

Focal points at the meetings of the full Supervisory Board were the quarterly financial statements and the annual result for 2008. We naturally also discussed the Company financial statements and the Group financial statements for the previous financial year and prepared the motions for resolution by the 2008 Annual General Meeting. At each meeting, we obtained detailed reports on the Munich Re Group's performance, also compared with its competitors. We received regular overviews of the performance of the Group's investments. At our request, the Board of Management involved us to a greater extent in its deliberations on the strategic alignment and development of the Group. We discussed the Group planning for 2009 and 2010 in autumn 2008. The Board of Management also kept us abreast of the growth initiatives developed as a result of the Changing Gear programme. Furthermore, at our meetings, the Board of Management informed us about current topics such as the assessment of pandemic risk and developments in US workers' compensation reinsurance at Munich Re America (MRAm). A particular focus of our interest was the integration of MRAm's latest acquisitions. Besides this, we concerned ourselves with the development and expansion of the business segment International Health. In the context of the Board of Management's regular reports on the Group's risk situation and profitability, we devoted our attention on numerous occasions to the effects of the financial market crisis on Munich Re's business development. The Group Chief Risk Officer gave us an overview of the work and objectives of integrated risk management and of the current status of the European Commission's Solvency II initiative. Share-price performance, dividend policy and the share buy-back programme also featured on the agenda, as did compliance and anti-fraud management, which have been subject to great public scrutiny of late. Finally, we also dealt in detail with the Board of Management's remuneration system, along with key elements of relevant contracts, as these were to be decided on by the full Supervisory Board for the first time in accordance with the amended German Corporate Governance Code.

Work of the committees

The composition of the committees of the Supervisory Board (Personnel Committee, Audit Committee, Standing Committee, Nomination Committee and Conference Committee) is shown in the overview on page 63. Dr. Albrecht Schmidt as Chairman of the Audit Committee, and I as Chairman of the other committees, provided detailed information on the committees' work at all meetings of the full Supervisory Board. Overall, committee work once again took up more time in the year under review.

The Personnel Committee met six times. In addition to succession planning for the Board of Management, the Committee also considered the appointment and contracts of Board members. It discussed the remuneration system for the Board of Management and the restructuring of individual remuneration components, and prepared the corresponding resolution for submission to the full Supervisory Board. Furthermore, the Personnel Committee reviewed the remuneration of the Board of Management and adjusted it individually. Besides this, the Personnel Committee determined the details of the reorganised retirement plans for the Board of Management and took decisions on the individual pension agreements. It decided on the extent to which the Board of Management achieved its objectives with regard to the 2007 annual bonus, on the individual Board members' objectives for the 2009 annual bonus and the three-year medium-term incentive plan starting in 2009. The Committee also approved the acceptance of seats on supervisory, advisory and similar boards by members of the Board of Management. In addition, the Personnel Committee prepared information for the full Supervisory Board on the adjustment of the Board of Management's distribution of responsibilities.

The Standing Committee met three times in the year under review, devoting itself mainly to the preparation of Supervisory Board meetings and to topics of corporate governance. It also received regular reports on the status of the register of shareholders.

The Audit Committee held five meetings in the period under consideration. At two meetings with the external auditor, it discussed in detail the Company financial statements and Group financial statements, the Company management report and Group management report, the auditor's report and the Board of Management's proposal for the appropriation of the net retained profits for the 2007 financial year. The Head of Group Audit submitted his annual report for 2007 and the audit planning for 2008 to the Audit Committee for discussion. The topic of compliance was a routine item on the agenda for every meeting. Additionally, the Compliance Officer reported on the organisation, tasks and responsibilities of his department as well as on individual compliance incidents and enquiries from BaFin. Moreover, the Committee reviewed and monitored the auditor's independence and commissioned the audit for the 2008 financial year, deciding on its focal points and the auditor's fees, simultaneously commissioning the auditor with the review of the 2008 half-year report. The Audit Committee also took delivery of reports from the auditor on its auditing and non-audit-related services. Equally, the Audit Committee closely considered the 2008 quarterly reports and the 2008 half-year financial report, which it discussed at length in the presence of the auditor. The Committee determined the focal points of the audits for the 2009 financial year and considered inviting tenders for the audit mandate. Furthermore, it continually monitored the Company's risk situation, satisfying itself that the experiences of the bear market in 2002/2003 had been successfully implemented in Munich Re's risk management. The meetings also focused on questions relating to the effects of the financial crisis on Munich Re, with the management of investments also being monitored carefully. The Audit Committee received separate reports on the development of pension provisions and of embedded values in life reinsurance business and in life and health primary insurance business. At the suggestion of the Chairman of the Audit Committee, the Committee conducted a self-evaluation of its work, in which it set out the Audit Committee's approach to its tasks and procedures in a memorandum of information and drew up an annual topic catalogue.

The Nomination Committee formed in late 2007 took up its duties in 2008 and worked intensively in its first three meetings on preparing the election of shareholders' representatives by the 2009 Annual General Meeting. This process included drawing up and adopting a set of criteria on the basis of which the Committee subsequently selected eligible candidates, whom it then proposed to the full Supervisory Board.

In the past financial year, there was once again no need to convene the Conference Committee as per Section 27 para. 3 of the German Co-Determination Act.

Corporate governance and declaration of conformity

Good corporate governance is of particular concern to us. We thus welcome the fact that the Board of Management has further clarified the Munich Re Code of Conduct and thereby clearly documented the conduct expected of all staff. The new version of the German Corporate Governance Code has necessitated the amendment of the Supervisory Board's rules of procedure with regard to responsibility for the system governing the Board of Management's remuneration. In keeping with the normal schedule, the Standing Committee monitored the efficiency of our Supervisory Board activities and presented the results to the full Supervisory Board for discussion. Further information on these topics and on corporate governance in general is available in the joint report of the Board of Management and Supervisory Board on page 130.

In November 2008, the Board of Management and Supervisory Board submitted their annual declaration of conformity with the German Corporate Governance Code as per Section 161 of the German Stock Companies Act, which can be read on page 133 of this report and on the Company's website.

Changes on the Board of Management On 10 November 2008, the Supervisory Board appointed Dr. Joachim Wenning to the Board of Management with effect from 1 January 2009. He has been with the Munich Re Group since 1991, latterly as the Chief Executive Officer of New Re in Geneva. Dr. Wenning is responsible for the Life Division, and succeeds Dr. Wolfgang Strassl, who will now be able to devote himself fully to his responsibilities for Human Resources and the rapidly growing International Health business segment. We have adjusted the distribution of responsibilities on the Board of Management accordingly.

Company and Group financial statements KPMG Bayerische Treuhandgesellschaft Aktiengesellschaft Wirtschaftsprüfungs-gesellschaft audited the following documents and gave them an unqualified auditor's opinion: Munich Reinsurance Company's financial statements and Group financial statements as at 31 December 2008, and the management reports for the Company and the Group. All members of the Supervisory Board received the auditor's reports promptly. At its meeting on 2 March 2009, the Audit Committee conferred in detail about the preliminary year-end figures as at 31 December 2008 and, on 12 March 2009, prepared the Supervisory Board's resolution on the adoption of the Company financial statements and the approval of the Group financial statements. In this context, it examined in advance the Company financial statements and Group financial statements, the management reports and the Board of Management's proposal for appropriation of the net retained profits. It discussed them closely with the auditor, who was present at the meeting, and also gave detailed consideration to the auditor's reports. The Chairman of the Audit Committee briefed the full Supervisory Board about the outcome of its consultations at the balance sheet meeting on 13 March 2009.

The Supervisory Board also checked the Company financial statements, the Group financial statements, the Company management report, the Group management report, the auditor's report and the proposal of the Board of Management for appropriation of the net retained profits. After conducting its own concluding examination and having heard the auditor's report, the Supervisory Board raised no objections to the Company financial statements and Group financial statements prepared by the Board of Management, and agreed with the result of the audit. On 13 March 2009, it approved the Company financial statements and Group financial statements. The financial statements were thus adopted. Having carefully considered all the relevant aspects, the Supervisory Board also agreed with the Board of Management's proposal for appropriation of the net retained profits.

Words of thanks to the Board of Management and employees The Supervisory Board wishes to thank the members of the Board of Management and all staff members in the Group for their hard work and personal commitment. They have done an excellent job in a difficult environment and achieved a respectable business result for Munich Re.

Munich, 13 March 2009

For the Supervisory Board



Dr. Hans-Jürgen Schinzler
Chairman

Strong finish in a turbulent stock market year

Last year, the global stock markets suffered massive setbacks, with financial stocks among the greatest losers. In this difficult environment, Munich Re shares showed relative strength.

The financial sector worldwide was confronted with enormous problems in 2008. Contrary to hopes of a quick end, the subprime mortgage crisis in the US triggered a global contagion, depressing prices on the world's stock exchanges to their lowest levels for several years. The share prices of banks were especially badly hit, but insurance stocks were also caught in the downward spiral, in some cases suffering severe price setbacks. It is therefore all the more gratifying that Munich Re's share price performance for the year showed only a comparatively moderate loss of 16.5%. Investors rewarded our prudent investment policy, with its low equity-backing ratio and very limited involvement in the market for structured credit products. By contrast, the European insurance index EURO STOXX Insurance fell by 45.2%, whilst the global MSCI insurance index lost 46% on a euro basis.

The stock market year 2008 got off to a disappointing start. Concerns about a major cooling of the US economy and increasing burdens from the subprime crisis made themselves felt on the stock exchanges in the first few weeks of January. The decisive measures of the US Federal Reserve, which lowered interest rates twice in succession, were initially able to halt the downturn. After JP Morgan had taken over the ailing investment bank Bear Stearns in mid-March, there were brief hopes of a rapid end to the crisis, and for a time prices even showed marked gains. But the recovery was only short-lived, and the continuing high volatility on the capital markets was adversely reflected in companies' balance sheets.

With the collapse of US investment bank Lehman Brothers in mid-September, the market turbulence entered a new phase. It fast grew into a crisis of confidence in the whole financial system, with investors deeply unsettled. The VDAX, which functions as a kind of "fear barometer" for the German stock market, rose to record levels. Only after billion-dollar rescue packages from central banks and governments did prices bottom out in November and subsequently rise a little. Nevertheless, the DAX closed the year 40.4% down on the beginning of the year. The EURO STOXX 50 even fell by 44.3%, while the US indices Dow Jones and S&P 500 showed losses of 33.8% and 38.5% respectively.

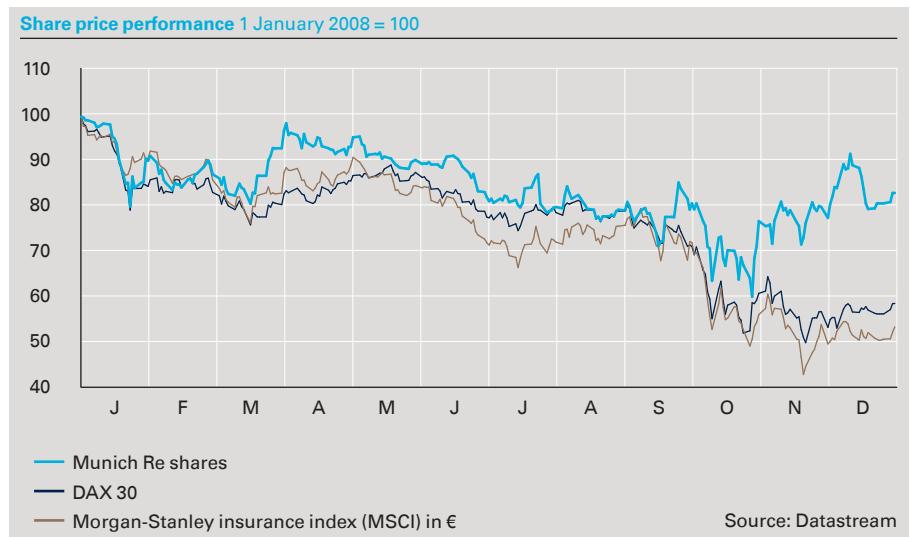
Initially, Munich Re shares were not able to escape the downward trend. Starting at a price of €132.76, they fell below €110 at times up to the end of January, but were able to largely make up for the losses by the beginning of April. In the further course of the year, however, the stock market turmoil took its toll. Our investment result declined appreciably, so that at the end of July we had to revise our original profit guidance for 2008. The market upheavals following the Lehman Brothers insolvency pushed our share price down to €76.17 by the end of October.

But in the subsequent weeks, our shares demonstrated their relative strength. Whereas the DAX had climbed by just under 20% from its year-low by the end of December, Munich Re shares rallied by a pleasing 46%.

These share price gains were backed by a confident outlook for 2009. Prospects for the reinsurance industry improved, with a likely upward trend in prices for cover, which well-capitalised quality providers like Munich Re should benefit from in particular.

The performance of our shares is also striking from a longer-term perspective: over the last three and five years, their price – including dividend payments – has bettered the DAX.

**Munich Re shares:
Stronger than the market**



**Share price gains expected
by majority of analysts**

More than 40 banks and broker houses regularly evaluate Munich Re shares. At the end of December 2008, 52% of the analysts recommended our shares as a “buy”, in some cases seeing substantial potential for price gains. Some 38% tagged the shares with “hold”, whilst only 10% gave them a negative rating.

Dividend remains stable

Since 2004, Munich Re has been pursuing a more flexible dividend policy, with the payout essentially based on the result for the year and our capital requirements. Nonetheless, our aim is to pay out at least 25% of the annual result to our shareholders.

Despite the reduction in the result for 2008, the Board of Management and Supervisory Board will therefore propose an unchanged dividend of €5.50 per share at the Annual General Meeting on 22 April 2009. Altogether, this would mean a total payout to shareholders of €1.074bn. Last year's payout was €1.124bn. The dividend will be paid on 23 April 2009, the day after the Annual General Meeting.

With a dividend yield of approximately 5.0% (in relation to the year-end share price), Munich Re shares remain an attractive equity investment, which is also included in the DivDax, a subindex of Deutsche Börse AG that features the 15 DAX companies with the highest dividend yields.

Share buy-backs continued

We are essentially still committed to our share buy-back programme but, as hitherto, will carefully review the advantages and disadvantages before implementing it further.

In the course of the 2008/2009 share buy-back programme, 8.4 million shares with a value of €942m had been repurchased by the end of December 2008. Of this total, 1.3 million shares or €149m were attributable to the put options sold in February 2008 and expiring in October 2008. By the Annual General Meeting on 22 April 2009, we intend to increase the volume as announced to €1bn.

Share profile Munich Re shares are no-par-value registered shares. Each share carries one vote. First admitted for trading on the stock exchange in Munich on 21 March 1888, they are today listed on all the German stock exchanges, although in the meantime trading takes place almost exclusively via the electronic trading platform Xetra.

Securities reference numbers			
Reuters	MUVGn	ISIN	DE 000 843 002 6
Bloomberg	MUV2	WKN	843 002

In the year under review, the average daily turnover of Munich Re shares amounted to €252m, putting us in twelfth place among the DAX stocks at year-end 2008. In terms of market capitalisation, we ranked 11th, with nearly €23bn.

Free float still at 100%

In December 2008, around 109,000 shareholders were entered in our share register. Our free float, which is significant for the weighting in key share price indices, remains at 100%. The vast majority of shares are held by institutional investors such as banks, insurers or investment companies; 7.2% are in the hands of private investors.

Key figures for our shares

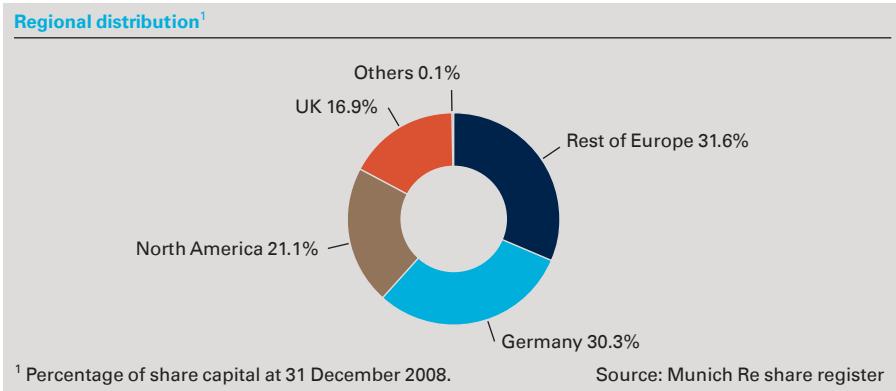
		2008	2007
Share capital	€m	587.7	587.7
Number of shares at 31 December	m	206.4	217.9
Year high	€	133.24	142.75
Date		4.1.2008	5.6.2007
Year low	€	76.17	112.35
Date		28.10.2008	14.03.2007
Year-end closing price	€	111.00	132.94
Annual performance (excluding dividend)	%	-16.5	1.9
Beta relative to DAX (daily, raw)		0.7	0.9
Market capitalisation at 31 December	€bn	22.9	29.0
Market value/equity at 31 December ¹		1.1	1.1
Average daily turnover	'000	2,269	2,316
Earnings per share	€	7.48	17.83 ²
Dividend per share	€	5.50	5.50
Dividend yield at 31 December	%	5.0	4.1
Overall dividend amount	€m	1,074	1,124

¹ Including minority interests.

² Adjusted pursuant to IAS 8.

Our largest shareholder at the end of 2008, with over 5%, was Alliance-Bernstein L. P., a US investment and asset management company belonging to the AXA Group. Its shareholding is designated a purely financial investment without strategic interest. Allianz SE reduced its share in Munich Re to below 2% when it redeemed its BITES convertible bond at the end of February 2008.

The proportion of international investors remained at around the same level as in the previous year. At year-end 2008, nearly 70% of the shares were held by foreign investors.



Strong weighting in many indices

Given their importance, Munich Re shares are represented in major national and international share price indices like the DAX and the EURO STOXX 50. In the sector indices for insurance companies, our shares have traditionally had a high weighting. In the EURO STOXX Insurance, it stood at 15.4% at the end of the year.

Since 2001, our shares have also been included in the Dow Jones Sustainability and the FTSE4Good index families. These sustainability indices only accept companies that fulfil exacting ecological and social standards and are among the best in their sector. Here Munich Re plays a pioneering role with its sustainability strategy and enjoys an excellent reputation among socially responsible investors (SRI), who hold some 2% of our stock.

Our sustainability portal at <http://sustainability.munichre.com>, which has been online since September 2007, provides detailed and up-to-date information on Munich Re's activities in this area.

Weighting of Munich Re shares¹

	%
DAX	5.2
DJ EURO STOXX 50	1.8
DJ EURO STOXX Insurance	15.4
MSCI Euro	1.4
FTSE EUROTOP 100	0.8
DJ Sustainability World	0.6

¹ Status: 31 December 2008.

Investor relations activities and shareholder service

Our corporate strategy geared to sustained increase in value is accompanied by ongoing and open communication with all capital market participants. In the course of 2008, for example, our investor relations unit organised more than 30 roadshows – primarily in the USA and Europe – to present current topics relating to Munich Re, our financial performance and the progress of our Changing Gear programme. Management also held over 150 individual meetings with investors and analysts at our offices. Additionally, as in previous years, Munich Re participated in investor conferences held by various investment banks.

Besides our annual analysts' conference on 8 May 2008, the investors' days we held in London met with a very positive response: the event on 19 February 2008 was devoted to property-casualty reinsurance, whilst that on 7 October focused on life reinsurance. At our analysts' conference on 3 March 2009, we presented our figures for the year 2008 as a whole and our strategy for the Munich Re Group, for primary insurance and for reinsurance. More than one hundred institutional investors took part in each case, either in person or via videotransmission.

As in 2007, our investor relations work again received recognition from external experts last year. Based on a survey of buy-side analysts, Munich Re received the award for "Most Improved Investor Relations" in the European insurance sector from the Institutional Investor Research Group.

But our activities are not only geared to institutional investors: private investors can contact Munich Re directly at any time as well. All the presentations we use in our meetings with investors are published concurrently on the internet, and we are glad to send these to interested shareholders on request. Many of our events are transmitted live via webstreaming. Enquiries reaching us via our shareholder hotline or by e-mail are answered promptly by our team.

We publish all important information on Munich Re shares on our website under Investor Relations. In 2008, we also expanded the service we provide on our bonds issues and now offer daily updated price charts. The service pages of our shareholder portal (www.munichre.com/register) offer shareholders various facilities, such as registering to receive documents for the Annual General Meeting by e-mail or updating their registered shareholder data online.

High proportion of shares represented at the Annual General Meeting

Some 4,100 investors accepted our invitation to the 121st Annual General Meeting on 17 April 2008 at the International Congress Center Munich. Many other shareholders arranged for their voting rights at the Annual General Meeting to be exercised by proxies, especially banks and shareholders' associations. The proposals of the Board of Management and Supervisory Board on the individual agenda items were adopted by the shareholders with clear majorities in each case.

At 45.1%, the proportion of the share capital represented in the votes reached nearly the same level as last year (45.2%). We see this renewed high figure as the fruit of our efforts to actively inform our investors and to encourage them to exercise their voting rights at the Annual General Meeting.

Shareholders' participation in the Annual General Meeting is facilitated by means of electronic communications. They can, for example, use the internet to authorise Company proxies and issue voting instructions. Furthermore, they have the option to follow the whole AGM live on the internet and, if they have authorised a Company proxy, to change their voting instructions right up until the end of the general debate. In addition, admission cards for the Annual General Meeting can be ordered online.

We publish the resolutions adopted at the Annual General Meeting straight away on our website. Our shareholders can find further important information regarding the Annual General Meeting at www.munichre.com/agm and in the dedicated section of our shareholder portal at www.munichre.com/register.

Other capital market instruments of the Munich Re Group

To improve its capital structure, Munich Re has issued several subordinated bonds in recent years. With the upheavals on the credit markets, the prices of these securities – like those of comparable bonds issued by other financial institutions – came under pressure in 2008.

Current bonds issued by the Munich Re Group

Issuer	Volume	Coupon rate p.a.	Issue	Maturity	Identification numbers
Subordinated liabilities – Subordinated bonds					
Munich Reinsurance Company	€1.5bn	5.767% until 2017, thereafter floating	2007	Undated ¹	WKN: A0N4EX ISIN: XS0304987042 Reuters: DE030498704 = Bloomberg: MUNRE
Munich Reinsurance Company	€3.0bn	6.75% until 2013, thereafter floating	2003	2023 ²	WKN: 843278 ISIN: XS016 696 579 7 Reuters: DE016 696 579 = Bloomberg: MUNRE
Munich Reinsurance Company	£300m	7.625% until 2018, thereafter floating	2003	2028 ³	WKN: 843449 ISIN: XS016 726 052 9 Reuters: DE016 726 052 = Bloomberg: MUNRE
The Midland Company, Cincinnati	US\$ 24m	LIBOR + 350 BP	2004	2034 ⁴	–
Subordinated liabilities – Registered bonds					
Bank Austria Creditanstalt Versicherung AG ⁵ , Vienna	€13m	Secondary market yield on federal bonds (Austria) + 70 BP	1998	Undated	–
Bank Austria Creditanstalt Versicherung AG ⁵ , Vienna	€12m	6% until 2010, thereafter floating	2001	Undated	–
Bank Austria Creditanstalt Versicherung AG ⁵ , Vienna	€50m	4.95%	2004	2014	–
Senior bonds⁶					
Munich Re America Corporation, Princeton	US\$ 0.4bn ⁶	7.45%	1996	2026	CUSIP No. 029163AD4 ISIN, Reuters: – Bloomberg: AMER RE CORP MUNRE

¹ First callable on 12 June 2017.² First callable on 21 June 2013.³ First callable on 21 June 2018.⁴ First callable in April/May 2009⁵ Registered bonds, not listed on the stock exchange.⁶ In August 2008, the issuer bought back notes with an aggregate principal amount of US\$ 79m.

At year-end, the undated euro tranche was listed at 58.0%, the bond maturing in 2023 at 92.2%, and the pound sterling bond maturing in 2028 at 94.2%. Munich Re America's senior bonds closed the year at 88.0%.

Munich Re's rating

For many years, Munich Re has been among the reinsurers given top ratings by the leading rating agencies. In 2008, the rating agencies did not make any changes to their ratings or their stable outlooks for Munich Re.

The high degree of confidence in our Group's financial strength is reflected in trading with credit default swaps (CDSs). These tools enable investors on the capital market to hedge against the risk of an issuer's default. The lower the CDS spread, the higher the assessment of the issuer's security.

Munich Re continues to be among the companies with very low CDS spreads at both national and international level. At the end of 2008, the spread – and thus the implicit credit risk – was even lower than that of some western European states.

Risk management in an integrated business model

Transparent and consistent – that is the essence of Munich Re's approach to implementing its strategy. In May 2007, we unveiled our Changing Gear programme for profitable growth and our corporate objectives for the years up to 2010. In this period, we aim

- to be the most profitable of the top five globally operating reinsurers,
- to expand profitably in growth markets and segments in primary insurance,
- to take major steps towards market leadership in the international health market,

thereby turning risk into value and enhancing Munich Re's corporate value on a sustained basis.

Every initiative in the context of Changing Gear is embedded in our integrated risk management, from accepting individual insurance risks to managing whole portfolios or our investments, not to mention mergers and acquisitions. Identifying and evaluating risks holistically – a process that we have substantially developed, continually refined and, above all, practised in recent years – clearly proved its worth in 2008.

The most severe capital market crisis since the Second World War has hit many heavyweights in the financial sector hard, in some cases causing their corporate values to fall significantly. Although Munich Re's shares also fell in value in the course of last year, they were considered a "safe haven" on the stock markets.

We continue to have sufficient risk capital for risk-carrying. Despite several acquisitions, financed from our own resources, we have been able to carry on with the share buy-back programme launched in 2007 with the aim of returning over €5bn to our shareholders by the close of the financial year 2010. We essentially wish to adhere to this target, but plan to wait a little before further implementation. We will carefully weigh up the benefit of the buy-backs against the advantages of comfortable capitalisation, also with a view to growth opportunities.

Our financial strength, reflected in these payouts, certainly played a key part in our clients' voting us "Best Overall Reinsurer" in life and non-life in the Europe-wide Flaspöhler survey last autumn.

Bringing together what belongs together

Our integrated business model of primary insurance and reinsurance, with its synergy effects and diversification benefits, has proved its effectiveness. We are therefore continuing to expand it consistently – on both a large and a small scale.

For instance, we have transferred Europäische Reiseversicherung and Mercur Assistance – previously held directly by Munich Reinsurance Company – to ERGO, where they will become part of a new centre of competence combining our insurance and services for the growing market of private and business travellers.

The acquisition of the remaining shares in the Turkish company ERGOISVIÇRE from the family founders and additional shares in Bank Austria Creditanstalt Versicherung were important steps in further internationalising ERGO, even if the global economic crisis is likely also to have a curbing effect on the development of these subsidiaries in the immediate future.

**Realignment in the USA
gains momentum**

In the USA, the world's most important insurance market, we have decided on a strategic realignment of our business, which we have lost no time in implementing: in April, we concluded the acquisition of specialty insurer The Midland Company and also purchased The Roanoke Companies, a large underwriting agency and broker of marine insurance. Roanoke complements the international network of our Watkins Syndicate, which has not been represented in North America before. In return, Roanoke can offer its clients the broader spectrum that Watkins provides.

The financial market crisis also presents us with opportunities. Our acquisition of the Hartford Steam Boiler Group (HSB), agreed on in 2008, is just one example. HSB is a leading insurance and inspection company for engineering risks and previously belonged to the AIG Group. It enhances Munich Re's already significant position in the field of engineering insurance. Munich Re America will manage both HSB and Midland, as this will enable us to achieve the greatest synergies.

These acquisitions, like others before them, give us greater access to profitable niche segments that we cannot reach through "traditional" reinsurance. They also make us more independent of market cycles in reinsurance and enhance our diversification.

From virtuality to reality

International Health, our third field of business alongside primary insurance and reinsurance, was last year more closely unified, regionally aligned, and given its own management, establishing it even more clearly as a third pillar in the Group. International Health integrates our Group's international expertise and more than 20 years' experience with health risks, in a market that is growing at an above-average rate globally.

In other words, we are pooling a wide range of services and insurance companies which we can combine and deploy flexibly, depending on market circumstances and specific requirements. This means that in each case we can operate in those parts of the value chain where we can create the greatest added value and grow profitably.

Following our acquisition of Sterling Life Insurance Company in 2007, a specialist health insurer in the USA, the expansion of our international health business is being supported by further initiatives, including the formation of DKV Salute in Italy and the building of a new hospital and provision of healthcare by DKV Seguros in the Spanish municipality of Denia.

Our strategy shows its strength

In the past financial year, thanks to our good capitalisation, we were able to move ahead with our strategy in a difficult market environment, the crisis even improving the opportunities for realising our objectives in individual cases. While we are not fully satisfied with the result for the year in absolute figures, we are in a much better position than many of our competitors. Our risk-based business management and discipline in realising our objectives enabled us to achieve a comparatively good performance.

We are driving forward the various initiatives in our three fields of business consistently and with due rigour, continuing to put profitability before premium volume, because that is the only way of creating sustained value for our shareholders.

$$E(S) = \bar{E}(N) \cdot \left(\int_0^a 1 - F(x) \, dx + \right.$$

The rediscovery of natural laws

The law of gravity appeared to have been suspended. But what had soared to dizzying heights then plummeted: mortgages without collateral, credit without cover. New virtues have arisen from the crisis. The natural laws that no longer seemed to apply have been rediscovered. Securities must be secure, solidity must be solid. Knowledge must be applied – only then is it significant. Munich Re has always respected these laws – and has done so openly and transparently. This led a few of the high-fliers to look down on us. We ignored them, and concentrated on our core business: risks and their management. Because excellence in risk management is what makes us a leading risk carrier. And our knowledge is always at work.

The expected value of the overall loss in the collective model is one of the cornerstones of actuarial mathematics.



"Enterprise means taking risks"

"We need more realism and common sense", says CFO Jörg Schneider, summing up the lessons to be learnt from the financial crisis. In the following interview, Munich Re CRO Joachim Oechslin and Jörg Schneider discuss why insurers in particular cannot rely just on statistical models.

Munich Re is one of the world's largest investors. Did the financial crisis cause you sleepless nights last year?

Jörg Schneider: 2008 was a very turbulent year, of course, but I never suffered sleepless nights. Probably because of my conviction that we had made Munich Re crisis-proof at an early stage.

Joachim Oechslin: We had acted very prudently. But I cannot deny that I was a bit tense, perhaps like a student who has prepared very well for his finals but is still nervous the night before the exam.

Why has Munich Re come through the turbulence better than other competitors?

Oechslin: We were well capitalised prior to the crisis – overcapitalised, some players even thought. Today, we are in a solid position and, above all, have kept our options open. We were also more prudent in our investments than some competitors. Without doubt, this was partly due to the fact that the last crisis back in 2002/2003 hit Munich Re harder than others. As a result of that experience, we constantly improved our risk management, with consistent implementation of asset-liability management – the matching of investments with the structure of our liabilities.

Schneider: I quite agree. We are also more resilient, because our business portfolio is widely diversified. With primary insurance and reinsurance under one roof, we can compensate better for negative developments in individual segments.

In the opinion of the Financial Stability Forum, an international body comprising representatives of central banks and supervisory authorities, the risk management of the financial sector as a whole failed. What went wrong?

Oechslin: There is no question that risk management failed in significant areas. In particular, many players extrapolated the relatively low-risk period of recent years more or less unhesitatingly into the future. And the supervisory authorities checked risk models mainly for correct calibration on the basis of historical fluctuations. Sufficient attention was not always given to whether the assumptions were reasonable in relation to future developments. This was compounded by political mistakes and management errors. US house prices, for example, became so inflated because the government promoted housing development and deliberately kept interest rates low. In other words, it is too simple to attach all the blame to risk management – but it naturally offers a comfortable explanation.

In his best-seller "The Black Swan", financial mathematician Nassim Taleb criticises the false certainty of supposed knowledge derived from the conventional consideration of risks. Can models still be relied on or is a dash of intuition also needed?

Schneider: Intuition is good, but first and foremost the head must rule the heart. Around the turn of the century, many companies in the financial sector established risk management systems which seemed to offer certainty. In the belief that risk managers had understood and checked everything, decision-makers took on risks that they did not really comprehend. Common sense was neglected because people believed that protection mechanisms had been institutionalised. We need more of this common sense again. If a new business idea is submitted to us and we do not understand at least its fundamental elements, we seek clarity by talking to experts. If we are not convinced that the risks are controllable, we drop the idea, even if it means forgoing enticing earnings. So intuition does play a part in the end.

Oechslin: For insurers it is absolutely essential not to rely entirely on statistical models but to challenge them, because we know that such tools have their limits. That is why we conduct what we call probable maximum loss scenarios, for instance. In other

"We were well capitalised prior to the crisis – overcapitalised, some players even thought."

Joachim Oechslin





"With primary insurance and reinsurance under one roof, we can compensate better for negative developments in individual segments."

Jörg Schneider

words, we calculate loss events that normally occur only once in periods of 1,000, 100 or 50 years and add up what can happen.

Schneider: But our risk management even includes what we cannot calculate. Let us take so-called emerging risks. These are risks arising from new processes of information technology, genetic engineering or nanotechnology, or from changes in the legal system – class actions are a case in point. We need to identify and limit emerging risks as early as possible, although we cannot completely avoid them, nor do we want to.

Oechslin: The best example of an emerging risk is still asbestos. If the risks of this material had been considered at an early stage, major damage might have been prevented. Today, we concern ourselves much more systematically with emerging risks and attempt to target potential loss scenarios early on. Nevertheless, you cannot be certain that you have correctly identified the danger that lurks around the next corner.

Schneider: This is why reinsurers charge margins for the unknown in their prices, for something we cannot measure. After all, this risk is also present and exposes our capital.

Looking ahead, do you see a danger that risk managers may overreact and miss opportunities because of extreme risk aversion?

Schneider: Yes, and that would be a pity, because opportunities are now opening up for which we have waited a long time. The phase of extreme risk aversion should be relatively short. It is part of people's nature to forget quickly – often too quickly – when things start to get better again. **Oechslin:** But that does not mean that the crisis is over. In recent months, we have seen recurrent setbacks after brief phases of recovery, with companies who thought they were safe needing government help shortly afterwards.

How could uniform global supervisory rules help stabilise the system?

Oechslin: They could contribute a great deal. With Solvency II, we have a set of rules on the table that is just right for the insurance industry, also in the light of this crisis. Solvency II would be a huge advance. However, there is the danger that the good fundamental concept may fall victim to political rejection or poor compromise. My greatest concern in such a case is that the financial sector will be hit by a blanket wave of regulations which are either unsuitable or even destructive for the insurance industry.

Munich Re is to focus even more on risk-based performance indicators in future. What progress has there been here?

Schneider: We attach great importance to this and have already made substantial progress. A few years ago, we began publishing our risk capital as the most important indicator, broken down according to the main risk classes. In addition, we communicate the risk-adjusted return on this capital and measure our business performance on the basis of that figure. At first, we met with little understanding, because many investors were still focused on absolute profits for the year and return on equity, indicators which do not reflect risk.

Oechslin: In the past, we published and explained details of our risk capital mainly in events and presentations for investors. Now we have included this information in our annual report for the first time, enriched with additional analyses and supplementary risk information. This step has been made possible by the increasing stability of our risk models, meaning that we already meet future requirements of Solvency II with regard to transparency.

What lessons should we draw from the financial crisis?

Schneider: Let me repeat: Enterprise means seeking opportunities and taking risks, but only those risks whose basic structures you understand. This requires great care but also entrepreneurial flair. In addition, the industry has to face the fact that permanent returns of 20% or more are no longer possible in competitive markets. Only this realism will restore the urgently needed sense of proportion, which has partially been lost.



Conference participants in the passageway designed by US light artist Keith Sonnier for Munich Re.



Walter Stahel (left) from the Geneva Association and Jo Oechslin, CRO Munich Re.

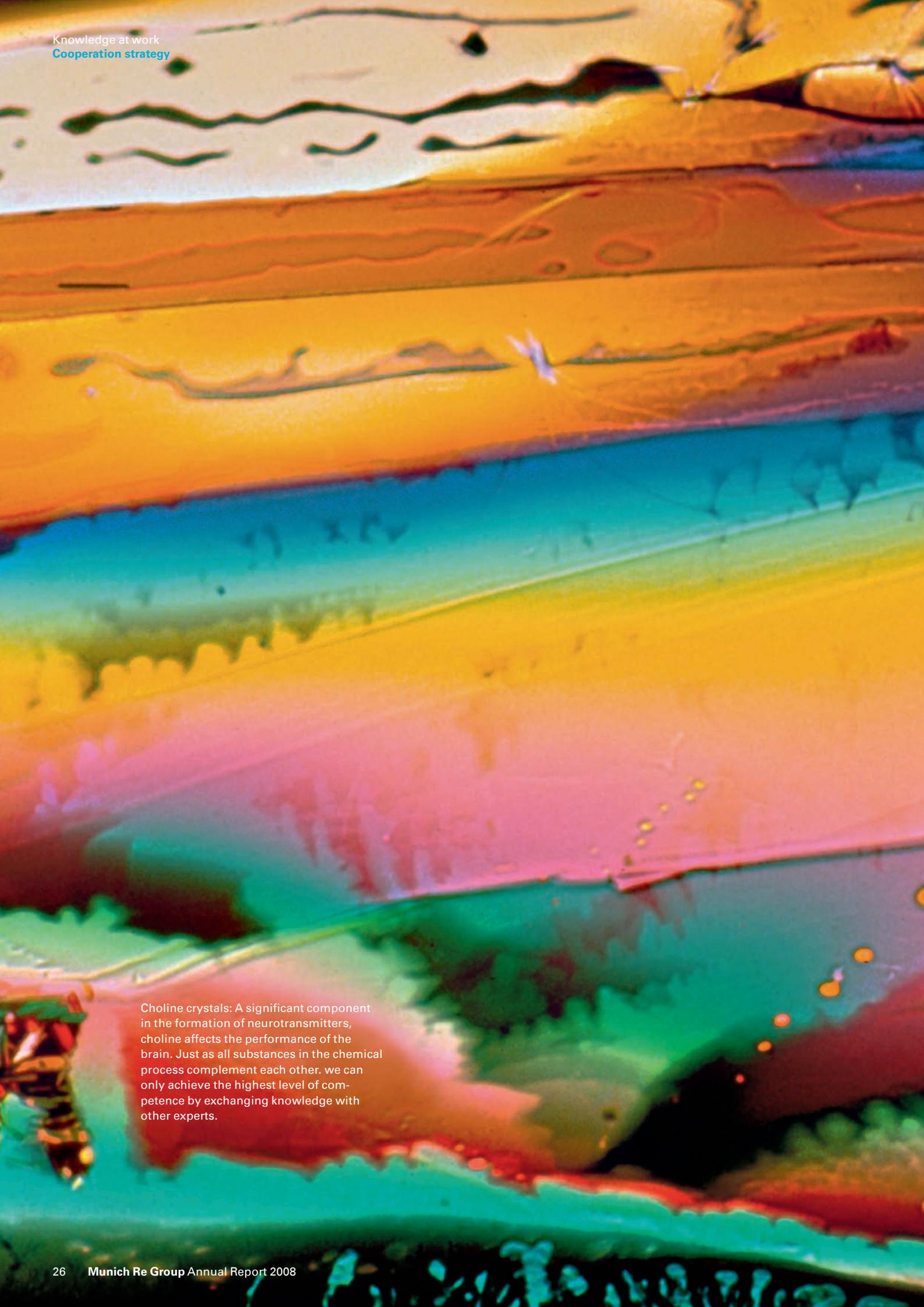


Margarita von Tautphoeus of Munich Re and René Cado, CRO Groupama.

CRO Assembly 2008: Risk management as a business enabler

More than 80 risk experts from over 20 countries took part last November in the CRO Assembly, an annual event at which chief risk officers (CROs) from the insurance industry meet to discuss current trends in risk management.

Munich Re hosted the conference, which is organised by the Geneva Association with Munich Re and Swiss Re alternately. The central topics were the financial crisis, the development of supervisory regulations, and risk management as a business enabler. Although the financial crisis has also cast its shadow over the insurance sector, the industry is significantly more resilient because financing through policyholders' premiums makes its liquidity situation more stable than that of other financial service providers. Holistic risk management has been crucial in helping the industry weather the storm. Not only is it based on statistical models but it also includes the limitation of concentration risks, probable maximum loss limits and stress tests. The conference participants were in agreement that the role of risk management will continue to develop – away from pure control towards the function of a business enabler. Risk management will become an integral part of the development process for insurance products, leading to an expanded role in product design. There was also consensus among the participants, who featured representatives from the insurance industry, financial supervisory authorities and rating agencies, that only internationally harmonised supervision can meet the challenges of the future.



Choline crystals: A significant component in the formation of neurotransmitters, choline affects the performance of the brain. Just as all substances in the chemical process complement each other, we can only achieve the highest level of competence by exchanging knowledge with other experts.

A further hallmark of excellence – Excellent cooperation partners

Pooling competences

The think tank as an ivory tower – that was yesterday. Today, the “production” of new risk solutions is like every other process: integrated into a close-knit network. Internal and external knowledge provides the raw material which our specialists “refine” to devise new products. To make sure we have the whole picture, with all the facts, we cooperate with renowned partners that are leading institutions in their field.

The risk landscape in the global market is changing at a breathtaking pace. This means the demand for coverage of complex risks and multi-faceted accumulation hazards is continually increasing. With a view to being the leader in product development, underwriting and risk management, we analyse, evaluate and quantify a constantly widening spectrum of risks and scenarios. In doing so, we build on our experience, use sophisticated models and continually advance our own specialist knowledge. But through cooperations and networks we also draw on the expertise of external partners who can provide precisely the knowledge we need: RMS, RAND, GEM or the LSE – four examples that impressively underline our new cooperation strategy.

Knowledge + knowledge = excellence

What benefit do we derive from networking with other knowledge carriers? Board member Torsten Jeworrek puts it like this: “Ultimately every cooperation must provide added value for our clients or our shareholders. We want to constantly improve our own risk knowledge and our methods and models in terms of quality, breadth and speed, to ‘refine’ more risks, to respond at an early

stage to emerging risk complexes, to make these controllable and thus to push back the frontiers of insurability. Besides substantial capacity and excellent financial strength, we offer our clients additional support in their value creation, namely in those very areas where they require the expertise of a leading reinsurer. This

strategy also pays off for our shareholders, for at the end of the day the cooperations help us to develop profitable new growth fields for ourselves and to optimise our risk management.”

Global Earthquake Model –A new standard

In the last decade, over half a million people died as a result of earthquakes and tsunamis, mainly in developing countries. So far there has been no model that depicts earthquake exposure globally and uniformly. This is now set to change. The Global Earthquake Model (GEM) includes regions which previous approaches virtually ignored or failed to observe in sufficient detail. It thus sets new standards in regional coverage and also in overall quality. A public-private partnership launched by the Global Science Forum of the OECD as a five-year initiative combines the know-how of hundreds of earthquake experts from all over the world. As a founding member and sole sponsor from the reinsurance industry, Munich Re contributes its extensive specialist knowledge, providing a financial perspective, and ensuring practical relevance. In the first phase of the project, fundamental data is being compiled and existing software platforms tested for their suitability. Parallel to this, new data is being collected. Together with the experience gathered in the first project phase, this data will flow into a global and comprehensive risk model with which loss scenarios can be described and expected losses estimated. The GEM provides an independent standard for calculating the earthquake risk, introducing prevention measures and improving insurability, particularly in new markets. As GEM is designed as an open-source/open-access model, the data and results will be available for use by anyone interested – companies, scientists or private individuals.

Munich Re Board member Torsten Jeworrek on the project’s objectives: “This model offers a realistic opportunity to promote risk awareness and enhance loss prevention. Overall, a positive effect can be expected in the medium term for the worldwide insurability of earthquake risk.”

北川法院
敬代晖
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Missing: After the 2008 earthquake in Sichuan, China, many people searched for friends and family.

Risk Management Solutions – Risk research drives modelling development

Risk Management Solutions (RMS), founded in 1988, is one of the world's leading providers of models and tools for the quantification and management of accumulation risks, ranging from natural disasters to man-made catastrophes such as acts of terrorism. The increasing complexity of risks poses a permanent challenge for both a professional model provider and a leading risk carrier – this is exactly the starting point for our long-term, non-exclusive collaboration with RMS.

Together we research new and emerging sources of risk for which adequate models have yet to be developed, such as global terrorism, liability, and disease pandemics. We also analyse areas of risk that continue to present challenges in modelling and its applications, including the key drivers of uncertainty and sensitivity to data quality. As a consequence, we add new insights to our knowledge of risks, methods and modelling, optimise our risk management, and promote innovation on the boundaries of insurability – to the benefit of our clients.

Hemant Shah, President and CEO of RMS on his expectations of the cooperation: "Munich Re is already an industry leader in its utilisation of models to make effective business decisions. Looking forward, both RMS and Munich Re see significant opportunities for catastrophe and other classes of risk models to catalyse an even greater degree of innovation and efficiency in risk management practices. We look forward to exploring the frontiers together, and to this exciting collaboration."



Everyday impact of climate change:
Farming is especially affected by
weather extremes – worldwide.

Natural hazards – Both an accumulation risk and a risk of change

Assessing and covering natural hazards – this has been one of Munich Re's core competences and lines of business since its foundation in 1880. No one now disputes that weather-related natural catastrophes are occurring more and more frequently and causing an increasing amount of damage. After all, climate change affects everybody: the European smallholder if there is not enough rain; the US plant operator if a hurricane cripples production; the Asian investor if natural catastrophes wreck a construction project; or the African farmer if bush fires threaten his livelihood.

What all natural hazards have in common is their highly destructive force and their capacity to affect large areas and cause huge financial losses. As reinsurers often have to carry the lion's share of such losses, it is vitally important for us to master the complex risk of climate change and its implications. Only if we understand the resultant risks and opportunities in detail and respond at an early stage to changes in risk evaluation, modelling and product development, can we carry such risks and secure our commercial success. With this in mind, we supplement our internal knowledge with excellent external know-how. A prime example is the work of our geoscientists.

Corporate Climate Centre

Munich Re is one of the pioneers of climate research. As far back as 1974, we set up what later became the Geo Risks Research Centre of Competence, whose activities are now concentrated in the Corporate Climate Centre (CCC). Our experts from all the relevant disciplines, such as meteorology, hydrology, geophysics and geography, constantly analyse climate change risks.

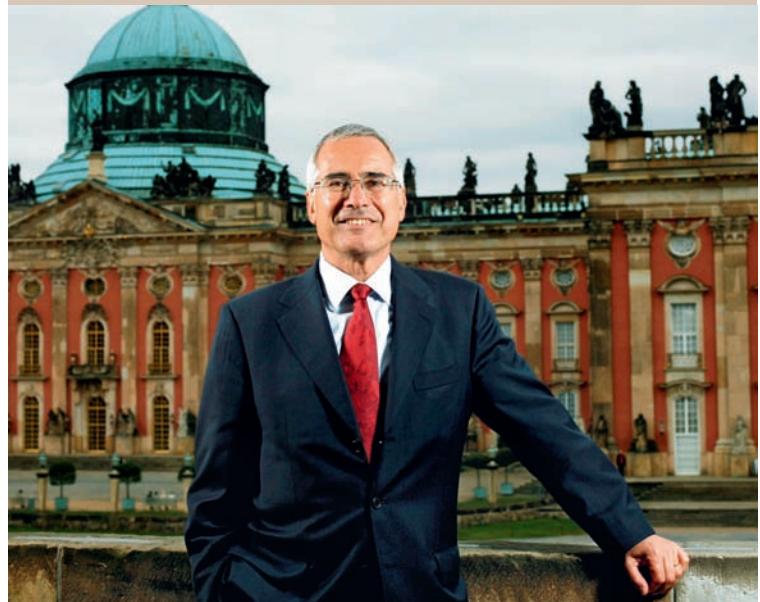
London School of Economics and Munich Re – Researching the economics of climate change

Since October 2008, Munich Re has been collaborating with the renowned London School of Economics and Political Science (LSE). Munich Re is a founding corporate partner of the Centre for Climate Change Economics and Policy, chaired by Professor Lord Nicholas Stern within the new Grantham Research Institute.

What implications does climate change have for the economy? To find out, the British government commissioned the services of Sir Nicholas Stern, former Chief Economist at the World Bank. In 2006, he presented his results: doing nothing would be more expensive than acting. According to Stern, the economic costs of climate change would be much higher than the economic costs that would be incurred as a result of taking swift action. Nicholas Stern in response to the question of what he expects from the cooperation between the LSE and Munich Re: "Policy on climate change must be effective, efficient and equitable, both in reducing emissions and in adapting to the consequences of changes that occur. The formulation of policy in accordance with these principles requires careful analysis of risk and practical policies. As one of the leading reinsurance companies in the world, Munich Re analyses risks and their management in a careful and thoughtful way. They are ideal partners for this very important work."

At the interface between climate research and economics, the partners aim to describe more precisely the implications of climate change for industry and insurance. At the same time, the benefits of adaptation and prevention strategies and of the related expansion of new technologies are to be made calculable. The findings are to inform decision-makers in politics and at company level and to identify approaches for innovative solutions in the finance and insurance industry. The research projects of the five-year cooperation agreement are combined in the independent Munich Re programme "The Economics of Climate Change and Opportunities for the Insurance Industry" and support our strategic business development, including innovative risk solutions.

Lord Stern outside the London School of Economics and Political Science.

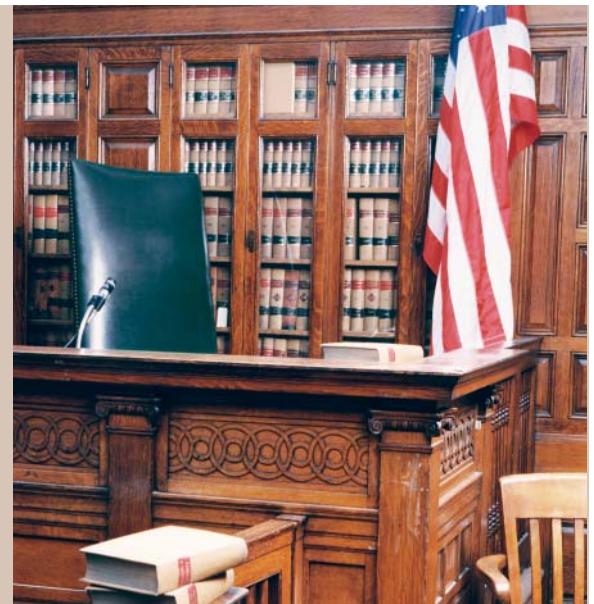




Offshore wind turbine: The efficient use of renewable energy can help curb climate change. But wind farms are prone to losses, so appropriate insurance solutions are in demand.

RAND and Munich Re – Close liaison

With around 1,600 employees, the RAND Corporation (Research AND Development) is the largest think tank in the USA. The non-profit, politically neutral organisation was set up after the Second World War. It advises politicians on important social issues of security and education, healthcare and the legal system. Munich Re is the only European company represented on the Board of the US RAND Institute for Civil Justice, and is also on the Board of the newly formed RAND Europe. There is close cooperation on the issue of mass litigation. Eight case studies on the subject of "complex litigation" deal with the great variety of technological, social and financial risks. Our active role and contributions are much sought after, not least owing to our external perspective of the US system and our overview of differently structured insurance markets and legal systems. The exchange of views with leading experts, including judges, lawyers and representatives from insurance companies, gives us an excellent insight into circumstances and experiences in the US market. Besides this, contacts are established with the interdisciplinary network of RAND experts.



Mass litigation is an area of particularly close cooperation between Munich Re and the RAND Corporation.

But we also keep an eye on the opportunities, given that there will be significant growth in the demand for insurance solutions, e.g. for new technologies and renewable energies, as part of adjusting to the already unavoidable consequences of climate change and curbing a further increase in temperature.

The specialists in CCC form a knowledge hub for all questions relating to this topic and are the link between geoscientific research and operational business. They advise underwriters and clients on the development of future-oriented products.

To keep our internal expertise up to date, to meaningfully supplement it and to make available our many years of experience to others, our experts from the Corporate Climate Centre play an active role in a global network of scientists, associations and organisations and are involved in numerous research and development projects. They thus provide good examples of external networking.

Globe of Natural Hazards

An excellent example of the wealth of knowledge we have developed is the *Globe of Natural Hazards*, which combines the geoscientific data and findings we have accumulated over a period of almost 35 years. First devised as a wall map in 1978, the product has established itself as a standard work for the identification, exposure assessment and risk management of natural hazards.

Over 80,000 copies of the CD-ROM version of 2000 have been supplied to clients – a feat achieved by no other service product in Munich Re's history. Since early 2009, the fully updated fourth-generation version has been available. The bilingual DVD (German and English) shows natural hazards and climate effects at a glance: the global maps are presented on a 3D globe, underlaid with satellite images.

The hazard complexes of hail, tornado, winter storms have been completely revised and flood incorporated as a new hazard. Users can home in on and enlarge any location on earth, and an extensive location database makes searching easy. The knowledge modules for historical catastrophes, megacities and change processes can be linked with each other and displayed on the maps.

Completely new is the integration of the topic of climate change: various depictions of climate effects and projections show in which regions of the world risk situations are likely to arise in future. Thanks to its comprehensive information, the globe is an important tool for identifying risk locations worldwide, evaluating them from a geoscientific perspective, and thus increasing transparency.

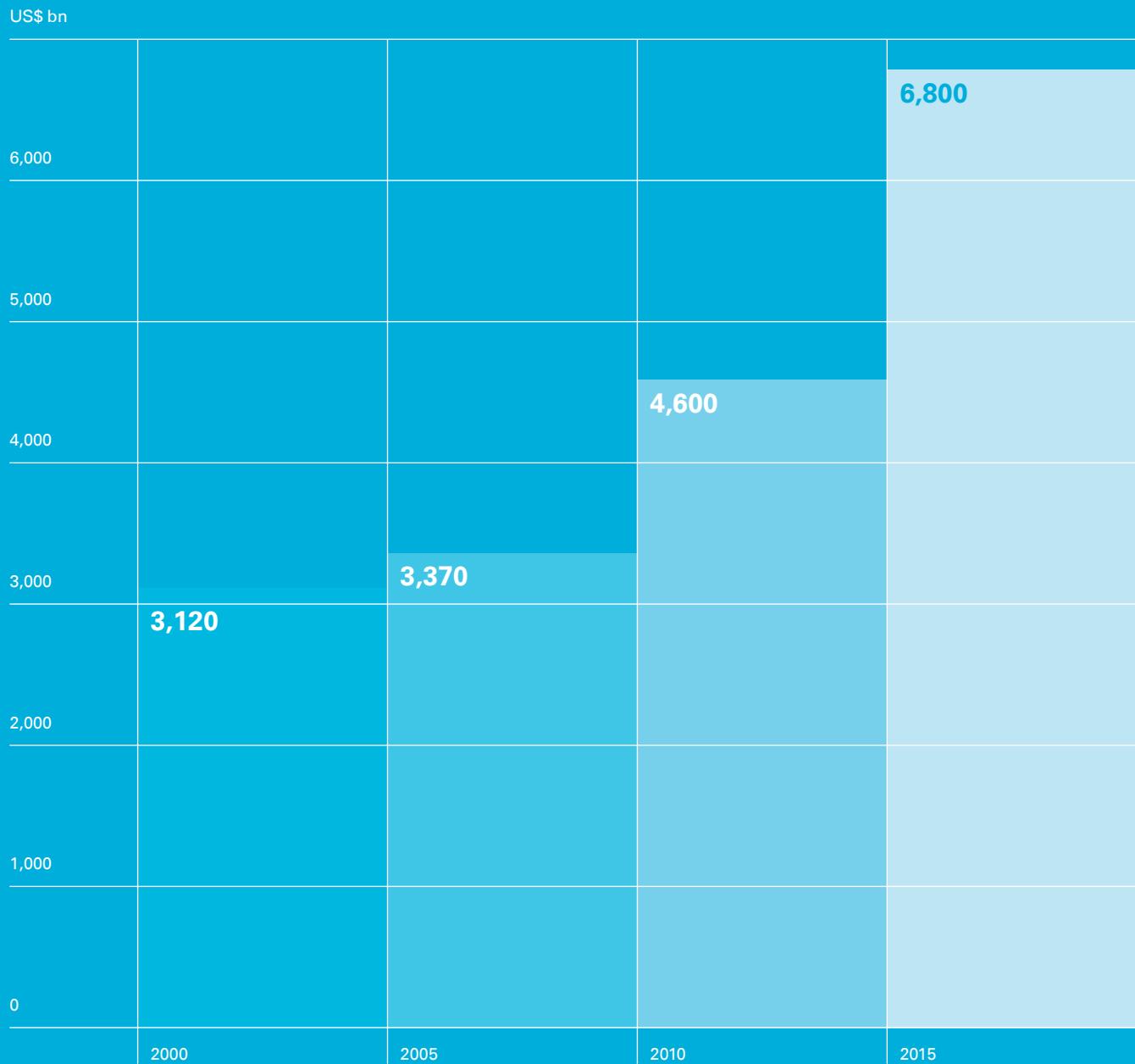
But see for yourself: on the last page of this annual report, you can find our current DVD edition of the *Globe of Natural Hazards*.

Anyone interested can contact the unit via corporateclimatecentre@munichre.com.

Health is the most important thing in life ...



... and the growth market of the future



Expenditure on health is increasing worldwide

The healthcare market has achieved growth rates almost unmatched by any other business sector in recent years. And this is by no means just a passing trend: According to estimates by the World Health Organization (WHO) and Munich Re, health expenditure is likely to more than double by the year 2015 compared with 2005.

Source: WHO and own estimates (Status 2007).

Pioneering work is bearing fruit

The establishment of the health insurer DAMAN National Health Insurance in Abu Dhabi is a unique success story. What began in 2005 with 13 staff has developed into a project with 1,300 employees. "We have far exceeded our business-plan targets in every respect", says delighted DAMAN boss, Dr. Michael Bitzer.

DAMAN demonstrates on a small scale the factors that will drive the global health market in the coming years. The traditional model of pure risk assumption by primary insurers and reinsurers does not go far enough, and the provision of services and management is rapidly gaining in importance. Hence the key to success lies in an integrated approach. Munich Re has created the necessary structures for this: in future, it will conduct all health business except German health primary insurance as a separate Group business segment – International Health – underlining the significance of the healthcare market for the Munich Re Group.

DAMAN offers two products: a state-subsidised basic policy, which covers visits to the doctor and in-patient stays in private and state hospitals, and additional private cover. The basic plan is designed for all foreign employees ("expats") who earn less than €900 a month, i.e. about 75% of them. "For the basic policy, we currently have around 850,000 clients", explains Bitzer. In this case, the state of Abu Dhabi carries the risk alone, while Munich Re organises the administration and handles the day-to-day business.

Expats with an income of above €900 can also take out comprehensive health insurance, whose cover includes care in private clinics and

some treatment abroad. Here Munich Re has not only taken on the health care management but also functions as the primary insurer and reinsurer. Altogether, more than 1.1 million foreign employees benefit from DAMAN's products and services. Its insureds also include another half a million local citizens from the United Arab Emirates. "No one credited us with getting so many clients in such a short time", says Bitzer, reflecting on the scepticism he encountered at the start. The present number of insureds is twice as high as originally planned; premiums are actually three times higher.

More than risk knowledge

There are several reasons for this success. Munich Re's pioneering role in building up insurance in the Gulf Region proved a valuable advantage in negotiations with the government of Abu Dhabi. Even though the market has developed dynamically in the meantime – around two dozen competitors are now active there – we aim to extend our leading position. The chances of doing so are good: after all, Munich Re has gathered a fund of experience in the region and the right expertise for optimally designing and introducing health insurance schemes.

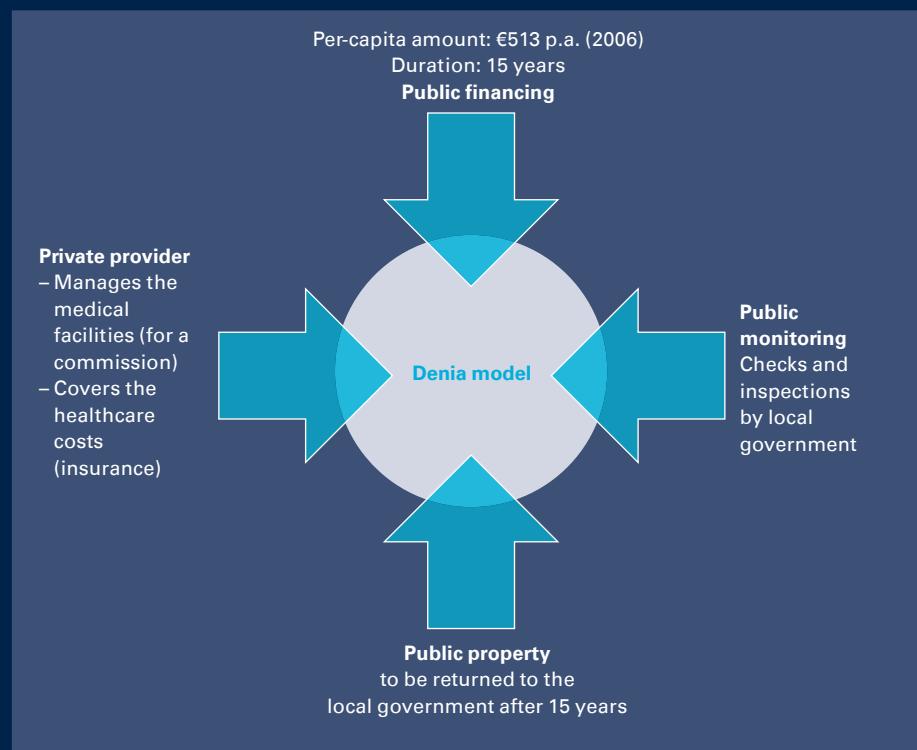
Other factors besides risk knowledge are key. "Our staff hail from 42 countries. It is certainly beneficial if they have already gained experience with a range of different mentalities in a globally operating group", says Bitzer, underlining this strength. But market-specific customs also play a central role. The DAMAN CEO, who has been working in the Arab region since 2001, speaks from experience: "Trust and personal contact are even more important here than elsewhere." A good deal of patience is also required. "Decisions usually take a long time, but once they have been reached, business partners attach importance to putting them quickly into practice."

What does the future hold?

Besides further growth in Abu Dhabi, we intend to transfer the successful model to other countries. We have already established initial contacts with governments outside the Gulf region as well, and interest is huge. Our experience from Abu Dhabi will help us to develop integrated healthcare models. For the fact is that problems such as the lack of medical or billing standards are similar in most of the emerging markets. The healthcare market is undergoing change in Europe, too. In Spain, for example, we are demonstrating our competence as a health insurer in the new pilot project DKV Seguros in the Denia region.

DKV Seguros: Pilot project on the Costa Blanca

In autumn 2008, International Health began a visionary project for a public-private partnership in the Denia region on the Costa Blanca. Over the next 15 years, our Spanish subsidiary DKV Seguros will assume responsibility for the public healthcare of the 225,000 inhabitants of the municipality of Denia and for the 350,000 tourists who visit the region annually. The objective is improved medical care at a lower cost. The key is a closer networking of medical providers and expansion of the infrastructure with medical centres and a hospital. This integrated healthcare concept from a private provider is unique in Europe and is likely to become a model for other regions.



Denia, a municipality in the Province of Alicante, and its integrated healthcare concept.





Stability and security are in demand again

Without doubt, Torsten Oletzky would have preferred an easier start. Scarcely had he taken over as head of ERGO than he had to steer the primary insurer through a massive financial market crisis. But the Chairman of the Board remains focused on his objectives: driving forward the international expansion of primary insurance in the Munich Re Group and establishing ERGO in the top league of international insurers.

Mr. Oletzky, you took up your position as Chairman of the Board of Management in January 2008 and have launched an ambitious programme with your objectives for 2012. What kilometre mark has the marathon runner Oletzky now reached with ERGO?

Torsten Oletzky: A marathon is 42 kilometres – a long distance, but with regular training and good form on the day, I can run it in just under four hours. Our action programme ERGO 2012 extends over a period of five years: you need more stamina for that. We have got off to a reasonable start and are well underway. We are tackling our ambitious objectives step by step, but we have only completed the first stage of the course so far.

What are your main work priorities?

Oletzky: We aim to grow further in Germany and internationally, and at the same time to become better and more efficient. We need both these factors – growth and quality – to achieve sustained success. As I see it, my main task is to maintain the right balance between these goals and advance them both strategically and operatively.

Aren't you concerned that you might run out of steam, given the financial market crisis?

Oletzky: Definitely not! We deliberately set long-term goals and have the necessary qualities of endurance. Therefore, it would be wrong to scale back our ambitions because of the admittedly difficult events of recent months. We won't lose our heads, just because such tasks cannot be solved in one year. Besides, we have already made a good deal of progress. In Germany, we have successfully initiated our cost and efficiency programme and paved the way for its implementation.

"As a result of the financial crisis, traditional life insurance will regain importance as an instrument of old-age provision."

We are also making rapid advances internationally, having launched our cooperation with UniCredit banks in central and eastern Europe, for example.

The financial crisis, which started smouldering in mid-2007, has got worse and now has the whole economy firmly in its grip. Where does it affect you most?

Oletzky: The direct consequences are evident in our investments. In the medium term, the insurance industry will not be able to fully escape the consequences of a recession on the premium side either. But you have to differentiate: demand for property-casualty insurance is naturally more dependent on the state of the economy. A recession will curb its growth. By contrast, the financial market crisis presents additional opportunities for traditional life insurance. Clients are attaching more importance to stability and security again. And precisely these are life insurance's strengths. I am convinced that this instrument of old-age provision will regain importance in relation to other forms of investment.

What distinguishes ERGO from other primary insurers?

Oletzky: Particularly in Germany, we combine several brands under one roof whose individual strengths we can fully exploit in marketing. We offer our products via the full range of distribution channels and have competent and qualified agents who can advise clients appropriately according to their specific needs. After all, clients want to be convinced of a product's value. Our broad set-up is also an advantage. Especially in the current situation, it is an enormous plus. From life, health and property-casualty insurance to legal expenses and travel insurance – ERGO can provide private, commercial and industrial clients with all the products that the German market can offer. This makes it easier for us to cope with difficult business environments as well.

Currently, 75% of the premium income comes from Germany, but there are limits to growth in this market. So you are aiming to make your business more international.

Where is the journey heading?

Oletzky: Our international expansion is clearly focused on eastern Europe and Asia. In eastern Europe, we are already present in several markets and we will tap into others through our cooperation with UniCredit. We have set up a joint back office in Austria for this purpose, and our position has been further strengthened by the acquisition of a majority stake in BACA Versicherung, taking us into third place in the Austrian life insurance market. We have also established a footing in India and South Korea. With our joint-venture partner HDFC, we are already doing business in property-casualty on the Indian sub-continent.

All in all, we have high expectations of the Indian market, especially if the limit for participations in joint-venture companies is raised from the present 26% to 49%, as planned by the government. In Southeast Asia, we are currently looking at further business opportunities. Besides this, we are keeping a very close eye on the Chinese market and have already had talks with potential business partners. But more important to me than quick success is finding a partner that is a good fit for us in the long term.

What percentage of foreign business are you aiming for in the medium term?

Oletzky: Since the formation of ERGO, we have continually expanded our international business. Whereas in 1997 only 8% of our premium income came from abroad, today the figure is around 25%. By 2012, international business is set to account for a third of our corporate value – an absolutely realistic target.

Might the financial crisis even play into your hands, as regards potential acquisitions, for example?

Oletzky: Of course, there will be opportunities, and we are currently looking at a number of options with colleagues from Munich. But we are carefully scrutinising what matches our strategic goals and whether the basis is right. Before paying too much for an acquisition, we would rather grow organically.

What role does belonging to the Munich Re Group play in realising your international strategy?

Oletzky: Munich Re's global presence and its in-depth knowledge of the different insurance markets are an entrance ticket. Let's take India. Without Munich Re's market knowledge and reputation, it would not have been possible to find a suitable partner and begin operations in such a short time. At the same time, we make use of our broad set-up. We have experts for all classes of insurance and distribution channels, and their joint specialist knowledge is a powerful asset. With this combination, we can push forward into new growth markets and diversify further.

Where do you benefit from one another?

Oletzky: The Group's know-how, especially for overarching topics like risk management and control systems, provides extraordinary added value for ERGO, which we have profited from enormously in past years. We learn from experience gained in reinsurance business and simultaneously contribute our primary insurance perspective. By combining the Group's investments and assigning the asset management to MEAG, we

can operate on a different scale in this sector, which opens up additional opportunities for us. Beyond this, there are close ties between our managements. Our Board member for Finances, Investments and Life Insurance came from Munich Re, and conversely a former ERGO manager is today responsible for the reinsurer's investments. And there are numerous other examples at company levels below this. I would welcome it if even more colleagues from the operative area moved between business fields. Such a change in perspective helps all sides. I am sure that our operations will be even more closely intermeshed in five years.

If you venture a look ahead, where will ERGO be in a few years?

Oletzky: In five years, I see ERGO as an international insurer that is at the very top in terms of profitability and client satisfaction. We aim to establish ERGO as a hallmark of quality and operative excellence. At the same time, we will carry on growing and consistently seek out attractive business opportunities, especially internationally. Our integration experience will be of great help to us in this. From the formation of ERGO in Germany and a large number of international acquisitions, we know how to successfully incorporate new units. In short, we want to make the joint undertaking ERGO even better. And we are making good progress in this direction.

“By 2012, international business is set to account for a third of our corporate value – an absolutely realistic target.”



Money is time – Time is money

Many can't wait for it, but for more and more people retirement is becoming an increasingly distant prospect – in Germany, the retirement age will gradually rise between 2012 and 2029 until it reaches 67. "Working-time accounts" are a way of enabling workers to retire earlier. Employees can pay any overtime, remaining leave or special leave, as well as any compensation components, into a long-term working-time account. With the accumulated credit, employees can reduce the period they have to work until retirement without sacrificing earnings. German legislation has recognised the increasing importance of this HR policy tool and therefore, as from 2009, provides additional rules for working-time accounts which should further increase their prevalence. The ERGO life insurers Hamburg-Mannheimer and Victoria are among the top providers of arrangements for long-term working-time accounts and offer two basic variations: employees' contributions to their accounts are paid either into an insurance with a guaranteed interest rate or into a special fund model. Competent advice and well-conceived, full-service solutions: this is what makes the ERGO companies stand out from the crowd.

Network transcends EU borders

Europe is growing together – but getting a claim settled after a car accident abroad still costs time and nerves. For example: A German driver is involved in an accident with an Italian driver in Austria – he is then confronted with different country-specific claims settlement rules, as well as language barriers. Although the European Union brought about improvements for accident victims with the green card scheme and the fourth motor directive, settling claims can often take a very long time, given the coordination required across borders between different insurers. With TPL-Car-Net, the ERGO Group has created a settlement network to ensure that such claims are dealt with swiftly. The local ERGO companies, other insurers and claims adjustment offices support each other with swift communication and a uniform claims handling process. Lengthy correspondence with foreign contacts and expensive claims adjustment offices are thus a thing of the past.



Going to law without the expense worry

When heirs quarrel, it is not only common sense that is often lacking but also liquidity – this is all the more true, the bigger the estate. To determine what each person is entitled to, there is mostly little alternative but to go to court, and that involves great expense where a large sums are involved. For such cases, D.A.S. Litigation Financing offers an attractive concept. Above a value in dispute of €50,000, it assumes all litigation expenses and lawyers' fees for potentially successful lawsuits. If the claimant wins, he has to pay a percentage share of the proceeds as a consideration. If the suit is lost, the financer carries all the costs. Lawyers also benefit from the many years of litigation experience in specialist areas. Thus the business model embraces not only inheritance and insolvency but also law relating to medical malpractice and architects' fees.



Like a phoenix from the ashes: The Yas Island megaproject is scheduled to be realised in the desert sand of Abu Dhabi by 2014. Behind the 34-billion dollar project is the financial strength and risk management of Munich Re.



**The largest projects in the
world build on our knowledge**

Safety boots rather than a tie

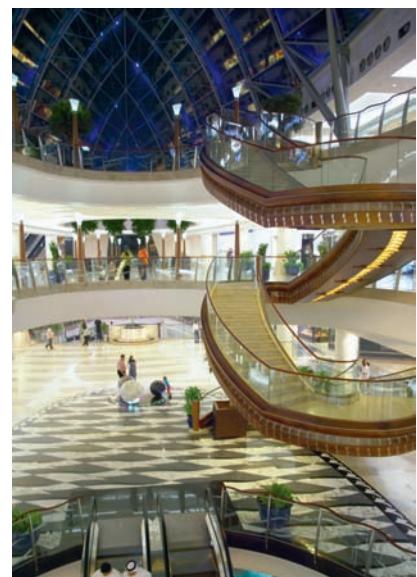
Munich Re's expertise in the field of engineering insurance is second to none – and has been for over a hundred years. Starting with the relatively simple form of machinery insurance that was introduced in 1900, concepts soon evolved for insuring more complex projects. Erection all risks insurance was brought onto the market with Munich Re's support in 1924, and special insurance cover for buildings and structures has been available since 1929. The sums for mega-buildings, which are covered under such policies, are in the multi-billion euro range nowadays.

Project management is risk management

Managing such gigantic projects is an enormous challenge. Immense values are concentrated in an extremely small space, often involving the use of novel technologies. Munich Re is a much-sought-after partner especially in such cases, offering not only its financial strength but much more besides: its engineers' know-how and practical experience, structured risk analyses, and customised coverage concepts.

The desert is alive!

Particularly in the United Arab Emirates, structures are being constructed that could have come from a science fiction film. At the end of 2008, the island of Palm Jumeirah was opened in Dubai, which is also where Burj Dubai with its incredible height of 820 metres will be finished in the autumn of 2009. In the neighbouring emirate of Abu Dhabi, the foundation stone was laid at the end of 2007 for Yas Island, a 25-km² complex around the new Formula One track with theme parks, hotel complexes, shopping centres, apartments, and yacht harbours. Munich Re is the leading reinsurer for these gigantic projects and is also responsible for risk management on the insurance side. How did this come about?



Dubai: Burj Khalifa, currently the tallest building in the world (above) and the aquarium in the newly opened mall (below) attract visitors from all over the world.

Munich, November 2007: The phone rings in a Leopoldstrasse office. A primary insurer from the Arab region is seeking reinsurance backing for Yas Island, currently the world's largest single construction project. The insurer proposes a meeting in Abu Dhabi to discuss the details. Christian Bendel, a civil engineer at Munich Re with responsibility for projects in the Middle East, shakes his head when he hears that the industrious executive from the local project developer thinks it will take only a 15-minute presentation plus question time to clear up all the technical points that need to be discussed before we can make an offer. Just over an hour for a 34-billion-dollar project involving about a hundred separate construction sites all being handled by different firms? Is that really possible?

Abu Dhabi, December 2007: Our civil engineer arrives on the site to meet with the local insurer's representative and the project manager. Apart from a great deal of sand, there is little to see at the moment, but in seven years' time this will be the site of a new city. The following five hours of intensive discussions confirm again what our engineering underwriters call a "secret of success." "The insurance of such huge projects is a people business; you have to speak the same language. Professional competence is a fundamental requirement for the principal to gain trust and recognise that the project is in good hands. "The important thing is to ask the right questions at the right time and to offer solutions," says Bendel, who had previously spent ten years in project management at an international construction company. "And whether you are taken seriously by the other side starts with whether you wear safety boots on the building site or a tie."

Munich, January/February 2008: By this time, the head office wheels are turning at top speed. The underwriter responsible for this project is in permanent contact with everyone involved in the production of the quotation and the contract: client managers, colleagues in Integrated Risk Management, the legal department, and the Board of Management. This is because, for a project of this size,



Christian Bendel worked for an international construction company for ten years before joining Munich Re, where he is currently an underwriter for facultative business in a team of some twenty civil engineers. In his former role, he was responsible for the acquisition of large projects and for project and site management.

the quotation requires top-level approval.

Munich, March 2008: After three months of intense negotiations, the contract is finally in place, with Munich Re acting as leading reinsurer. The principals were won over by our risk expertise and our detailed quotation. "The in-depth talks and the site inspection enabled us to show exactly where the risks were and how we would deal with them. At the same time, they helped us make our quotation technically transparent," Bendel explained. "Our business partners were convinced that they could profit from the experience Munich Re had gained with other major projects like Burj Dubai, Dubai Mall, which is currently the world's largest shopping centre, and Dubai International Financial Center."

Abu Dhabi, Summer 2008: Our expert is on the scene again, accompanying the insurer on an inspection of the construction site and talking to the project developer's representatives. In order to provide the client with optimum risk management, Munich Re has also acquired the services of the local office of an international firm of engineering consultants. Their representatives visit the site just about every other day and act as our "extended arm."

But this is no substitute for exercising control ourselves: "The external engineers are always present, they keep their eyes and ears open for us, and they report to us on a regular basis, but every other month we take a look for ourselves. After all, risk management from the technical perspective of a reinsurer is a question of experience. You really do learn from losses. Munich Re has already been confronted with scenarios that even long-serving site managers have not experienced or have fortunately not been forced to experience." Fire protection, for example, is of major significance because the majority of losses are caused by fire. Just one little discarded cigarette can cost many millions. "It is our job to apply our powers of persuasion and to push through the measures that are necessary. And this is something we can do, as evidenced by the work on Dubai Mall, where the fire protection measures were tightened following Munich Re's intervention, with sprinkler systems being installed in the storage area," the engineer explains. "Dubai Mall was inaugurated at the beginning of November 2008. We were able to complete this project without any major losses."

Yas Island will be finished in 2014. We will keep a constant watch on the progress of construction work until then. Munich Re provides cover for about 800 projects around the globe, each with a volume of more than a million euros.

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Munich Re Group

Structure of the Munich Re Group

The Munich Re Group is one of the world's leading risk carriers. Our business covers the whole value chain in insurance and reinsurance, and we are also active in the field of asset management.

The reinsurance companies in our Group operate globally. Our primary insurers traditionally concentrate on Germany and European markets with strong growth, but have meanwhile been looking to extend their activities to high-potential Asian markets such as South Korea or India. We conduct our business from our respective headquarters and also via a large number of branches, subsidiaries and holding companies. Domination and profit-transfer agreements are in place with many subsidiaries, especially between ERGO Versicherungsgruppe AG and its subsidiaries. Since 2005, "unified control" within the meaning of the German Stock Companies Act has existed between Munich Reinsurance Company and the ERGO Insurance Group. The relevant statutory regulations and a Group directive govern the distribution of responsibilities and competencies for key decisions between Group management and ERGO.

The Board of Management, which for legal purposes represents Munich Reinsurance Company externally, has created two Board committees, the Group Committee and the Reinsurance Committee, with a view to maintaining clearly defined strategic management of the equal-ranking business fields and to clearly assigning responsibility.

This management report summarises the activities of our Group according to the business fields of reinsurance, primary insurance and asset management rather than on the basis of the Group's legal or corporate structure or individual companies. Such segmentation is determined by how we manage our business internally. International Health (health reinsurance worldwide and health primary insurance outside Germany), which is still only a "virtual" field of business, has not yet reached a size that would justify separate presentation; for health reinsurance and Sterling Life Insurance Company (Sterling), the business written is therefore booked in the reinsurance segment life and health, and for health primary insurance and German business it is booked in the primary insurance segment life and health.

Reinsurance group Of the gross premiums totalling €21.8bn written in 2008, around 67% came from property-casualty and 33% from life and health business.

The reinsurance group is active in nearly all branches of life, health and property-casualty business, the latter being subdivided into the liability, personal accident, motor, marine, aviation, space, fire, engineering, credit and bonding and other classes of business. Under the last heading, we subsume the remaining classes of property business, i.e. burglary, glass, hail (including agricultural reinsurance), water damage, contingency, windstorm, livestock, householders' and homeowners' comprehensive reinsurance as well as fidelity guarantee reinsurance. In the two reinsurance segments, we also book our various specialised primary insurance activities that are managed by the reinsurance organisation.

As at 31 December 2008, our reinsurance business was organised in seven divisions. As part of our Changing Gear programme, we adjusted our set-up with effect from 1 April 2008 to the new requirements in our business environment, creating client management positions and separate underwriting functions in the divisional units. This puts our organisation in a position to cooperate closely with our cedants in designing solutions geared even more specifically to their needs.

The divisions Life and HealthCare underwrite our international life and health reinsurance business, and their structures reflect those of many of our clients, which conduct these two classes of business separately from property-casualty insurance, often through independent entities. The HealthCare division also manages Sterling Life Insurance Company (Sterling), which we acquired in 2008. Through close organisational cooperation and by establishing the International Health Board as the superordinated management body, we have brought together our HealthCare Division and foreign health primary insurers to form the new International Health segment. The aim is to turn this business field into a more independent organisational unit of Munich Reinsurance Company with effect from the second quarter of 2009.

Our Europe and Latin America Division is responsible for the property-casualty business of our clients from Europe (except Germany) and Latin America. In order to simplify organisational structures within the Munich Re Group, we merged Münchener Rück Italia into Munich Reinsurance Company in January 2009.

The Germany, Asia Pacific and Africa Division conducts property-casualty business with our German clients and with cedants in Africa, Asia, Australia and the Pacific Islands.

Special and Financial Risks is in charge of the classes of credit, aviation and space, agriculture, enterprise, contingency and political risks, and of alternative markets business. Insurance risk securitisation and risk transfer to the capital markets are handled by our Risk Trading Unit, which includes the entity Munich Re Capital Markets New York. In addition, the division also attends to our own reinsurance requirements (retrocession).

Since 1 January 2008, Global Clients and the former North America Division, which was responsible for our subsidiary Munich Re America, for Munich Reinsurance Company of Canada and for Temple Insurance Company, have been combined in the new Global Clients and North America Division. It handles our accounts with major international insurance groups (hence "Global Clients") and globally operating Lloyd's syndicates, pools our know-how in the North American market, and writes business worldwide in special classes such as workers' compensation and marine. Global Clients and North America is additionally responsible for the management of The Midland Company (Midland), which we acquired in 2008.

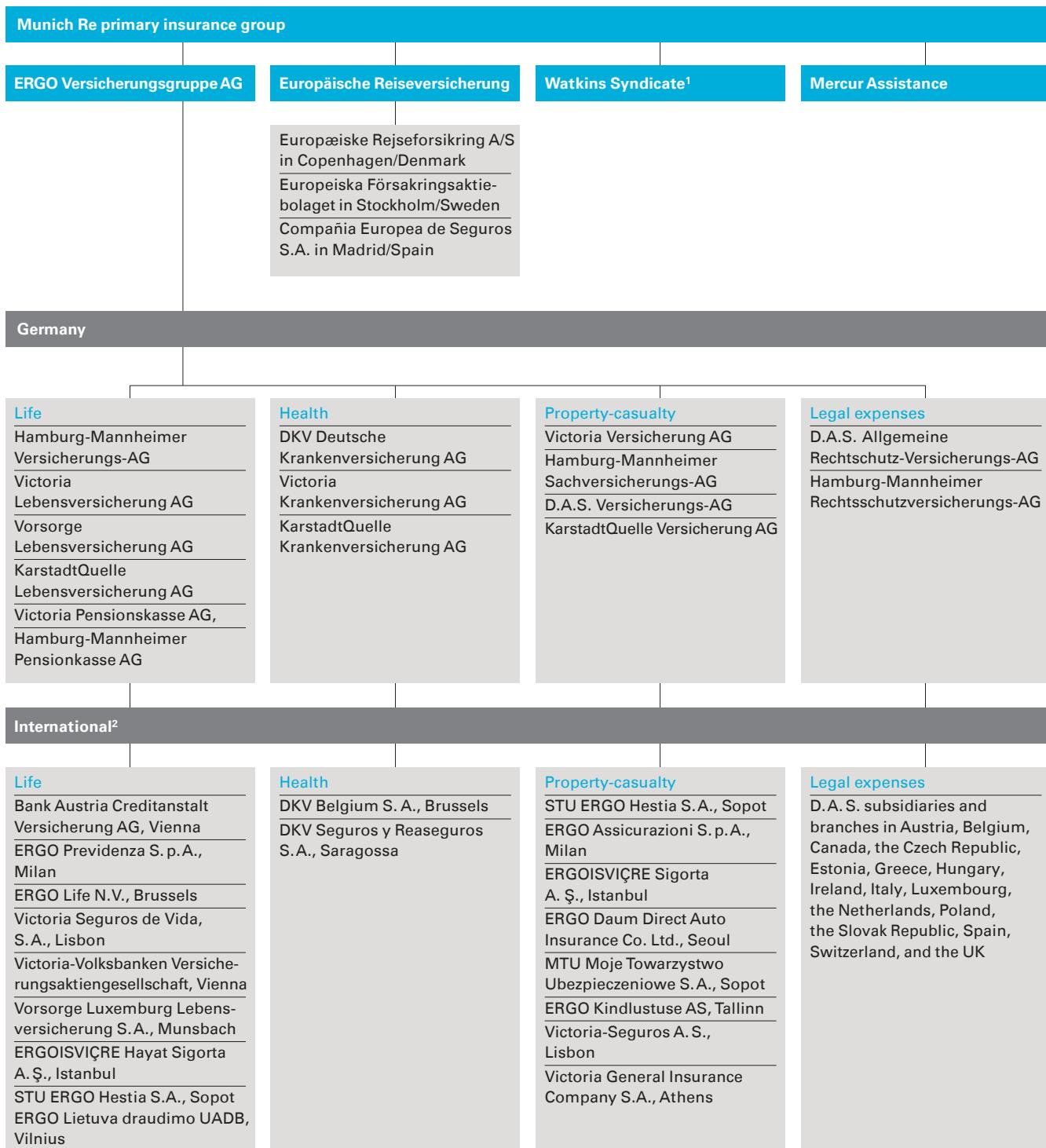
The Corporate Underwriting Division is an independent entity without responsibility for operative business. It performs an important function for the reinsurance group in the property-casualty segment: its staff clarify fundamental issues of underwriting policy, oversee quality assurance, integrate mathematical methods into our business processes, and set standards for claims management.

The reinsurance group at a glance¹

Division	Subsidiaries/Branches
Life	Allfinanz Limited, Dublin Munich Reinsurance Company of Australasia Ltd, Sydney Munich Reinsurance Company UK Life Branch, London Munich Reinsurance Company Canadian Life Branch, Toronto Munich Reinsurance Company Life Reinsurance Eastern Europe/Central Asia, Moscow Munich American Reassurance Company, Atlanta, Georgia Munich Re India Services Private Limited, Mumbai Family Caring Network Inc., Waltham, Massachusetts Munich Re Polska Services So. Z. o. o., Warsaw Münchener Consultora Internacional S. R. L., Santiago de Chile LifePlans LTC Services, Inc., Ontario Munich Life Management Corporation Ltd., Toronto
HealthCare	Cairnstone Inc., Wilmington Sterling Life Insurance Company, Bellingham MedNet Greece S. A., Athens Jordan Health Cost Management Services W. L. L., Amman Apollo DKV Insurance Company Limited, Hyderabad DKV Salute S. p. A., Milan MedNet Bahrain W. L. L., Bahrain MedNet Gulf E. C., Manama MedNet Sağlık Hizmetleri Yönetim ve Danismanlik Anonim Sirketi, Istanbul MedNet UAE FZ L.L.C., Dubai MR Salute S. r. L., Milan Newmed S. p. A., Milan
Europe and Latin America	Bell & Clements (London) Ltd., London Bell & Clements (USA) Inc, Reston, Virginia B&C International Insurance, Hamilton, Bermuda Munich Ré France Branch, Paris Munich Reinsurance Company UK General Branch, London Münchener Rückversicherungs-Gesellschaft A. G. Sucursal España y Portugal, Madrid Münchener Rück do Brasil Resseguradora S. A., São Paulo Münchener de Argentina Servicios Técnicos S. R. L., Buenos Aires Münchener de Colombia S. A. Corredores de Reaseguros, Santafé de Bogotá D. C. Münchener de México S. A., Mexico City Münchener de Venezuela C. A. Intermediaria de Reaseguros, Caracas Muenchener Hellas Reinsurance Services S. A., Athens Münchener Rück Italia S.p.A., Milan
Germany, Asia Pacific and Africa	Corion Pty Limited, Sydney Munich Holdings of Australasia Pty. Ltd., Sydney Münchener Rückversicherungs-Gesellschaft Australian Branch, Sydney Munich Reinsurance Company Beijing Branch, Beijing Munich Reinsurance Company Hong Kong Branch, Hong Kong Munich Reinsurance Company Malaysia Branch, Kuala Lumpur Munich Mauritius Reinsurance Co. Ltd., Port Louis Munich Reinsurance Company New Zealand Branch, Auckland Munich Reinsurance Company Singapore Branch, Singapore Munich Reinsurance Company of Africa Ltd, Johannesburg Munich Reinsurance Company Korea Branch, Chongro-Ku Munich Re Japan Services K. K., Tokyo Munichre New Zealand Service Limited, Auckland
Special and Financial Risks	Great Lakes Reinsurance (UK) Plc., London Great Lakes Australia Branch, Sydney Great Lakes Switzerland Branch, Zurich Munich Re Capital Markets New York, Inc., Wilmington, Delaware Munich Re of Malta Holding Limited, Floriana Munich Re of Malta p. l. c., Floriana New Reinsurance Company, Geneva Nouvelle Compagnie de Réassurance, Hamilton
Global Clients and North America	MSP Underwriting Ltd., London Munich Re Underwriting Limited, London The Roanoke Companies Inc., Schaumburg, Illinois Northern Marine Underwriters Limited, Leeds Watkins Marine Services Limited, London Watkins Syndicate Hong Kong Limited, Hong Kong Watkins Syndicate Middle East Limited, Dubai Watkins Syndicate Singapore Pte. Limited, Singapore Munich Reinsurance Company of Canada, Toronto Munich Reinsurance America, Inc., Princeton, New Jersey Temple Insurance Company, Toronto The Midland Company, Cincinnati, Ohio The Princeton Excess and Surplus Lines Insurance Company, Wilmington, Delaware The American Alternative Insurance Corporation, Wilmington, Delaware

¹ A complete list of shareholdings can be found on our website at www.munichre.com.

Primary insurance group The second pillar of the Munich Re Group is primary insurance business.



¹ In 2008, the Watkins Syndicate was shown in primary insurance. From the 2009 financial year, it will be reported in reinsurance, reflecting the fact that Watkins has been incorporated into the reinsurance group.

² Only ERGO companies with a premium volume of more than €50m are listed by name.

95% of our premium income derives from the ERGO Insurance Group, which is made up of the long-established German brands Victoria, Hamburg-Mannheimer, DKV and D.A. S., and also KarstadtQuelle Versicherungen. Europäische Reiseversicherung, which thus far had been owned directly by Munich Reinsurance Company, was integrated into ERGO together with Mercur Assistance with effect from 1 January 2009. The segments (life, health and property-casualty business in Germany, foreign business as a whole) are managed centrally by ERGO. The individual brands provide significant franchise strength and enjoy a high profile among clients. A combination of sales channels is used for marketing the brands: apart from their own strong sales organisations, their wide variety of broker relationships and extensive banking cooperation with the UniCredit Group are important.

In addition to our core activities in Germany and the European markets with predominantly strong growth, we are also present in South Korea and India. Beyond this, we are seeking to tap further selected primary insurance markets in Asia. ERGO's main companies outside Germany are the ERGO Italia Group, the health insurer DKV Seguros in Spain, the Polish property-casualty insurer ERGO Hestia, and the Turkish ERGOISVIÇRE Group.

With locations in 14 countries, as well as a network of strategic cooperation agreements, Europäische Reiseversicherung is an effective international alliance. Its most important product is travel cancellation insurance. With its integration into ERGO, we have established a Travel Centre of Competence, combining the whole range of travel-related insurance products.

Mercur Assistance offers 24-hour assistance services worldwide in the fields of medicine and mobility.

In 2008, our primary insurance segment also included the Watkins Syndicate. It operates within Lloyd's of London and has been part of the Munich Re Group since 1997, specialising in marine insurance business. Watkins has taken advantage of the favourable conditions over the last few years to significantly strengthen its market position. Today it is the largest marine insurance syndicate at Lloyd's and is represented in the UK, Hong Kong, Singapore and Dubai. From the 2009 financial year, we will report the business of the syndicate in reinsurance, since Watkins has been incorporated into the reinsurance group.

Asset management

MEAG MUNICH ERGO AssetManagement GmbH combines Munich Re's and the ERGO Insurance Group's investment activities. Virtually the entire asset management of the Munich Re Group has been concentrated in MEAG, which as at year-end 2008, had the major part of the Munich Re Group companies' investments under management. Its subsidiary MEAG MUNICH ERGO Kapitalanlagegesellschaft mbH is one of the major investment fund companies in Germany. It also offers its extensive know-how to external institutional investors and private clients, whose assets under management total around €9bn.



MEAG is internationally oriented, with offices in New York and Hong Kong. Since July 2006, it has held a 19% stake in PICC Asset Management Company Ltd. (PAMC), Shanghai, the asset management subsidiary of the People's Insurance Company of China (PICC).

Important tools of corporate management

Munich Re's value-based management philosophy

The Munich Re Group's objective is to analyse risks from every conceivable angle and to assess and diversify them, thereby creating lasting value for its shareholders, clients and staff. A guiding principle of our entrepreneurial thinking and activity is to increase Munich Re's share price on a sustained basis. This is also the aim of our active capital management, be it through the payment of dividends or the repurchasing of shares if added value cannot be created for our shareholders through other measures. The main features of our shareholder value approach in practice are the consistent application of value-based management systems within the Group. In our view, this is one of the main reasons why Munich Re shares held up well, despite the difficult capital market environment in 2008.

Besides value-based performance measures, we observe a range of important additional conditions in managing our business. These conditions may be reflected in supplementary targets within the Group, or in isolated cases may even determine a unit's short-term orientation in a particular situation. They include the rules of local accounting systems, tax aspects, liquidity requirements, supervisory parameters, and rating agency requirements.

Our value-based management is characterised by the following aspects:

- We assess business activities not only according to their earnings potential but also relative to the extent of the risks assumed, which is material in measuring added value as well. As the heavy losses investors sustained in 2008 demonstrated all too clearly, the risk-return relationship reveals how beneficial an activity is from the shareholder's point of view.
- With value-based performance indicators we ensure the necessary comparability of alternative initiatives and prioritise them.
- We clearly assign responsibilities and make the levers for adding value transparent for both management and staff.
- We closely link strategic and operative planning.

All initiatives are ultimately geared to the overriding financial objective of enhancing corporate value.

Our value-based management system takes into account the individual characteristics of the business segments

In property-casualty insurance and reinsurance and in health reinsurance, i.e. business that is mainly of a short-term nature, we employ the following simple formula for measuring the value added annually by our insurance business and for managing and monitoring our business activities:

$$\text{Adjusted result} - \text{Cost of equity} = \text{Value added}$$

The adjusted result serves as the basis for determining the value added. It consists of the technical result (derived from the income statement), the investment result, and the remaining non-technical result. In each case, value-based adjustments are made, including the smoothing of expenditure for major losses, the normalisation of investment income, and the recognition of future claims expenses at present value.

We compare the result adjusted in this way with the requisite cost of equity. A significant factor in the calculation of the cost of equity is the risk-based capital, which we determine using our internal model. In the property-casualty business and health reinsurance measured on the basis of one calendar year, value is added to the extent that the adjusted result exceeds the cost of equity.

The products of life primary insurance and reinsurance, and the bulk of our health primary insurance business, are characterised by their long-term nature and the distribution of results over the duration of the policies. For valuing such long-term portfolios, whose performance cannot be reasonably measured on the basis of a single year, we follow the Principles and Guidance of European Embedded Value, published by the CFO Forum in May 2004. Even if we, like most companies, have not yet fully applied the Market Consistent Embedded Value Principles[©] for 2008, the calculation of our embedded value is already determined on the basis of market-consistent principles.

Embedded value is the present value of future net earnings from business in force – calculated on the basis of actuarial principles – plus the value of equity, less the explicitly determined cost of holding capital. The business in force is thus essentially projected over its whole duration according to the Principles and Guidance rules.

The embedded value relates to the portfolio existing at the valuation date. 100% of our life reinsurance business and more than 90% of our life primary insurance and long-term health primary insurance business is reflected in the embedded value. The latter does not include the value of future new business. However, the valuation is made under the assumption of continued operations, i.e. taking into account the related costs in particular. Options and guarantees – especially for the policyholders – are explicitly valued using stochastic simulations. All cash flows are valued on the basis of the “swap rates” of the respective currency regions at the valuation date of 31 December 2008. Assets that are traded on the capital markets are valued on the basis of the market values observed at the valuation date.

The development of the insurance portfolio is modelled according to the current expectations for biometrics, lapses and costs. In primary insurance, the participation of policyholders in surplus is modelled according to the current planning and in line with the statutory regulations, and thus taken into account in the valuation. The embedded value is also shown after deduction of taxes to be paid by the Group in connection with the valued business. For the individual companies, the tax rates and calculations used are based on national regulations; in addition, tax loss carry-forwards are included in the calculation. Withholding taxes on dividends of Group companies are disregarded. The cost of holding capital includes not only the taxes and costs of investment management but also the not explicitly modelled risks of the business and, for primary insurance, the participation of policyholders in profits.

The change in embedded value within one year, adjusted for effects of exchange rate fluctuations, acquisition or sale of companies, dividends and capital injections, is shown by us as the total embedded value earnings. Adjustments to eliminate the influences of changes in fiscal and capital-market parameters give the operating embedded value earnings, which are a measure of the operative business performance for one year.

Our steering of the Munich Re Group's investments is strongly geared to the structure of the liabilities on our balance sheet. With the help of asset-liability management, we determine the "economic neutral position". This involves a synthetic investment portfolio which – taking into consideration significant additional parameters in the investment of capital – best reflects the characteristics of our liabilities towards clients.

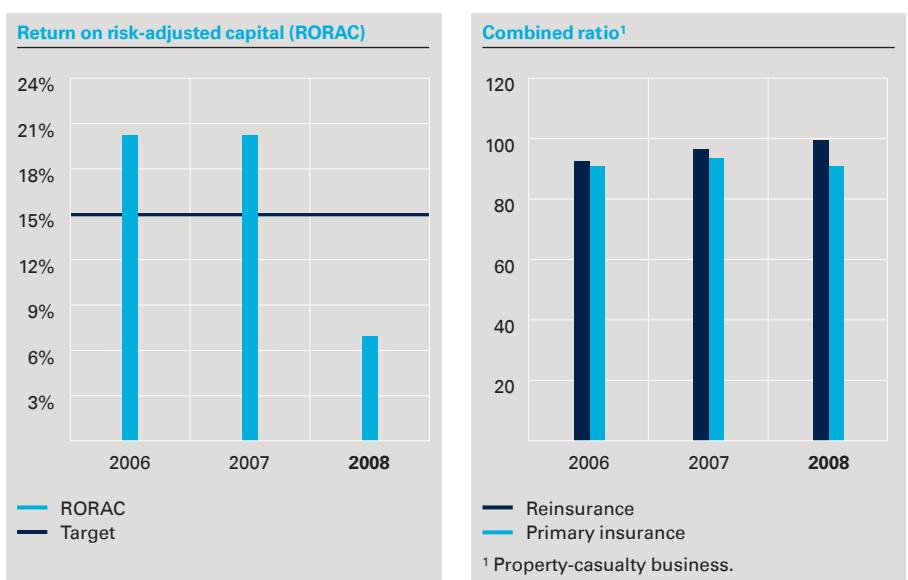
As part of an optimisation process, a benchmark portfolio is developed that takes account of our own risk-bearing capacity and other investor preferences on the basis of long-term expectations of capital market yields. Our asset manager MEAG is responsible for implementing this strategic benchmark portfolio using concrete investments, from which it deviates only within a carefully defined framework and taking into account its own market view for the respective financial year. The target return, i.e. the expected income from the benchmark portfolio, is compared with the return from the actual portfolio. MEAG's performance is measured in terms of the excess return it achieves, taking into consideration the risks entered into.

In addition to these purely financial performance factors, non-financial performance measures like innovation, speed of processes, staff-training level and client satisfaction play a part. In the long term, a firm can only be successful if it operates sustainably and takes account of such future-oriented qualitative factors as well.

We closely link strategy and operative planning by defining our strategies in structured overviews or "scorecards," from which we derive initiatives, performance measures and responsibilities. The scorecards have four dimensions: "financial," "market and client," "process" and "employee." We promote an entrepreneurial culture among our staff through the clear allocation of responsibility and accountability, recognising how much the individual, unit or field of business contributes to increasing value. As part of our Changing Gear programme, we have enhanced the incentive systems for staff, executives and the Board, thus supporting our clear commitment to value creation. The higher a staff member or executive is positioned in the management hierarchy, the more strongly their remuneration is based on performance.

In order to give more emphasis in external communication to the Munich Re Group's value orientation – as implemented through our internal management tools – we have geared our Group return target to risk-adjusted performance indicators, which are explained in more detail below.

What we aim to achieve Starting point 2008



In the past year, the business of insurance companies was strongly impacted by the financial crisis, and the Munich Re Group also felt the effects. As a result of the financial market turmoil in 2008, our return on risk-adjusted capital, which stood at 6.9%, fell clearly short of our general target of 15% after tax over the full cycle (a definition of RORAC is provided on page 59). The main reason for this was the return of 3.4% (5.2%) on our investments, which was lower than the long-term average. The return on investment is the ratio between the investment result of €5.8bn and the average market value of the investment portfolio at the year-end and quarterly reporting dates, totalling €172bn. With the Munich Re Group's absolute consolidated profit declining to €1.5bn, the return on equity or RoE fell to 6.7% in terms of the average value of IFRS equity at the year-end and quarterly reporting dates. Compared with our competitors, however, the Munich Re Group has weathered the financial crisis well thanks to our especially robust capitalisation and balanced investment policy. This fact is reflected in particular in the development of our share price, which has sustained significantly lower losses than those of our competitors.

The combined ratio, which is calculated as the percentage ratio of the sum of net expenses for claims and benefits plus net operating expenses to net earned premiums, corresponds to the sum of the loss ratio and the expense ratio. Put simply, a combined ratio of 100% means that premium income was exactly sufficient to cover claims and costs. Net expenses for claims and benefits mainly include paid claims, the change in claims provisions, and the bulk of other underwriting expenses. The portion of other underwriting expenses not considered includes, for example, German fire brigade tax. Net operating expenses chiefly comprise the costs arising in the acquisition of new business (e.g. commission) and for the ongoing administration of insurance contracts.

In the property-casualty reinsurance segment, there were net expenses for claims and benefits of €9,362m (9,172m) and net operating expenses of €4,019m (3,853m) in 2008, compared with net earned premiums of €13,448m (13,507m). The combined ratio thus amounts to 99.5% (96.4%), a satisfactory figure considering that the impact of major losses from natural catastrophes was €832m or 6.2% of net earned premiums in 2008, and hence greater than in the previous year. Our cycle management and underwriting discipline continue to form the basis of this success.

In 2008, paid claims and the change in claims provisions in the property-casualty primary insurance segment (including legal expenses insurance) totalled €2,818m (2,569m) and net operating expenses €1,597m (1,520m), compared with net earned premiums of €4,841m (4,380m). Our combined ratio in primary insurance thus amounts to 91.2% (93.4%) – an excellent figure both in absolute terms and in comparison with competitors.

When it comes to interpreting the combined ratio, the particular circumstances of the class of business in question have to be taken into account. The composition of the portfolio, for example, is of great significance. The following factors (among others) are important:

- The more the claims burden fluctuates over time, the greater the risk is and so the premiums needed to cover the risk must be higher. This means that the loss ratios in good years are low, as are the average loss ratios that provide the reinsurer with an adequate return for assuming the risk. This is particularly true in the case of natural catastrophes, which may occur rarely, but are often very severe when they do.
- Another important distinguishing feature relates to the time-lag between premiums being received and claims being paid. The longer such a period is, the longer the premiums received can be invested in the capital markets. High combined ratios in classes of business in which claims settlement takes a long time (e.g. casualty) therefore generally entail higher returns from investments with which the loss reserves are covered. These returns are not reflected in the combined ratio.

Therefore, while we aim to keep our combined ratio as low as possible, it is not our only target.

Rather, the key factor we consider is economic value added, which cannot be properly reflected by the combined ratio. We pursue this target internally through the performance indicator of value added, which measures value creation not only on the basis of current and forecast profits but also taking into account the size of the risks assumed. Thus, when considering Group performance, we gear targets (by way of a common, linking element) to a risk-adjusted return. Although this is not a direct performance measure, it is a strong indication of the Group's value creation.

Risk-based Group return target for the financial year 2009

Given the financial crisis and the clear signs of a worldwide recession, it is difficult to define guidelines for our future entrepreneurial success. Nevertheless, the targets we have set ourselves for 2009 are ambitious against the background of the crisis. Whether we achieve them is naturally highly uncertain in such a situation. For this purpose, we are employing a risk-based performance measure which we have used for external communication since 2006: return on risk-adjusted capital (RORAC). We derive this target by placing the profit achieved or aimed at, expressed in euros, in relation to the necessary risk capital, the amount of which we determine using our internal risk model and publish once a year. Information on the internal risk model is provided on page 162. We thus take into account the economic standards currently underlying (at least to some extent) the requirements of supervisory authorities and rating agencies – standards that are set to play a decisive role in future.

RORAC is defined as follows:

$$\text{RORAC} = \frac{\text{net income} - \text{interest rate} \times (1 - \text{tax rate}) \times \text{additional available economic equity}}{\text{risk-based capital}}$$

The numerator in the formula comprises the published IFRS net income adjusted for post-tax income (interest rate \times [1 – tax rate]) generated on capital not subject to risk within the given risk tolerance. The basis for the adjustment is the capital exceeding the necessary risk-based capital, which is referred to as additional available economic equity. Its determination is described in detail on page 168. It is also necessary for rating and solvency purposes, as well as for profitable growth, but we strive to keep it lean through our active capital management. This is because the additional available economic equity in the system presented here only earns a risk-free interest rate, as all the risk components of the investment and underwriting are covered with risk-based capital by the internal risk model, and thus assigned return requirements. Even though we take a risk-adjusted return as our target, we aspire to meet the high, but fair expectations of our investors also with regard to the return on total capital placed at our disposal.

At what level should the RORAC target be set?

Our RORAC target is a sustained return on risk-adjusted capital after tax of 15% over the whole market cycle. This target underlines our fundamental commitment to a long-term increase in our corporate value.

What assumptions is this target based on?

In both primary insurance and reinsurance, we are proceeding on the basis of statistically expectable claims experience. Provided there are no significant shifts in the composition of our business portfolio, we reckon with a combined ratio in the order of 97% in property-casualty reinsurance, which includes an amount of 6.5% of net earned premiums as projected claims expenditure for natural catastrophes. In property-casualty primary insurance, we expect a combined ratio of under 95%.

Embedded values as additional performance indicators

In life primary insurance and reinsurance and in German health primary insurance, European Embedded Value (EEV) is one of the foundations of our value-based management.

The life and health primary insurance business, managed and measured on an embedded-value basis, will contribute to the IFRS consolidated profit and thus to reaching the RORAC target, even though IFRS consolidated results are based on the individual financial-year perspective.

Our targets – Ambitious but attainable

In selecting suitable targets, contrasting aspects have to be considered and weighed up. On the one hand, undue complexity should be avoided in order to ensure transparency for investors, staff and the public. On the other hand, the challenge lies in reflecting economic realities as closely as possible, avoiding oversimplification, and enshrining added value as the Group's overriding guiding principle. As the above description shows, the background is multi-faceted, especially as the parallel use of different performance indicators is unavoidable.

We are convinced that we are on the right track with RORAC as our primary key performance target. Whether and to what extent our targets are attainable depends in equal measure on the way in which the economic parameters develop and on the random occurrence of major losses. Despite the particular uncertainties of the environment, we will do our utmost to continue successfully steering our Group through the economic crisis.

Binding standards for underwriting and pricing

In reinsurance, the Corporate Underwriting Division develops guidelines and best-practice principles for the handling of our reinsurance business. Corporate Underwriting thus defines standards for the underwriting, pricing and claims management of our non-life business. Besides this, regular reviews are conducted to make sure that these standards are complied with. In this way, we ensure that the quality of our reinsurance business is consistently high and that we respond swiftly to changes and new developments. Since Corporate Underwriting is closely linked to our operative business, it can generate needs-oriented products and services for our clients as well. For the life and health segments, this task is assumed by specialists in the Life and HealthCare Divisions who, with the help of underwriting guidelines and reviews, also see to it that the business written always meets our high standards.

In primary insurance, we write both personal lines and commercial business. This results in a heterogeneous portfolio of risks. We therefore have line- and segment-related guidelines for pricing and underwriting designed to ensure the requisite risk balance in the community of policyholders. In addition, the actuaries responsible (life and health insurance) and the heads of the actuarial departments (property-casualty insurance) make sure that pricing is appropriate and that sufficient reserves are set up to cover the obligations assumed. We regularly check by means of independent audit processes that these guidelines are appropriate.

Governing bodies of the Munich Re Group

Board of Management

Dr. jur. Nikolaus von Bomhard
 (Chairman of the Board of Management)
 (Chairman of the Group Committee)
 Group Development
 Group Investments
 Group Communications
 Group Audit
 Group Executive Affairs

Dr. rer. pol. Ludger Arnoldussen
 Germany, Asia Pacific and Africa
 Services

Dr. rer. pol. Thomas Blunck
 Special and Financial Risks
 Reinsurance Investments
 Central Procurement

Georg Daschner
 Europe and Latin America

Dr. rer. nat. Torsten Jeworrek
 (Chairman of the Reinsurance Committee)
 Reinsurance Development
 Corporate Underwriting
 Accounting, Controlling and Central Reserving for Reinsurance
 Information Technology
 Global Business Architecture
 Geo Risks Research/Corporate Climate Centre

Dr. rer. pol. Peter Röder
 Global Clients and North America

Dr. jur. Jörg Schneider
 Group Reporting
 Group Controlling
 Corporate Finance M&A
 Integrated Risk Management
 Group Legal, Compliance
 Group Taxation
 Investor and Rating Agency Relations

Dr. oec. publ. Wolfgang Strassl
 (Board member responsible for personnel and welfare matters,
 within the meaning of Section 33 of the German Co-Determination Act)
 Life (until 31 December 2008)
 HealthCare
 Human Resources

Dr. oec. publ. Joachim Wenning (from 1 January 2009)
 Life (from 1 January 2009)

Supervisory Board	Chairman Dr. jur. Hans-Jürgen Schinzler Former Chairman of the Board of Management of Munich Reinsurance Company
	Deputy Chairman Herbert Bach Employee of Munich Reinsurance Company
	Hans-Georg Appel Employee of Munich Reinsurance Company
	Holger Emmert Employee of Munich Reinsurance Company
	Ulrich Hartmann Chairman of the Supervisory Board of E.ON AG
	Dr. rer. nat. Rainer Janßen Employee of Munich Reinsurance Company
	Prof. Dr. rer. nat. Dr.-Ing. E. h. Henning Kagermann Chairman of the Executive Board and Chief Executive Officer of SAP AG
	Prof. Dr. rer. nat. Drs. h. c. mult. Hubert Markl Former President of the Max Planck Society
	Wolfgang Mayrhuber Chairman of the Board of Management of Deutsche Lufthansa AG
	Kerstin Michl Employee of Munich Reinsurance Company
	Prof. Karel Van Miert Professor at the University of Nyenrode
	Ingrid Müller Employee of Munich Reinsurance Company
	Prof. Dr. jur. Dr.-Ing. E. h. Heinrich v. Pierer Former Chairman of the Supervisory Board of Siemens AG
	Dr.-Ing. e. h. Bernd Pischetsrieder Former Chairman of the Board of Management of Volkswagen AG
	Dr. rer. nat. Jürgen Schimetschek Employee of Munich Reinsurance Company
	Dr. jur. Dr. h. c. Albrecht Schmidt Former Chairman of the Supervisory Board of Bayerische Hypo- und Vereinsbank AG
	Dr. phil. Ron Sommer Former Chairman of the Board of Management of Deutsche Telekom AG
	Wolfgang Stögbauer Employee of Munich Reinsurance Company
	Josef Süßl Employee of Munich Reinsurance Company
	Judy Võ Employee of Munich Reinsurance Company

**Membership of the
Supervisory Board Committees**

Standing Committee

Dr. Hans-Jürgen Schinzler (Chairman)
Herbert Bach
Dr. Bernd Pischetsrieder
Dr. Albrecht Schmidt
Josef Süßl

Personnel Committee

Dr. Hans-Jürgen Schinzler (Chairman)
Herbert Bach
Dr. Bernd Pischetsrieder

Audit Committee

Dr. Albrecht Schmidt (Chairman)
Hans-Georg Appel
Prof. Dr. Henning Kagermann
Dr. Hans-Jürgen Schinzler
Wolfgang Stögbauer

Conference Committee

Dr. Hans-Jürgen Schinzler (Chairman)
Herbert Bach
Dr. Bernd Pischetsrieder
Judy Võ

Nomination Committee

Dr. Hans-Jürgen Schinzler (Chairman)
Dr. Bernd Pischetsrieder
Dr. Albrecht Schmidt

Other seats held by Board members

Board of Management ¹	Seats held on supervisory boards of other German companies	Membership of comparable bodies of German and foreign business enterprises
Dr. jur. Nikolaus von Bomhard Chairman	ERGO Versicherungsgruppe AG ² (Chairman)	UniCredit S.p.A., Genoa
Dr. rer. pol. Ludger Arnoldussen	–	–
Dr. rer. pol. Thomas Blunck	Münchener & Magdeburger Agrarversicherung AG	Global Aerospace Underwriting Managers Ltd. (GAUM), London New Reinsurance Company, Geneva ² (Chairman)
Georg Daschner	–	Münchener Rück Italia S.p.A., Milan ² (Chairman)
Dr. rer. nat. Torsten Jeworrek	–	–
Dr. rer. pol. Peter Röder	EXTREMUS Versicherungs-AG	Munich Re America Corp., Wilmington ² Munich Re America Inc., Princeton ²
Dr. jur. Jörg Schneider	MEAG MUNICH ERGO Kapitalanlagegesellschaft mbH ²	–
Dr. oec. publ. Wolfgang Strassl	DKV Deutsche Krankenversicherung AG ² Mecklenburgische Lebensversicherungs-AG	–

¹ Status: 31 December 2008.

² Own group company within the meaning of Section 18 of the German Stock Companies Act.

Supervisory Board ³	Seats held on supervisory boards of other German companies	Membership of comparable bodies of German and foreign business enterprises
Dr. jur. Hans-Jürgen Schinzler Chairman	METRO AG	UniCredit S.p.A., Genoa
Ulrich Hartmann	Deutsche Lufthansa AG E.ON AG (Chairman)	Henkel KGaA
Prof. Dr. rer. nat. Dr.-Ing. E. h. Henning Kagermann	Deutsche Bank AG	Nokia Corporation, Finland
Prof. Dr. rer. nat. Drs. h. c. mult. Hubert Markl	Bayerische Motoren-Werke AG	Georg von Holtzbrinck GmbH
Wolfgang Mayhuber	Bayerische Motoren-Werke AG Eurowings Luftverkehrs AG Fraport AG Lufthansa-Technik AG ⁴	Heico Corporation, Miami Swiss International Air Lines AG, Basel
Prof. Karel Van Miert	RWE AG	Agfa-Gevaert NV, Mortsel Anglo American plc, London De Persgroep, Asse Royal Philips Electronics NV, Amsterdam Sibelco NV, Antwerp Solvay S.A., Brussels Vivendi Universal S.A., Paris
Prof. Dr. jur. Dr.-Ing. E. h. Heinrich v. Pierer	Hochtief AG	KOC Holding A.S., Istanbul
Dr.-Ing. e. h. Bernd Pischetsrieder	Dresdner Bank AG METRO AG	Tetra-Laval Group, Pully
Dr. jur. Dr. h. c. Albrecht Schmidt	–	Thyssen'sche Handelsgesellschaft m. b. H.
Dr. phil. Ron Sommer	–	Motorola Inc., Schaumburg JFSC Sistema, Moscow Tata Consultancy Services Ltd., Mumbai Weather Investments S.p.A., Rome

³ Status: 31 December 2008.

⁴ Own group company within the meaning of Section 18 of the German Stock Companies Act.

Parameters

General parameters

Our business environment is one of increasing complexity, with an upward trend in natural catastrophes. We are also seeing a disproportionate rise in man-made losses in relation to economic activity. The causes for this include climate change, technological progress and advancing geopolitical inter-dependencies. In addition, concentrations of values are mushrooming and regions are becoming ever more dependent upon each other. New risk potentials and accumulation hazards are emerging as a consequence of these developments, meaning that risk models require continual refinement and the swift incorporation of new findings.

Fundamental changes are also resulting from demographic trends. In combination with falling birth rates, increasing life expectancy is placing enormous pressure on pay-as-you-go social security systems. By 2030, every two people in paid work in Europe will have to finance one person who is not. This means Europeans can only maintain their standard of living and high-quality healthcare in the medium term if they make additional private provision – a major opportunity for the private insurance industry.

Many countries are realigning their social security systems to these demographic requirements, and so for the time being insurers will have to cope with an uncertain legal and political climate. At the same time, insurers are having to adjust to the growing group of older people with special needs, particularly in highly developed countries. Flexibility and swift product development cycles are becoming increasingly important in competition.

In addition, the insurance industry's regulatory environment is being affected by profound changes. The introduction of new rules for state supervision in Europe (Solvency II) and new accounting standards have implications for insurers' capital requirements and income statements. Besides this, the current crisis on the international financial markets is producing great uncertainty, also with regard to state intervention. In this context, both the demand for insurance cover and its supply will change. A group like Munich Re, among the leaders in integrated risk management, can take advantage of the changing industry dynamics and exploit the business opportunities they present in reinsurance and primary insurance.

Economic parameters

The international financial crisis and the macroeconomic parameters had a major effect on the insurance industry, especially in the second half of 2008. Growth in the global economy slowed significantly in the third and fourth quarters. After reaching record levels in the first six months, the oil price declined noticeably in the further course of the year. The international financial markets were disrupted significantly, with stock markets in Europe, the USA and Asia suffering some massive price setbacks. By the end of the year, they had recorded substantial losses.

Economy The effects of the financial crisis dampened global economic growth in 2008. China, Europe and the USA remained the principal engines of the global economy.

In the first half of 2008, the global environment was characterised by price increases for commodities, especially oil, and foodstuffs. In the wake of this, inflation rates in most industrial nations rose to the highest levels for many years. This development reversed in the second half of 2008. Owing to the global economic slowdown, a reduction in inflationary pressure was observable. Nevertheless, seen over the course of the year, rates of inflation in the USA and the eurozone increased compared with the previous year. Extensive government rescue packages were launched in response to the problems of the international financial markets. Furthermore, the central banks of the largest economies slashed their key interest rates. The US Federal Reserve, for example, reduced its reference interest rate from 4.25% at the start of the year to 0–0.25% at the end of 2008. The European Central Bank lowered its reference interest rate from 4.0% to 2.5%, and the Bank of England cut its key interest rate from 5.5% to 2.0%.

In the USA, the world's largest insurance market, economic growth slowed markedly compared with the previous year. The main reasons for this were the slump in property prices and the massive crisis of confidence on the financial markets. Until now, the state rescue packages, which have assumed historic proportions, have merely been able to slow this trend. Only exports served to buoy the economy, whereas private consumption and corporate investments plummeted in the second half of 2008. Nevertheless, real GDP was up by 1.3% due to the relatively robust development in the first two quarters.

Owing to a drastic decline in growth in the fourth quarter, the Japanese economy shrank by 0.7% in real terms in 2008, contrasting with expansion of 2.4% in 2007.

Economic growth also weakened in the eurozone in 2008, amounting to 0.7% in real terms, a much lower figure than that of the previous year (2.6%). There were again substantial regional differences, partly because the impact of the financial crisis varied in intensity from country to country. The increase in real GDP in the Netherlands and Greece, for example, was well above average, whereas economic growth in Italy remained below par and Ireland experienced a decline in GDP.

Germany's economy was also weaker in 2008 than in the previous year, but was better than the eurozone average. The most significant contributions to growth came from investments and the export sector. Robust growth until the middle of the year had a positive effect on the labour market. The unemployment rate stood at 7.4% in December and was thus 0.7 percentage points lower than in December 2007.

Economic deceleration effects were particularly noticeable in the UK, which was hit relatively hard by the turbulence on the international financial markets. GDP grew by only 0.7% in 2008, compared with 3.0% in 2007.

Growth was subdued in the majority of the emerging economies in Asia, Eastern Europe and Latin America, and export-oriented sectors in particular felt the effects of the economic stagnation in the industrialised countries. The Chinese economy remained very strong despite the slowdown, with real growth totalling 9.0%. In India, too, the expansion rate remained high despite a minor slowing in momentum. Russia experienced a distinct slackening of growth owing to declining exports of raw materials, although these still remained at a high level. Thanks to strong domestic demand, the slowdown in Brazil's growth dynamic was comparatively slight.

Capital markets The international stock markets experienced historic share-price setbacks in 2008. The EURO STOXX 50 declined by 44.4% over the course of the year. In the USA, the S&P ended 2008 down 38.5% overall. The DAX lost 40.4% compared with the beginning of the year, and the Japanese Nikkei Index recorded a decrease of 42.1%.

On account of the highly volatile international stock markets, many investors turned to lower-risk investment products such as government bonds. This trend, together with the imminent recession, has caused the yield on ten-year German government bonds to fall from 4.3% to 2.9% since the beginning of the year, even though it did rise temporarily due to inflation. Ten-year US government bond yields dropped from 4.0% at the start of the year to 2.3%.

The euro's soaring climb to an all-time high of US\$ 1.59 came to an end in April 2008. Following a major price correction to US\$ 1.23, the exchange rate recovered to US\$ 1.39 at the end of the year. Against the Japanese yen, the euro fell considerably, moving down from ¥163.33 at the start of the year to ¥126.01 at the end of 2008.

Development of the US\$/€ exchange rate from January to December 2008



Insurance industry Writing business at risk-adequate prices was once more the central issue on the insurance markets in 2008. In the reinsurance renewals at the beginning of the year and at 1 April and 1 July, it was again apparent that most market players were giving priority to selective and profit-oriented underwriting. Nevertheless, reinsurance prices initially showed a downward trend.

Following the international financial crisis and high losses from natural catastrophes, the reinsurance industry's capital base deteriorated for the first time in years. A simultaneous decline in the capitalisation of many primary insurers led to an increase in demand for reinsurance at the end of the year. In the renewals at 1 January 2009, market terms and conditions in most regions and lines of business hardened, even improving markedly in some cases.

Premium development in the insurance industry, particularly in property-casualty insurance, is strongly influenced by the overall economic situation, and further by the effects of the market cycle. Apart from macroeconomic stimuli, changes in the legal and tax environment also play a key role in the market dynamics of life and health insurance.

In general, development of the insurance markets was supported by the still robust economy up to mid-2008. This applied especially to markets in emerging economies. In China and India, for example, the figures up to and including

October show that dynamic premium growth continued. Some European markets also displayed positive growth dynamics; in Spain, for example, total premiums in the first three quarters were up by around 6% year on year. In France, on the other hand, premium income showed a downward trend, at least in life insurance (–11% year on year, up to and including November).

The insurance industry in Germany grew slightly by 1.5% compared with the previous year, the growth rate being curbed by continued strong competition and the economic uncertainty felt by many citizens.

Regulatory changes

As a result of the global crisis in the banking sector and the financial markets, regulatory changes are to be expected worldwide. Even if the focus of the reforms will probably be on the supervision of banks, it is likely that insurance companies will be affected. However, it is currently not foreseeable what the actual changes will be.

In Europe, the majority of insurance companies have withstood the crisis comparatively well. This could be partly attributable to the advance effect of the European Commission's Solvency II project, which has been the subject of intense discussion since 2005 and represents a complete overhaul of insurance supervision law in Europe. The new legislation is due to come into force in around 2012, but many insurance companies, including Munich Re, have been working for some time on preparing for the future supervisory regulations.

In this context, the ninth amendment of the German Insurance Control Act entered into force on 1 January 2008. In anticipation of Solvency II, the legislation incorporates new provisions on risk management and risk reporting at insurance companies.

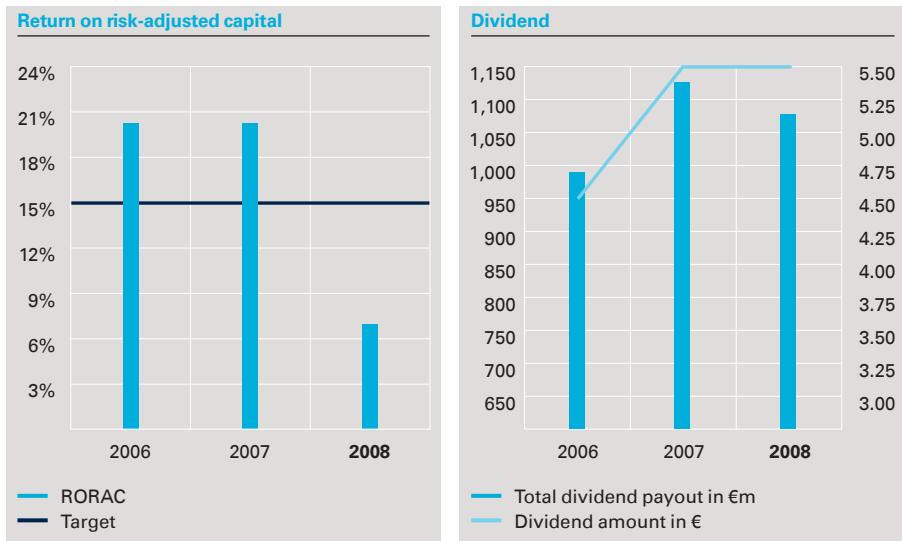
The new regulations specify explicitly that a company's management is responsible for establishing proper business organisation and for instituting adequate risk management. Essentially, it must be ensured that risks specific to the company are dealt with effectively. To achieve this, all the significant risks to which an insurance company is or could be exposed need to be identified and dealt with appropriately. This means setting up processes in the company with which risks can be identified, analysed, evaluated, managed and monitored.

The statutory provisions are interpreted in more detail by a circular from the German Federal Financial Supervisory Authority (BaFin) on the Minimum Requirements for Risk Management (MaRisk). As the objective here is to give companies a flexible framework for structuring their internal risk management, the requirements are limited to setting up appropriate internal management, steering and control processes. The measures and processes implemented must be proportional to the company's individual risk, the type and scope of its operations, and the complexity of the business model selected.

Business performance

Overview and key figures

- Consolidated result of €1.5bn despite global financial crisis
- Return on risk-adjusted capital (RORAC) of 6.9% after tax
- Dividend of €5.50 per share planned



The financial year 2008 proved difficult owing to the global financial crisis. A large number of financial services providers had to revise their profit guidance. With a **consolidated result** of €1.5bn, we fell well short of our original target corridor of €3.0–3.4bn, a forecast we had already lowered to over €2bn at the half-year stage. With a **return on risk-adjusted capital (RORAC)** of 6.9% after tax, we clearly failed to reach our long-term target of 15% in 2008. This is mainly due to the reduction in our investment result, which was significantly lower than originally expected because of the turmoil on the world's financial markets. In this context, however, special mention must be made of our balanced investment policy: although it could not prevent losses from declining values in the markets, it did enable us to keep them to a manageable level. Considering the challenging parameters, the results of our insurers and reinsurers were satisfactory overall.

As a consequence, we are in a position to maintain our profit distribution at a high level: the Board of Management will propose to shareholders at the Annual General Meeting a **dividend** of €5.50 (5.50) per dividend-bearing share. We will therefore distribute a total of €1.1bn (1.1bn) to our shareholders. In 2008, we repurchased 11.8 million Munich Re shares worth €1,386m (3.4 million shares or a volume of €444m under the share buy-back programme concluded by the Annual General Meeting on 17 April 2008, and 8.4 million shares or a total of €942m within the framework of the 2008/2009 programme). Of the total repurchased in 2008, 1.3 million shares worth €149m were attributable to the put options sold in February 2008 and expiring in October 2008. This means that since the start of the share buy-backs in November 2006, including dividend payouts, we had returned a total of around €6bn to our shareholders by the end of 2008.

For the reporting on individual fields of business, the following principle applies: volumes and results that derive from business within a segment are eliminated, whereas figures that derive from business with companies from other segments (e.g. intra-Group reinsurance cessions from primary insurers to reinsurers) are included in the following data. Where the information relates to national accounting law, this is mentioned specifically.

Key figures		2008	2007 ¹	2006	2005	2004
Gross premium written	€bn	37.8	37.3	37.4	38.2	38.1
Combined ratio						
Reinsurance property-casualty	%	99.5	96.4	92.6	111.7	98.9
Primary insurance property-casualty (including legal expenses insurance)	%	91.2	93.4	90.8	93.1	93.0
Result before amortisation and impairment losses of goodwill	€m	3,429	5,068	5,481	4,150	3,369
Operating result	€m	3,262	5,057	5,477	4,143	3,025
Consolidated result	€m	1,528	3,923	3,519	2,751	1,887

¹ Adjusted pursuant to IAS 8.

Result In the year under review, we achieved a **consolidated result** of €1.5bn (3.9bn). The Group's **operating result** decreased appreciably by 35.5% to €3.3bn (5.1bn).

Reinsurance performed satisfactorily overall in 2008, even though, as in the previous year, we were considerably affected by man-made major losses and in particular by losses from natural catastrophes, such as Winter Storm Emma in Europe, the floods in Australia, and Hurricanes Gustav and Ike in the USA. Owing to the strong decrease in the investment result in reinsurance, our profit for the year totalling €2.3bn fell clearly short of our target range of €2.7–2.9bn for the segment. Also included in the reinsurance result is an intra-Group dividend payment of €947m (114m) from ERGO to Munich Re in the second quarter of 2008. This income has no impact on the Group consolidated result after the elimination of intra-Group transactions across segments. The reinsurance investment result came to €4.0bn (4.3bn), but adjusted to eliminate the ERGO dividend it totalled €3.1bn and was thus significantly lower than in the previous year (€4.2bn). At €1.8bn (2.6bn), the result in the property-casualty segment remained well below that of the previous year due to the high claims burden and decreased investment result. In addition, rates in the renewals in 2008 declined marginally as a result of increasing competitive pressure, but we have nevertheless been firmly adhering to risk-adequate prices, terms and conditions. The heavier claims burden of 6.2% (4.7%) from natural catastrophes and the cycle-related fall in rates are reflected in the increase of 3.1 percentage points in the combined ratio to 99.5% (96.4%). Likewise, the result of the segment life and health was down on the previous year, mainly owing to the lower investment result. The financial crisis had only a small effect on the European Embedded Value (EEV) of our life reinsurance business. Despite good results, EEV dropped by €0.5bn to €6.1bn, mainly owing to currency effects.

Primary insurance business performed satisfactorily in 2008. As in reinsurance, we were unable to reach our result target of €600–800m on account of the lower investment result of €3.0bn (5.6bn). Our consolidated result in primary insurance in the year under review totalled €163m (984m). In property-casualty insurance including legal expenses business, we succeeded in achieving a combined ratio which, at 91.2%, was well within our target of 95%, despite the high claims costs from Winter Storm Emma and Windstorm Hilal. A further fall in the expense ratio played an appreciable part in this achievement. In life and health business, our result amounted to €7m (358m). European Embedded Value for overall life insurance business and our German health insurance fell to €3.5bn (5.4bn). Of critical significance in our market-consistent valuation were the major upheavals in the interest-rate markets at year-end with

low interest rates and extremely high volatilities. This development is described in detail in the report on business performance in the life and health insurance segment (see page 93 f.).

Considering the turmoil on the financial markets, our **investment result** was respectable thanks to our balanced investment policy and the use of equity hedging instruments. The investment result of primary insurance and reinsurance contributed €5.8bn (9.3bn) to the Group result before participation of policyholders and tax. Compared with the excellent previous year's figure, this is equivalent to a decrease of 36.8%. At 3.4%, the return on investment (based on the average investment portfolio at market values) was distinctly below our long-term target of 4.5%. Key factors were lower capital gains than in the previous year and high write-downs we had to make in our equities portfolio because of the financial crisis.

At €1,373m, **tax expenses** were higher than in the previous year (801m), representing 47.3% (17.0%) of the pre-tax profit. The main reason for this increase was that – unlike in the previous year, which was favourably influenced by the German business tax reform 2008 – tax expenses did not benefit from any positive special effects in the year under review. In addition, the Group effective tax rate was raised by the negative developments in the capital markets, since impairments and losses on equities are not deductible under German tax law.

Premium Approximately 54% of our **Group premium income** was earned from reinsurance and 46% from primary insurance. Whereas in reinsurance we operate on a global basis, in primary insurance 75% of our premium comes from the German market. In both fields of business, the share of premium from outside Germany climbed appreciably, a trend due not only to organic growth but also to selected acquisitions in growth markets.

In **reinsurance**, gross premiums written in 2008 showed a slight increase of 1.2% to €21.8bn (21.5bn). In terms of the average exchange rates relevant for the income statement, the euro gained in strength against many other currencies. If exchange rates had remained the same, premium volume would have increased by 7.3% compared with the previous year. Premiums of €562m from Midland and €538m from Sterling were included in our premium income for the year under review, following their first-time consolidation as at 1 April 2008.

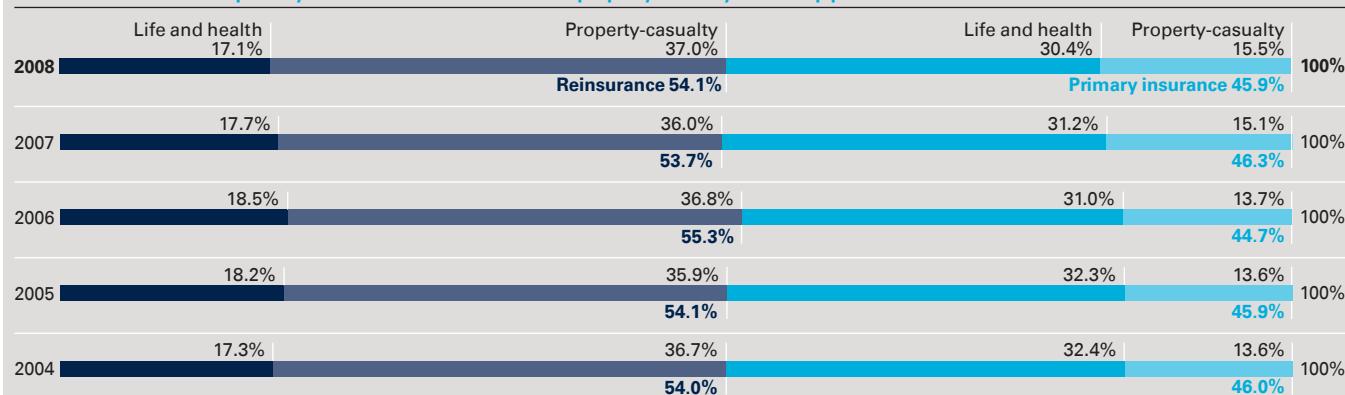
In the life and health segment, gross premiums written fell by 2.2% to €7.1bn (7.3bn). The decrease was due to exchange-rate effects. Adjusted to eliminate currency effects, premium revenue shows an increase of €3.6%.

Premium in property-casualty reinsurance rose slightly to €14.7bn (14.2bn) but showed an increase of 9.3% after adjustment for currency translation effects. Cycle management, underwriting discipline, client focus and leading expertise continue to provide the foundations for our good results. Rates in the 2008 renewals fell marginally as a result of increasing competitive pressure, but we continue to apply risk-adequate prices, terms and conditions. We will consistently refrain from participating in business that does not meet our stringent profitability requirements and aim to expand specialty segments with strong margins.

In **primary insurance**, gross premium volume rose by 1.5% to €18.5bn compared with the previous year (€18.3bn). Growth was especially apparent in international business, above all in property-casualty and health insurance. With around 90% of our premium income in primary insurance stemming from the eurozone, changes in exchange rates had practically no impact.

The growth engine in 2008 was again health insurance, which expanded its premium volume by 2.5% to €5.4bn (5.3bn), thanks to further marketing successes with supplementary insurances. In comprehensive health insurance, premium income rose by a mere 1.2%, reflecting the distinctly adverse impact of the German health reform on new business in this line. In the property-casualty segment, premium income rose by 4.9% to €5.9bn (5.6bn), boosted by the integration of the South Korean direct insurer ERGO Daum Direct acquired in the previous year and by the positive development in Poland. But even without the acquisition of ERGO Daum Direct, volume grew by 3.0%. Our life insurers posted an overall decrease in premium volume of 1.8% to €7.2bn (7.3bn). This was due to the development of new business in Germany, which declined year on year for two reasons: the more complicated sales process resulting from the reform of the German Insurance Contract Act, which came into force in January 2008, and uncertainty among clients owing to the financial crisis. By contrast, we grew significantly in international business owing to the first-time consolidation of Bank Austria Creditanstalt Versicherung (BACAV) with effect from the fourth quarter of 2008, and above all due to organic growth.

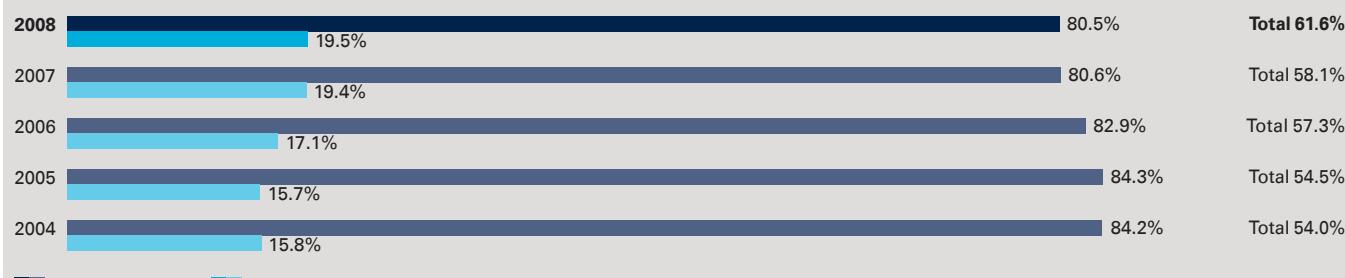
Share of reinsurance and primary insurance – life and health and property-casualty – in Group premium income¹



■ Reinsurance ■ Primary insurance

¹ After elimination of intra-Group transactions across segments.

Percentage of premium from foreign business¹



■ Reinsurance ■ Primary insurance

¹ After elimination of intra-Group transactions across segments.

Group premium income		€bn	2008	2007	2006	2005	2004
Reinsurance			21.8	21.5 ¹	22.2	22.3	22.4
Primary insurance			17.4	17.3	16.7	17.6	17.5
Consolidation			-1.4	-1.5	-1.5	-1.7	-1.8
Total			37.8	37.3	37.4	38.2	38.1

¹ Adjusted pursuant to IAS 8.

Currency influences

The consolidated financial statements are affected by changes in exchange rates. The translation of our independent foreign subsidiaries' financial statements into the Group presentation currency – the euro – is reflected in our reserve for currency translation adjustments, thus influencing the amount of Group equity. Translation of our foreign subsidiaries' financial statements has no impact on profit or loss. Generally speaking, rising exchange rates for foreign currencies increase Group equity, whilst falling exchange rates reduce it.

In contrast to this, currency translation differences are largely recognised in profit or loss in our subsidiaries' individual financial statements. This involves the translation of foreign currency items into the respective functional currency, i.e. the currency in which the individual financial statement is prepared. Our subsidiaries recognise such currency translation differences in their income statements. Overcoverage¹ in a particular foreign currency leads on balance to a positive result contribution if exchange rates for that currency rise, and in a negative result contribution if they fall. With undercoverage, the effects are the opposite. In preparing the consolidated financial statements, we recognise these items under "other income" and "other expenses".

Beyond this, the impact of changes in exchange rates is reflected in period-to-period comparisons of all items in the income statement. Thus, for example, gross premiums translated into euros for the consolidated financial statements show a rise if their original currency has appreciated against the euro compared with the prior period. Falling exchange rates have a converse effect.

Events after the balance sheet date

Under the share buy-back programme decided on by the Munich Re Board of Management in the second quarter of 2008, we repurchased a further 450,000 Munich Re shares with a volume of €46.3m after the balance sheet date up to 2 March 2009.

In January 2009, our Swiss subsidiary New Re announced that it would be moving its head office from Geneva to Zurich; the related costs will probably be in the two-digit million range.

¹ Overcoverage exists if more assets than liabilities are held in a particular foreign currency.

Reinsurance

- Satisfactory result despite substantial losses in property-casualty
- Positive business development and solid result in life and health
- Significant decline in investment result owing to financial crisis

Key figures		2008	2007 ¹	2006	2005	2004
Gross premiums written:						
Life and health	€m	7,130	7,293	7,665	7,811	7,540
Property-casualty	€m	14,652	14,224	14,551	14,547	14,857
Loss ratio health	%	76.0	72.0	68.5	62.3	65.6
Loss ratio property-casualty	%	69.6	67.9	64.7	83.5	71.2
Thereof natural catastrophes ²	Percentage points	6.2	4.7	1.0	19.2	5.0
Expense ratio health	%	23.1	26.4	27.8	30.7	30.9
Expense ratio property-casualty	%	29.9	28.5	27.9	28.2	27.7
Combined ratio health	%	99.1	98.4	96.3	93.0	96.5
Combined ratio property-casualty	%	99.5	96.4	92.6	111.7	98.9
Consolidated result life and health	€m	573	714	561	977	432
Consolidated result property-casualty	€m	1,755	2,586	2,134	420	1,234

¹ Adjusted pursuant to IAS 8.

² Previous year adjusted owing to a change in methodology.

The Munich Re Group operates in virtually all classes of reinsurance. We offer a full range of products, from traditional reinsurance to innovative solutions for risk assumption.

Marketing As reinsurers, we write our business predominantly in direct collaboration with the primary insurers, but also via brokers. This includes business offered to us by industrial clients through their captives or risk retention groups (alternative markets business).

Overview and key figures In the year under review, the Munich Re Group's reinsurance business performed satisfactorily overall. As in the previous year, we were affected by considerable burdens from natural catastrophes and man-made major losses in 2008. Winter Storm Emma in Europe, the floods in Australia and Hurricanes Gustav and Ike in the USA had an especially negative impact. The combined ratio for 2008 came to 99.5% (96.4%). The share of natural catastrophes in the loss ratio was 6.2 (4.7) percentage points higher than in the previous year. In the life and health segment, we achieved a solid business result in 2008. Overall, our strict adherence to the underwriting principle of "profit before growth" continued to stand us in good stead.

The international financial crisis had a significant impact on our investment result for 2008, however, this being the main reason we fell short of our original targets. But with our consistent and integrated risk management approach, our strictly risk-return-oriented corporate management and balanced investment portfolio, we have thus far weathered the crisis comparatively well.

In the second half of 2008, the risk-carrying capacity of a large number of our clients and competitors in reinsurance was significantly restricted and their need for security heightened due to the dramatic declines in share prices on the stock exchanges. Our risk assessment expertise and, most importantly, our financial strength therefore proved to be other key success factors.

Result In the year under review, the reinsurance segments life and health and property-casualty accounted for €0.6bn (0.7bn) and €1.8bn (2.6bn) of the consolidated result respectively. The overall result for reinsurance in 2008 was thus 29.5% down on the previous year. The decrease is mainly attributable to the significant reductions in the investment result, which in 2007 had benefited from high gains on disposals in a very favourable capital market environment, whereas this year we had to make substantial write-downs in our equities portfolio. In addition, the expenditure for natural catastrophes in the property-casualty segment was once again high. Our operating result for reinsurance, which also includes the investment result, fell by 9.2% to €3.8bn (4.1bn). It was positively influenced by ERGO's special dividend of €947m, of which €767m was apportionable to the property-casualty segment and €180m to the life and health segment.

Reinsurance result		€m	2008	2007 ¹	2006	2005	2004
Operating result			3,756	4,138	4,408	2,389	2,642
Consolidated result			2,328	3,300	2,695	1,397	1,666

¹ Adjusted pursuant to IAS 8.

Premium income At €21.8bn (21.5bn), our premium volume in the financial year increased only marginally by 1.2%, mainly because of negative currency translation effects. If exchange rates had remained unchanged, our premium income would have risen by 7.3%. Approximately €16.4bn or 75% of premium was written in foreign currency, of which 50% was in US dollars and 14% in pounds sterling, compared with 25% of our premium volume in euros.

We continued to adhere strictly to our underwriting policy of risk-adequate prices, terms and conditions. We offset the reductions in volume resulting from this policy with increases in premium income from selectively acquired new business by meeting demand from our clients for additional solvency relief, and through the acquisition of The Midland Company (Midland) and Sterling Life Insurance Company (Sterling), so that development remained stable overall.

About 33% of our total premium income emanated from life and health and 67% from property-casualty business.

Gross premiums by segment		€m	2008	2007 ¹	2006	2005	2004
Life and health			7,130	7,293	7,665	7,811	7,540
Property-casualty			14,652	14,224	14,551	14,547	14,857
Total			21,782	21,517	22,216	22,358	22,397

¹ Adjusted pursuant to IAS 8.

Life and health

- Life: Solid result despite decline in premium
- Health: Premium growth of 38%

Key figures		2008	2007 ²	2006	2005	2004
Life						
Gross premiums written	€m	5,284	5,953	6,356	6,491	6,119
Health						
Gross premiums written	€m	1,846	1,340	1,309	1,320	1,421
Combined ratio ¹	%	99.1	98.4	96.3	93.0	96.5

¹ Excluding health insurance conducted like life insurance.

² Adjusted pursuant to IAS 8.

At €7.1bn (7.3bn), the gross premiums written in **life and health reinsurance** were below the previous year's level owing to currency translation effects. Adjusted to eliminate the effects of changes in exchange rates, premium income showed an increase of 3.6%. While there was a decline in premium volume in life reinsurance due to a scheduled reduction of large-volume treaties, premium income in health reinsurance was up significantly.

The operating result of €934m (1,075m) and the consolidated result of €573m (714m) were both lower than in the previous year, reflecting the impact of the financial crisis on the investment result. The market-consistent European Embedded Value of total life reinsurance business dropped to €6,116m (6,662m), predominantly owing to currency translation effects. The impact of the financial crisis resulted only in a moderate decrease in overall earnings to €498m (859m). By contrast, value added by new business rose markedly to €356m (277m).

Life With a gross premium volume of €5,284m, income in life reinsurance decreased by 11.2% compared with the previous year (€5,953m). This is primarily linked to the reduction of several high-volume treaties and to currency translation effects. However, we expect fundamental growth impulses for our new business in future from such developments as the restructuring of the European solvency regime (Solvency II), the continuing privatisation trends in old-age and disability provision, the need for asset protection, and the dynamic expansion of the insurance markets in Asia and Eastern Europe. Our clients also use life reinsurance in particular as a capital substitute, which opens up additional attractive business opportunities for us, especially in the present financial crisis. On the other hand, the current global recessionary trends are likely to have a negative impact on our clients' business.

In **Germany**, "Riester" and "basic" pension products were the main sales drivers for German life insurers in 2008. All in all, however, life insurance sales were rather sluggish. Owing to the professionalisation of risk management in life insurance since the stock market crash of 2002, the industry was relatively well-positioned to tackle the challenges of the financial crisis. Nevertheless, the effects of the crisis on the companies' investment portfolios and financial resources were still appreciable.

Our new business could not fully compensate for the scheduled reduction of large-volume quota share treaties with low result contributions. As a consequence, premium volume decreased by €0.4bn to €0.7bn (1.1bn) in 2008. The reduction in the large-volume reinsurance treaties has been concluded for the present, which gives us reason to expect a rise in premium income for 2009. The trend towards disability risks continued in new business.

In the **USA**, our subsidiary Munich American Reassurance Company (MARC) increased its gross premiums to US\$ 2.0bn (1.7bn), thus maintaining its position among the leading life reinsurers. Despite the trend towards increasing retentions, MARC sees significant opportunities to further increase its market share in the area of pure mortality covers as well as disability and long term care covers by offering substantial capacity to the market and providing tailor-made financial solutions to address clients' needs. The operating result of US\$ 18m was below the exceptional result achieved in 2007 (US\$ 146m) primarily due to an unusually high number of large death claims.

Our branch in **Canada**, Munich Reinsurance Company Canada Branch (Life), continues to lead the Canadian life reinsurance market, with the number one market share in all lines in which it conducts business: life, disability, health, critical illness and long term care. The branch has further strengthened its market leadership position in Canada through creatively developing programmes to help its clients grow business. Premium income in the life segment in 2008 fell to €0.8bn (1.2bn) as expected on account of a reduction of a large-volume reinsurance treaty. Excluding this treaty and currency translation effects, the branch's premiums grew by 7% in 2008. The operating result increased compared with the previous year, primarily due to strong mortality experience gains. As part of a reorganisation, the management geared the branch's structures even more consistently to its clients' demands. With this structural change as a base, our Canadian branch is well-positioned to continue producing good results in 2009.

With a gross premium volume of €0.9bn (1.0bn), our branch in the **United Kingdom** kept its premium income stable compared with the previous year whilst increasing its market share in its chosen market segments. Downward pressure on the prices of pure mortality covers continued, but we succeeded in writing increased business volumes as against the previous year and in exceeding profitability targets. In 2008, we continued our focus on client service and on further developing our areas of core expertise, namely risk selection and pricing. We expect another good result in 2009, irrespective of the performance of the UK economy.

Given its extremely rapid economic development and corresponding expansion in the life insurance industry, **Asia** has gained significantly in importance. For life reinsurance, Asia is one of the prime growth regions: over the past five years, Munich Re has raised its premium volume here by an average 25% p.a. In 2008, we continued to expand our involvement in the region and made selected investments with a view to benefiting even more strongly in the long run from the business opportunities present. Independent client surveys show that Munich Re is seen as the first choice in life reinsurance in Asia, too.

Product development for our clients is and will remain an important driver for reinsurance business in the region. The local life insurance markets are relatively young with considerable potential, so that support in developing products such as long term care or critical illness is in great demand, and a large proportion of the business is reinsured.

Our long-term positive attitude to Asia remains unchanged, but the effects of the global financial crisis on our clients and thus on our business are difficult to assess.

Our subsidiary Munich Reinsurance Company of Australasia (MRA), which writes life reinsurance business in **Australia** and **New Zealand**, increased premium income by 14% in original currencies while maintaining stable profit margins.

On the **African continent**, our subsidiary Munich Reinsurance Company of Africa (MRoA) continued to grow profitably, increasing premiums in original currencies by 19%. Including the effects of exchange-rate changes, however, premium income translated into euros was down 4% to €76m. The African market offers above-average opportunities for profitable growth in the medium term.

Health The global healthcare market with its segments "financial protection", "health services" and "provision of care" offers more growth opportunities than virtually any other sector. Our core business, financial protection, offers the prospect of especially promising growth. Two factors in particular are conducive to demand: healthcare is gaining in significance, and healthcare systems worldwide are undergoing further liberalisation and privatisation. As a leading provider whose product portfolio of primary insurance, reinsurance and services has been combined in the International Health segment since October 2005, Munich Re is well-positioned for this market.

In recent years, we have been able to strengthen our leading position with a series of innovative projects. We are pursuing a holistic business approach in which we pool the Munich Re Group's international healthcare expertise. In the new segment of International Health, this approach supplements risk-carrying with additional health-related services, enabling us to add value to our offerings with a clear link to our core business of risk. As part of an internal reorganisation project started in mid-2008, the International Health segment is to be transferred to an independent organisational unit within Munich Re, thus paving the way for further successful growth in this attractive market. Since implementation will not occur until the second quarter of 2009, the following descriptions for 2008 refer exclusively to the activities managed fully from within the reinsurance group.

In the year under review, premium income in health rose by around 38%, from €1.3bn to €1.8bn. The main driver was our largest single market, the USA, where we were able to grow our premium volume from €448m to €884m thanks to the purchase of Sterling Life Insurance Company (Sterling), one of the leading providers of health insurance benefits for seniors. This acquisition was successfully concluded in April 2008.

The combined ratio in the reporting period stood at 99.1% (98.4%), the deterioration being chiefly due to the difficult environment in the US reinsurance market. Our consistent focus exclusively on profitable business relationships enabled us to achieve technical profitability again in the 2008 underwriting year. We expect that this positive trend will continue in 2009.

With the acquisition of Sterling, we have strengthened our International Health segment and competitive position in the **American market**. Premium income since the first-time consolidation of Sterling as at 1 April totalled €538m in 2008. Sterling holds a good position in the growing market for Medicare Advantage plans, which comprise health insurance solutions under the state Medicare programme that are offered and managed by private insurers. The market parameters for products geared to seniors are defined at political level. In 2008, changes occurred that have confronted Sterling with new challenges. Notwithstanding the political risks involved, this market is

one of the strongest growth segments of the US healthcare sector. The acquisition price for 100% of Sterling's share capital totalled around €223m.

Our 100% stake in Cairnstone, a leading provider of employer stop-loss products, enables us to cover even more elements of the value chain and tap profitable growth potential as part of our International Health strategy. The purchase price for increasing the stake in Cairnstone from 25% to 100% in September 2007 was €18.3m. Managing a business volume of over US\$ 58.5m in 2008, Cairnstone offers employers in the USA stop-loss covers for the healthcare expenditure they finance for their employees. The integration of Cairnstone is complete.

In **Germany**, premium volume in 2008 amounted to €236m (250m). For statutory health insurance, the past year was dominated by preparations for the new health fund, which will lead to a reorganisation of financing in this field as from 1 January 2009. It is against this background that the government introduced, as announced, the new insolvency code for statutory health insurers. There are first signs that the statutory health insurers are likely to have a greater need for risk protection. At the same time, they are required to invest increasingly in healthcare management. Given the unclear financial situation for 2009, they will need to minimise the investment risk. This market situation may therefore give rise to a potential need for novel reinsurance solutions specially tailored to statutory health insurance companies.

Private health insurance too is beginning to show an increasing need for reinsurance protection against large losses and catastrophe losses as new advances in medicine are made. As things stand at present, it is likely that the introduction of the new insurance supervision principles (Solvency II) will lead to a differentiated view of holistic risk management and a greater need for customised reinsurance solutions, which in turn will promote even closer ties with clients.

In the **Gulf states**, our business model combining reinsurance and risk management through our managed-care service organisation MedNet continued to show robust growth. Similarly, our partnership with DAMAN Health Insurance (DAMAN), Abu Dhabi, the first specialised health insurer in the United Arab Emirates, is working extremely well. In April 2008, DAMAN already reported over a million (800,000) members. DAMAN also assumed responsibility for managing the health insurance of Abu Dhabi's approximately 450,000 nationals, which is provided free of charge by the government. The company's premium income rose to €75m (64m). In addition to reinsurance, we also supply DAMAN with comprehensive services under a management agreement. In order to further strengthen our cooperation with the government of Abu Dhabi, Munich Re acquired a 20% stake in DAMAN in 2008.

There are privatisation trends in other Gulf states, promising further high growth in the medium to long term. In 2008, our premium volume in the Gulf states rose to €143m (120m), accounting for 8% (9%) of premium in health business.

Since 2007, the Munich Re Group has been running Apollo DKV Insurance Company Limited (Apollo DKV), one of India's first health insurers, in a joint venture with Apollo Hospitals Group (Asia's largest chain of hospitals). The aim is to offer people in India better access to healthcare and to give the country's health insurance sector new stimulus.

Other markets, in particular the United Kingdom, the Netherlands, and Italy, plus China and other Asian countries, form part of our overall health portfolio. This broad regional spread enables us to limit the political and economic risks of our business.

Property-casualty

- Solid result of €1,755m considering the financial market turmoil
- Respectable combined ratio of 99.5%

The two record results in 2006 and 2007 were followed by a solid result in **property-casualty reinsurance** in the 2008 financial year. The profitability of our basic business was good, albeit not at the level of the previous year owing to a continued increase in competitive pressure in the reinsurance markets. The burdens from major loss events rose significantly compared with the previous year due to higher loss expenditure for natural catastrophes and man-made loss events. We expect that the falling prices for reinsurance protection in the last couple of years will be succeeded in 2009 by noticeably improved market conditions. Given our still very robust capital base and leading position in the world market, we are ideally placed for the hard-market phase anticipated for the next few years. We will take consistent advantage of any opportunities to advance our Changing Gear programme for profitable growth.

Result Based on our satisfactory technical result and – in the light of the global financial crisis – notable investment result, we achieved an operating result of €2,822m (3,063m) and a consolidated result of €1,755m (2,586m). Having benefited in the previous year from positive special factors due to the German business tax reform, the expenditure for taxes on income levelled out at €845m (285m) in the year under review. The substantial increase in major loss expenditure and the erosion of prices for our basic business caused the combined ratio to climb to 99.5% (96.4%), which is still quite respectable given the overall situation. Total losses from natural catastrophes came to €832m (634m)¹, representing 6.2 (4.7)¹ percentage points of the combined ratio.

Extensive damage was wreaked by a series of severe weather events in Queensland, Australia, in January and February 2008, causing losses in the coal-mining industry. In addition, monsoon-like rains in February led to heavy flooding. Taken together, these loss events gave rise to expenditure of around €122m. Moreover, severe damage was triggered in parts of Europe by Winter Storm Emma, for which Munich Re's burden totalled €72m.

The 2008 hurricane season in the North Atlantic proved to be much stronger than in the previous year and was within the average range for the warm phase that began in the mid-1990s and is associated with high cyclone activity. The most severe loss events were Hurricanes Gustav and Ike in the USA and the Caribbean, resulting in insured market losses totalling around US\$ 15–20bn. Munich Re's share in these events amounted to €560m and was thus higher than our first estimate of around €390m in the third quarter of 2008. The adjusted estimate in the fourth quarter was necessary because the overall extent of damage caused by the cyclone in coastal waters and inland was not fully known at the time the first projections for Hurricane Ike were made.

At €677m (469m)¹, man-made major losses in 2008 were within the long-term average. The biggest single loss was an explosion at a sugar refinery in the USA, costing us €68m.

¹ Change in methodology: Previous year's figure adjusted owing to a change in the threshold for major losses.

Combined ratio by property-casualty division

	%	2008	2007	2006	2005	2004
Germany, Asia Pacific and Africa		106.5	106.0	94.2	90.6	96.7
Europe and Latin America		91.7	95.0	97.8	102.8	97.0
Global Clients and North America		101.8	95.8	91.9	129.9	106.8
Special and Financial Risks		99.0	83.8	81.1	110.5	78.9

The combined ratios recorded by the individual divisions were below the previous year's level in a few instances but in most cases were marginally to significantly higher. Some 1.1 (0.1) percentage points of the combined ratio were ascribable to retrocession cover for the whole reinsurance group – business which is fully accounted for in the Special and Financial Risks Division.

In the Germany, Asia Pacific and Africa Division, the combined ratio stood at 106.5% (106.0%). The increase largely reflects a strengthening of reserves in the motor and liability segments. At the same time, we also again recorded major losses within the long-term average.

In the Europe and Latin America Division, the combined ratio for 2008 fell to a gratifying 91.7% compared with 95.0% in 2007, when claims experience had already been good.

In the Global Clients and North America Division, we registered an increase in the combined ratio of 6.0 percentage points to 101.8%. Natural catastrophes (hurricanes and tornadoes in North America and Winter Storm Emma in Europe) had a stronger impact on the result than in the previous year.

In the Special and Financial Risks Division, the combined ratio was up by 15.2 percentage points to 99.0%. The increase was due to the unusually low combined ratio of 83.8% in the previous year, as well as above-average major-claims frequency in industrial business and a recession-related increase in losses in trade credit and D&O business in the year under review.

Premium The 2008 renewals were satisfying overall, even though competitive pressure in the international reinsurance markets continued to rise until around mid-year. The positive aspect for us is that – unlike in the past – the market cycles are very different, depending on the region and class of business involved. A global reinsurer with a widely diversified risk portfolio such as Munich Re can relocate capacity to profitable segments and regions to optimise its book of business. As in the past, we systematically refrained from writing business that did not meet our requirements for risk-adequate prices and conditions. An integral part of this cycle management is, among other things, the agreement of differential terms, i.e. terms that are better than those obtained by other reinsurers. Our financial security and acknowledged risk expertise are being more and more frequently rewarded with better prices than those achieved by our competitors. In some cases, we even conclude exclusive agreements, or "private placements", where we are the sole reinsurer of our clients. These measures enabled us to limit price erosion across our full book of treaty business to 2.8%. Thanks to our consistent cycle management and despite a substantial impact from exchange rates, gross premiums written rose to €14.7bn (14.2bn), bolstered by growth through acquisitions and new business. The structure of the portfolio experienced a further shift towards non-proportional reinsurance.

The strength of the euro, particularly against the US dollar, impacted premium income to the tune of €893m.

Gross premiums written in property-casualty		€m	2008	2007	2006	2005	2004
Germany, Asia Pacific and Africa		3,152	2,917	2,881	3,052	2,683	
Europe and Latin America		3,868	3,861	3,526	3,296	3,366	
Global Clients and North America		5,022	5,751	6,097	6,031	6,642	
Special and Financial Risks		2,550	1,608	1,945	2,031	2,044	

Gross premiums by class of business		€m	2008	2007	2006	2005	2004
Liability		2,118	2,227	2,394	2,561	2,606	
Accident		497	547	713	1,052	1,080	
Motor		2,441	2,643	2,913	2,671	2,890	
Marine, aviation, space		1,755	1,730	1,751	1,654	1,609	
Fire		3,998	3,932	3,763	3,701	3,775	
Engineering		1,457	1,286	1,239	1,299	1,281	
Credit insurance		825	710	688	695	645	
Other classes of business		1,561	1,149	1,090	914	971	
Total		14,652	14,224	14,551	14,547	14,857	

Trends in selected markets and at our subsidiaries

Premium volume for business with our **global clients and Lloyd's**, which together with other business was booked in the restructured Global Clients and North America Division in 2008, was down due to a reduction in a quota share treaty with a volume in the three-digit million euro range. By contrast, we were able to take advantage of attractive growth opportunities with selected products and existing client relationships. Our majority shareholding in the Lloyd's syndicate MSP also allowed us to expand our Lloyd's business in the property classes. The pressure on reinsurance rates prompted us to systematically withdraw from non-profitable business. Overall, our premium volume totalled €5,022m (5,751m).

The **United Kingdom** remains the largest market for our Europe and Latin America Division. Despite greater competition in the reinsurance market, we achieved satisfying premium growth of 4.3% at good prices. One of the main growth drivers was Managing General Agencies (MGA) business, where we made rapid progress with the integration of Bell & Clements and had our expectations of profitable business growth confirmed. Proportional motor business also developed positively. A further gratifying contribution to our overall result was made by our London General Branch, which transacts individual risk business in the local broker market.

The premium income of our subsidiary in **Italy**, which operates in the fields of property-casualty, health and life reinsurance, was down 16% to €510m (608m), mainly due to terminations of unprofitable business in the motor and property lines. The net loss ratio showed a significant improvement from 71.2% in the previous year to 62.4% in 2008. Overall, the combined ratio dropped from 100.1% in 2007 to 98.5% in the year under review. The annual result rose compared with 2007, totalling €31.3m. In order to simplify organisational structures within the Munich Re Group, we merged Münchener Rück Italia into Munich Reinsurance Company in January 2009.

Münchener Rück Italia

		2008	Prev. year
Gross premiums written	€m	510	608
Life and health	€m	111	124
Property-casualty	€m	399	484
Net earned premiums	€m	250	332
Life and health	€m	98	122
Property-casualty	€m	152	210
Loss ratio property-casualty	%	62.4	71.2
Expense ratio property-casualty	%	36.1	28.9
Combined ratio property-casualty	%	98.5	100.1
Result for the year	€m	31.3	30.7
Investments	€m	1,601	1,644

We maintained our leading market position in **Spain**. The result was favourable, which we see as confirmation of our successful, profit-oriented underwriting policy. Premium income reduced to €446m (472m) owing to our withdrawal from two major proportional treaties.

Thanks to our strong local presence in **Latin America**, we achieved an increase in premium volume to €823m (688m). The result was exceptionally positive, and rates were adequate on the whole. We maintained our position as market leader in our established target markets. Particularly worthy of mention in this regard are developments in **Brazil**, where the nearly 70-year state reinsurance monopoly was ended in April 2008, opening the market to private reinsurers. Brazil is Latin America's largest insurance market by far and offers significant growth potential. Munich Re was the first international reinsurer to be granted a licence to operate a subsidiary – Münchener Rück do Brasil, headquartered in São Paulo – in May 2008. This solution secures optimum market access to profitable business for Munich Re. With our subsidiary, we can provide the market with the best possible support and offer our clients all-round capacity. Our aim is to obtain an adequate share in the anticipated profitable expansion of the market. Total premium volume in 2008 was around €80m, and the result amounted to a gratifying €2m.

Münchener Rück do Brasil

		2008
Gross premiums written	R\$	224
Life and health	R\$	2
Property-casualty	R\$	222
Net earned premiums	R\$	52
Life and health	R\$	1
Property-casualty	R\$	51
Loss ratio property-casualty	%	63.6
Expense ratio property-casualty	%	33.1
Combined ratio property-casualty	%	96.7
Result for the year	R\$	5
Investments	R\$	146

In **Germany**, premium income dropped to €1,553m (2,169m), since we reduced a large-volume proportional treaty and withdrew from business where our requirements with regard to risk-adequate prices, terms and conditions could not be realised. Other reasons for the decline were lower original rates charged by primary insurers and higher cedant retentions.

Our major-loss expenditure in 2008 was significantly lower than in the previous year. The key factor here was that winter storms were fortunately not as severe as Kyrill in 2007, which gave rise to claims costs of some €150m in Germany alone. The pressure on rates in motor reinsurance, the class of business with the largest premium volume, persisted on a broad front. Reinsurance premium volume declined market-wide with lower margins, prompting us to further reduce our book of motor business in 2008.

In **Greater China**, we benefited from strong regional growth and increased our premium volume at risk-adequate prices by 54% to a total of €590m. The steep rise in natural catastrophe losses (extreme snowfall in winter, earthquake in Sichuan) resulted in greater claims expenditure. As a result of our differentiated underwriting policy, however, our share in the losses from natural catastrophes was lower than our market share. Overall, premiums and results developed positively in Southeast Asia.

In **Japan and Korea**, our premium volume of €555m remained at virtually the same level as in the previous year (565m). 2008 was again a year with few typhoons, and even earthquake activity in Japan was low. Japanese fire business and the engineering lines continued to deteriorate. In our view, measures on the primary insurance side are not yet adequate. We therefore made substantial changes to the composition of our portfolio, for instance by increasing the number of treaties written at terms and conditions that differ significantly from those of other providers. In addition, we placed another catastrophe bond for clients in 2008. Climate change is also a subject of critical importance in Japan. By staging a major exhibition on this subject in Tokyo, we underscored Munich Re's expertise in this area. Supply and demand for accumulation covers for Japan (earthquake/typhoon) initially remained largely stable, but demand expressed in euros and US dollars experienced a robust increase towards the end of the year thanks to the marked appreciation of the yen. In addition, we supported Japanese insurers in expanding abroad through international reinsurance programmes.

Compared with the previous year, premium income in **Australia and New Zealand** remained constant at €431m (431m). Notwithstanding the turmoil on the capital markets, the capitalisation of Australian primary insurance companies remained very solid, so that medium-term growth potential in traditional reinsurance business is still limited. In order to further expand our business in the Australian insurance market, we established Great Lakes Australia at the beginning of 2008, with the aim of writing industrial and agency business. Development is proceeding according to plan, and our business model is proving successful.

Our Swiss subsidiary **New Re** once again achieved a positive result albeit lower than in the previous year. In traditional business, New Re continued to focus on non-proportional covers and wrote a considerable volume of natural catastrophe business. It is rigorously pursuing its anticyclical strategy and has actively withdrawn from underpriced business. At Sfr 1,124m (1,241m), its premium volume was virtually unchanged, since new fields of business were tapped in the life and non-life segments.

The result for the year was burdened above all by Hurricane Ike in the USA but the combined ratio of 102.0% (85.8%) was still very satisfactory. The financial crisis left New Re largely unaffected, since the company mainly holds low-risk, fixed-interest securities in its investment portfolio.

New Reinsurance Company ¹		2008	Prev. year
Gross premiums written	Sfr m	1,124	1,241
Life and health	Sfr m	515	647
Property-casualty	Sfr m	609	594
Net earned premiums	Sfr m	1,066	1,188
Life and health	Sfr m	503	632
Property-casualty	Sfr m	563	556
Loss ratio property-casualty	%	82.4	68.3
Expense ratio property-casualty	%	19.6	17.5
Combined ratio property-casualty	%	102.0	85.8
Result for the year	Sfr m	46.0	227.3
Investments	Sfr m	4,004	4,387

¹ Financial statements in accordance with national accounting law.

In the past year, we redefined our **US business** strategy and assigned responsibility for it to a single Board member. Since then, we have been actively and successfully implementing this strategy. Its focus is on a client-centric approach and the development of even closer partnerships with leading broker firms. In view of the soft market phase that characterised the US market until mid-2008, we tapped only selected new business segments in reinsurance and withdrew from unprofitable ones. Munich Re America remains committed to its consistently profit-oriented pricing and underwriting discipline. The combined ratio deteriorated to 135.7% (116.2%) owing to the burdens from hurricane losses and selective reserve strengthening. The successful conclusion of our Midland acquisition gave us access to specialised primary insurance in niche segments of the US market. Moreover, we concentrated on the expansion of property business in this segment and consistently implemented the strategy decided on for Munich Re America's realignment.

Munich Re America		2008	Prev. year
Gross premiums written	US\$ m	3,316	3,571
Life and health	US\$ m	515	638
Property-casualty	US\$ m	2,801	2,933
Net earned premiums	US\$ m	2,240	2,397
Life and health	US\$ m	506	615
Property-casualty	US\$ m	1,734	1,782
Loss ratio property-casualty	%	97.6	87.0
Expense ratio property-casualty	%	38.1	29.2
Combined ratio property-casualty	%	135.7	116.2
Result for the year	US\$ m	-503.2	169.0
Investments	US\$ m	14,394	14,983

In 2008, the **Munich Reinsurance Canada Non-Life Group** – Munich Reinsurance Company of Canada (MROC) and Temple Insurance Company – again produced very good results despite a minimal decline in premium income. Whilst in-force business in the market's highly competitive environment was managed profitably, we made further progress especially with the extension of our activities in specialised insurance via Temple Insurance Company.

Munich Reinsurance Canada Non-Life Group		2008	Prev. year
Gross premiums written	Can\$ m	429	459
Property-casualty	Can\$ m	429	459
Net earned premiums	Can\$ m	293	314
Property-casualty	Can\$ m	293	314
Loss ratio property-casualty	%	50.0	53.4
Expense ratio property-casualty	%	31.7	31.0
Combined ratio property-casualty	%	81.7	84.4
Result for the year	Can\$ m	86.2	88.1
Investments	Can\$ m	1,545	1,554

Special and financial risks business

In **marine reinsurance**, where total premium income amounted to €1.2bn (1.2bn), our Watkins Syndicate at Lloyd's in London generated a volume of €372m (462m), reported in the primary insurance segment. From the 2009 financial year, we will report the business of the syndicate in reinsurance, since Watkins has been incorporated into the reinsurance group. Given the difficult market situation in the energy sector, we reduced our portfolio in this line significantly. In other marine lines, by contrast, good expansion opportunities presented themselves. The acquisition of Roanoke Trade in Chicago enabled us to strengthen our distribution network in the USA. Its integration into the Watkins Syndicate is proceeding according to plan. To secure the long-term growth of our German and Continental European marine business, we set up a new company, Köln Assekuranz.

Our result declined appreciably to –€1m (115m), reflecting losses from natural catastrophes in the energy sector and the negative performance of a few P&I treaties that have meanwhile been remediated. For 2009, we see business opportunities and rising prices, especially because of the high natural catastrophe losses in 2008.

In **agricultural reinsurance**, we extended our leading position further. The business we wrote mainly comprised state-supported crop insurance programmes, with a large portion stemming from the USA. In close consultation with selected cedants, we apply our vast experience and expertise in this business to other regions with a high potential for profitable growth. As in previous years, the result in agricultural insurance in 2008 was again satisfying.

In **aviation and space business**, which is characteristically volatile, the picture in 2008 was varied. The price erosion of prior years persisted in aviation, where it spread to covers for light aircraft. As a consequence, we continued to withdraw from underpriced business. Since the non-proportional reinsurance of aviation risks remains very profitable, however, we expanded our business in this area as planned. The aviation insurance market started to harden in the fourth quarter. Having reduced our market share in previous years as a result of stringent cycle management, we expect to see opportunities for growing aviation business profitably in 2009. Space business, by contrast, developed very favourably in 2008. Although the major-loss burden in the previous year did not result in a reduction in overcapacity, it did give rise to appreciable price increases. These parameters consolidated our position as market leader, improved the quality of premiums and led to increased shares in selected risks. Premium volume in aviation and space business correspondingly grew to €530m (489m). The excellent technical result of €43m (-7m) also reflects below-average claims experience. The combined ratio totalled 89.6% (100.4%).

Our medium- to long-term assessment of the aviation market remains positive. We therefore increased our share in the Global Aerospace Pool to 37.46% (27.25%) in underwriting year 2008 and will raise it to 44.96% from underwriting year 2009 onwards. This pool is managed by GAUM Ltd., the world's leading underwriting agency for aviation and space business, in which we have a stake of 40%.

In our business field **financial risks**, credit and bonding reinsurance is one of our core business fields, where we reinsure default risks related to the sale of goods and services worldwide or accepted via bonds. In the last few years, we have refrained from transacting credit derivatives business and have fully commuted the portfolio of business written in the past. In credit and bonding, we achieved a technical result of €12m (97m) in 2008 owing to the worldwide credit crisis. Our premium volume in European business stagnated, but rose in Latin America and Asia.

The **Risk Trading Unit** places insurance risks on the capital and reinsurance markets. We not only provide the unit's services to clients but also use them for our own purposes where laying off insurance risks is opportune from the risk management point of view. In 2008, we effected a total of three transactions: a client transaction ("Muteki", US\$ 300m, to cover earthquake in Japan) and two transactions for Munich Re ("Nathan", US\$ 100m, to cover excess mortality; and "Queenstreet", €170m, to cover windstorm in Europe). With Munich Re Capital Markets New York, which is an integral part of the Risk Trading Unit, we are in a position to place catastrophe bonds with a large number of investors and thus cover the entire value chain in the promising field of insurance risk securitisation and capital-market placement.

Our clients in the **alternative markets** segment are large international corporations. The business is handled by our subsidiary Munich-American RiskPartners (MARP), which has offices in Munich and London. In 2008, MARP's total premium reached the same level as in the previous years. Our profitability-oriented underwriting policy is particularly important in the highly competitive market of large-scale industrial risks. The result was burdened by an above-average frequency of major losses.

New developments and expansion of various activities

In 2008, Munich Re continued to tap attractive fields of business via new segments and markets. This is part of our Changing Gear initiative of positioning ourselves selectively in profitable niche segments. The business is transacted out of reinsurance, as it requires special expertise and is to some extent directly coupled with reinsurance as the risk carrier.

With the aim of expanding these profitable niche segments, we took advantage of a major acquisition opportunity by purchasing **The Midland Company** (Midland), a leading US provider specialised in insurance cover for manufactured housing, mobile homes and motorcycles. As a general rule, the lending banks require insurance cover as a condition for loans on these objects. Midland is a perfect fit for our portfolio and provides the basis for expanding our primary insurance operations in the USA, which we combined with Munich Re America's existing activities at the beginning of 2008, thereby laying the main foundations for synergies and growth. Premium income since the first-time consolidation as at 1 April 2008 was €562m.

On the basis of an agreement concluded on 22 December 2008, Munich Re is acquiring the **HSB Group** from US insurer American International Group (AIG). The HSB Group is one of the world's leading providers of specialist insurances and inspections of engineering risks. The planned purchase is another step towards realising our US strategy within the context of our Changing Gear programme, expanding our position in highly specialised and thus profitable niche segments. The agreed purchase price for the 100% stake is US\$ 742m (€531m) – plus or minus any changes in HSB's equity occurring between 30 September 2008 and the ultimate completion date – and will be fully financed from our own resources. The acquisition is expected to be completed at the end of the first quarter of 2009, once the requisite approvals have been obtained from the competent authorities.

Our new **Special Enterprise Risks** unit is currently in the start-up phase. Our target clients here are companies that intend to implement a quantitative risk management system and, owing to heightened risk awareness, have a greater need for risk transfer solutions, e.g. in the case of political risks or project financing risks, or to protect their supply chain.

The current political and regulatory developments in **India** give cause for hope that the market will be opened to international reinsurers in the near future. Munich Re remains committed to the strategy of setting up a life and non-life reinsurance branch in India, and is in a close dialogue with the political institutions in this connection. Our strategy is endorsed by the fact that, two years after deregulation, a stabilisation of the market is gradually becoming evident. The emerging improvement is reflected in rising prices on the one hand and the growing number of reinsurance treaties that could be concluded at individual prices, terms and conditions on the other. We are underlining our strategy geared to sustained profitability and aimed at a further expansion of our position in the Indian market by engaging in numerous supporting activities such as market events on topics of particular relevance for India, e.g. natural catastrophes or accumulation control.

Primary insurance

- Growth of 1.5% in overall premium income to €18.5bn compared with the previous year
- Consolidated result of €163m impacted by effects of the financial crisis
- Good combined ratio of 91.2%, despite numerous natural hazard events

Key figures		2008	2007	2006	2005	2004
Overall premium income	€bn	18.5	18.3	17.7	18.4	18.0
Gross premiums written						
Life and health	€m	11,495	11,647	11,606	12,330	12,324
Property-casualty	€m	5,916	5,639	5,147	5,242	5,202
Loss ratio property-casualty	%	58.8	59.4	55.8	57.8	57.5
Expense ratio property-casualty	%	31.8	33.7	33.8	33.5	33.8
Combined ratio property-casualty	%	90.6	93.1	89.6	91.3	91.3
Combined ratio legal expenses insurance	%	93.9	94.5	95.3	99.8	98.9
Combined ratio property-casualty, including legal expenses insurance	%	91.2	93.4	90.8	93.1	93.0
Consolidated result life and health	€m	7	358	319	594	25
Consolidated result property-casualty	€m	156	626	726	585	292

The Group's primary insurers essentially comprise the ERGO Insurance Group and the Watkins Syndicate. From the 2009 financial year, the business of the Watkins Syndicate will be reported in reinsurance, reflecting the fact that Watkins has been incorporated into the reinsurance group. (Specialist insurers in niche segments, whose business requires special expertise, are in some cases coupled to reinsurance as the risk carrier. We therefore transact this business from within reinsurance and book it there accordingly.) Europäische Reiseversicherung, which thus far had been owned directly by Munich Reinsurance Company, was integrated into ERGO together with Mercur Assistance with effect from 1 January 2009. Particular attention is being given to the partners of Europäische and Mercur from other insurance groups, who will continue to be served with the complete spectrum of products. Our primary insurers are active in nearly all branches of life, health and property-casualty insurance. Approximately 75% of their gross written premium income derives from Germany, the remaining 25% stemming from international business, in particular from Europe. The bulk of their business is therefore transacted in euros.

Marketing In primary insurance, we use multiple sales channels. ERGO has more than 21,000 full-time self-employed insurance agents representing its brand insurers and additionally works with brokers and strong cooperation partners. The Group is stepping up its activities in international business under the ERGO brand name. In Germany, by contrast, the brands D.A.S., DKV Deutsche Krankenversicherung, Hamburg-Mannheimer and Victoria are of key importance for ERGO's tied agents, who generate 55% of sales. KarstadtQuelle Versicherungen, also a member of the ERGO Group, is Germany's most popular direct insurer. At the end of 2008, ERGO agreed to acquire the remaining shares in KarstadtQuelle Versicherungen from Arcandor AG. ERGO cooperates with the subsidiaries of the Italian UniCredit bank in Germany and several countries in central and eastern Europe.

Europäische Reiseversicherung works with more than 17,000 partners in the tourist industry, making it the leading travel insurance provider. Travel agents and the European railways have been its main sales partners for some 100 years.

The **Watkins Syndicate**, which operates within Lloyd's of London, is one of the leading primary insurers in international marine business. The syndicate has a wide and efficient network: apart from its branch offices in the UK and Ireland, it also transacts business from its Hong Kong, Singapore and Dubai offices.

Since the acquisition of Roanoke Trade in April 2008, we have been able to selectively expand our marine business in the USA by using the company's broad network of branch offices throughout the country.

ERGO Insurance Group		2008	2007	2006	2005	2004
Gross premiums written	€m	16,578	16,401	15,930	15,919	15,569
Net earned premiums	€m	15,150	14,810	14,339	14,253	13,736
Combined ratio	%	90.2	93.1	89.4	90.0	90.1
Consolidated result	€m	92	781	889	786	236
Investments	€m	108,247	104,258	101,853	100,193	97,001

Europäische Reiseversicherung		2008	2007	2006	2005	2004
Gross premiums written	€m	395	384	359	343	316
Net earned premiums	€m	344	332	300	286	267
Combined ratio	%	99.7	95.2	95.3	97.1	94.6
Consolidated result	€m	-3.5	8.4	4.3	2.0	10.8
Investments	€m	187	179	161	151	179

Watkins Syndicate ¹		2008	2007	2006	2005	2004
Gross premiums written	£m	333	309	323	248	208
Net earned premiums	£m	244	259	208	189	172
Combined ratio	%	100	92	87	109	83.5
Consolidated result	£m	31	35	36	-11	33
Investments	£m	711	462	419	410	378

¹ Financial statements in accordance with national accounting law.

Result Our primary insurers performed satisfactorily in the past financial year, despite the significant impact of the financial crisis on the investment and subgroup results. Whilst the technical result was at a very good level, the operating result declined appreciably, totalling €477m for the period January to December 2008. Compared with the excellent previous year's figure of €1,253m, this represents a decrease of 61.9%, for which the investment result was chiefly responsible. The previous year had been favourably influenced by gains on the disposal of real estate and shares. Furthermore, as major investors, we too were affected by the exceptional capital-market turbulences and had to make significant write-downs in 2008. Nevertheless, the consistent risk reduction policy we have pursued in recent years is now paying off – otherwise the negative effects of the financial crisis would have been much greater. There was also a high write-down of goodwill for our stake in the Austrian company BACAV acquired in the first half of 2008. The consolidated result in the past financial year amounted to €163m (984m), the difference to the previous year reflecting not only the effects described but also the one-off tax income of €120m in 2007 from the German Business Tax Reform Act 2008. In addition, to optimise its capital structure, ERGO paid out a dividend of around €1bn in the second quarter of 2008 and refinanced this through strategic debt, which was the main reason for a rise in its finance costs of €42m compared with the previous year.

Premium	In the financial year 2008, our primary insurers wrote total premium income of €18.5bn (18.3bn), equivalent to a rise of 1.5%. Growth was especially apparent in our international business, in particular in property-casualty and health insurance. Premium written outside Germany climbed by 9.1% to €4.4bn (4.0bn), chiefly as a result of organic growth. Adjusted to eliminate the effect of changes in the consolidated group (first-time consolidations of the South Korean company ERGO Daum Direct from the second quarter onwards and of the Austrian insurer BACAV as from the fourth quarter), premium income from outside Germany grew by a satisfying 4.3%. This positive development is largely due to good growth in Poland and Belgium. At €13.9bn (14.0bn), overall premium income from Germany was down on the previous year. Moderate growth in health (1.6%) and property-casualty (1.6%) contrasted with a reduction in premium volume (-4.4%) in life insurance.
Life and health	<p>The consolidated result in life and health primary insurance for the past financial year amounted to €7m (358m).</p> <p>We value the life, health and personal accident insurers with their long-term liabilities on the basis of market-consistent European Embedded Value (EEV). This is the sum of a company's equity and the present value of its future net earnings from business in force – established on the basis of actuarial principles – less the explicitly determined cost of holding capital.</p> <p>The financial crisis in 2008 triggered not only sharp falls on the stock markets but also major upheavals on the interest-rate markets, especially towards the end of the year. At 31 December 2008, the low level of interest rates coupled with extremely high volatilities had a major adverse impact on the economic assessment of long-term liabilities in life, health and personal accident insurance. The CFO Forum has announced that it will be reviewing its valuation principles in this connection. In spite of these conditions, we decided to adhere to a strictly market-consistent valuation as at the reporting date of 31 December 2008, even if we are convinced that the capital market parameters used are not representative and the high volatility in particular will revert towards the long-term average level.</p> <p>In line with option price theory, embedded value can be divided into two components, namely intrinsic value and time value. Especially in life primary insurance, there are substantial guarantees and options for the client resulting from terms of their policies as well as statutory and supervisory regulations. The time value of these options and guarantees is determined explicitly using 1,000 stochastic scenarios representing the investments' volatilities at the balance sheet date. This is necessary because companies can actively influence the time value of these options and guarantees, especially through discretionary scope with regard to profit sharing and through their long-term investment strategy.</p> <p>At 31 December 2008, the above-mentioned upheavals on the interest-rate markets resulted in a major rise from -€138m to -€1,359m in the negative time value of options and guarantees for German life primary insurance from the shareholders' perspective. This would be the shareholders' cost of hedging against the impact of future capital-market fluctuations on the result as at the valuation date. In fact, through the mechanisms described above, companies generally have much more effective instruments to decisively influence the time value of options and guarantees over the course of time.</p>

Altogether, the market-consistent European Embedded Value of our life insurance business and our German health primary insurance business fell to €3,509m (5,406m); this includes acquisitions of €388m. The overall loss of European Embedded Value totalling €2,237m was mainly attributable to the development of the portfolio value in life insurance. Given the extremely unfavourable underlying parameters, the modelled value added by new business decreased to –€45m (164m). Because of current market conditions, profitable business written in the course of the year is reported with a negative value contribution, due to the market-consistent valuation as at the end of the year.

In 2008, our life insurers' overall premium income fell by 1.8% to €7.2bn (7.3bn), with international business increasing by a robust 10.0% and German business dropping by 4.4%. In this context, special mention must be made of the first-time consolidation of BACAV with effect from the fourth quarter of 2008, which contributed 8.8 percentage points to growth. Our activities in Belgium also developed well, whereas German single-premium business, especially via the bancassurance channel, suffered from the financial crisis. Overall, gross premiums written were down 4.5% to €6.0bn (6.3bn). This figure does not include the savings premiums from unit-linked life insurance and capitalisation products such as German "Riester" pensions – business that is playing an ever more important role for us.

German new business was down on the previous year, with a decline of 3.4% in the annual premium equivalent (APE), i.e. total regular premium income and one-tenth of single-premium volume. The decrease was due to an initial effect of the German insurance contract law reform which has made the sales process more complicated, as well as to uncertainty among clients in the wake of the financial market turmoil. The beginning of the fourth subsidisation stage for Riester policies at the turn of the year was unable to offset these factors.

Premium income in health business rose by 2.5% to €5.4bn (5.3bn) in the past financial year. In international business, the increase was even stronger at 7.4%, with sales in Spain and Belgium particularly good. Domestic growth was a gratifying 1.6%. In supplementary health business, premium volume was up by 4.3% and in comprehensive health cover by a slightly less pronounced 1.2%. The German health reform had a distinctly adverse impact on new comprehensive insurance business, which showed a year-on-year reduction of 14.8%. This development has to be seen in light of the fact that new business at the beginning of 2007 had been brisk, as clients took advantage of the last opportunity to switch to private health insurance without having to satisfy the waiting period requirement. The three-year waiting period is likely to continue to be an adverse factor throughout the entire transition phase up to January 2010.

Property-casualty In **property-casualty insurance**, we posted a consolidated result of €156m (626m).

Premium income in the past financial year rose by 4.9% to €5.9bn (5.6bn), with international business continuing to show particularly strong growth of 10.1% to €2.4bn (2.2bn). This development was mainly attributable to the Polish market and to the consolidation of the South Korean direct insurer ERGO Daum Direct from the second quarter of 2008 onwards. Adjusted to eliminate the effect of changes in the consolidated group, gross premium volume still increased by 5.2%. At €2.7bn (2.6bn), ERGO's German business slightly exceeded the previous year's level. Premium volume in German motor insurance decreased by 1.1%, since despite sustained price competition, we continue to adhere to our disciplined underwriting policy. Moreover, the positive loss trend of recent years meant that an increasing number of policyholders were reassigned to higher no-claims bonus classes. By contrast, we achieved growth in our target lines of commercial property and liability business where, whilst maintaining our profit-oriented underwriting policy, we posted year-on-year increases of 9.0% and 3.5% respectively, along with small growth of 0.3% in personal accident insurance.

Gross premium income in legal expenses insurance rose by 0.9% to €916m (908m). Whilst the volume of German legal expenses insurance grew slightly by 0.3%, international business showed a higher increase of 1.6%.

At 58.2% (58.6%), the loss ratio was down somewhat on the previous year's level. 2007 had been burdened by Winter Storm Kyrill, but 2008 was also affected by numerous local natural events, e.g. Winter Storm Emma and Windstorm Hilal. Costs developed favourably as well, although we still need to make further improvements to enhance our competitive strength. In absolute figures, administration and operating expenses were lower than in 2007, and a look at the expense ratio confirms this pleasing picture: since our premium income rose significantly and operating expenses for own account decreased, we were able to reduce the expense ratio to 33.0% (34.8%). The combined ratio for property casualty business including legal expenses insurance improved by an appreciable 2.2 percentage points to 91.2% (93.4%).

Our primary insurance subsidiaries **Europäische Reiseversicherung** and the **Watkins Syndicate** contributed –€3.5m (8.4m) and £31m (35m) to the result respectively.

Further expansion of international activities

A key part of our strategy is to advance international activities in primary insurance and to increase the share of business written outside Germany. This approach brought us success in the past year, as did the good market knowledge we have gained as a Group from our presence over the years in many of the world's markets, which has been ideally combined with the primary insurance know-how of the ERGO Insurance Group.

In 2008, the ERGO Insurance Group acquired the majority of shares in the life insurer **BACAV**, increasing its stake to 90% since 30 September. The remaining 10% are held by the UniCredit subsidiary Bank Austria. ERGO now ranks third in the Austrian life insurance market and is expanding its international business by systematically using Austria as a platform for developing business in the promising central and eastern European markets.

In Italy, we are restructuring our activities. In 2008, we submitted a voluntary tender offer to the external shareholders of the listed life insurer **ERGO Previdenza**. After conclusion of the offer, we held 93.1% of the shares in ERGO Previdenza and aim to acquire the remaining shares in the life insurer in the course of the delisting process. The next step is to enhance the integration of ERGO Previdenza within the Italian group. The revised strategy is clearly focused on profitability in new business and strict cost control, even at the expense of a reduction in premium income. Our objective is to increase the efficiency of the ERGO companies in Italy.

On 17 November 2008, ERGO became the sole shareholder in the Turkish ERGO company **ERGOISVIÇRE**, acquiring the remaining 25% of shares from the private founders. Since ERGO's initial acquisition of a stake in the company in 2006, ERGOISVIÇRE has become the fourth-largest insurer in the Turkish property-casualty market. ERGO will continue to expand its successful business in the dynamic growth market of Turkey.

Investment performance

- World's largest financial crisis for decades brings sharp falls on almost all investment markets
- Major burdens for the Group, limited by balanced investment policy and risk management
- Equity exposure reduced significantly over the course of the year
- Further strengthening of portfolio of fixed-interest securities and loans
- Investment result of €5.8bn down significantly on previous year

In the following, we report on the performance of our Group's own investments, which derive almost entirely from our core business fields of reinsurance and primary insurance. In addition, we provide information on third-party business, where we manage the assets of non-Group institutional investors and private investors.

Investments of the Munich Re Group

Investment principles

Our investment strategy naturally considers supervisory requirements aimed at ensuring optimum security and profitability, with sufficient liquidity at all times, and an appropriate mix and spread. We continue to satisfy all applicable accounting and taxation requirements and invest only in assets from which we expect an adequate return, our asset managers paying strict attention to the risk tolerance of each company. In reinsurance in particular, we limit currency risks by matching our expected liabilities with assets in correlated currencies where possible. We also take care that the maturities of our fixed-interest securities are aligned with those of our liabilities. The methods we use to control investment risks are described in detail in the risk report on page 155; our approach to asset-liability management is explained on page 111.

Our investment strategy is committed to the principle of sustainability. We aim to invest at least 80% of the market value of our investments in assets that are included in a sustainability index or satisfy generally recognised sustainability criteria. Since mid-2007, we have used the services of oekom research, an independent rating agency for sustainability, to advise us in this area. Our sustainability criteria for corporate and bank bonds have been considerably tightened as a result.

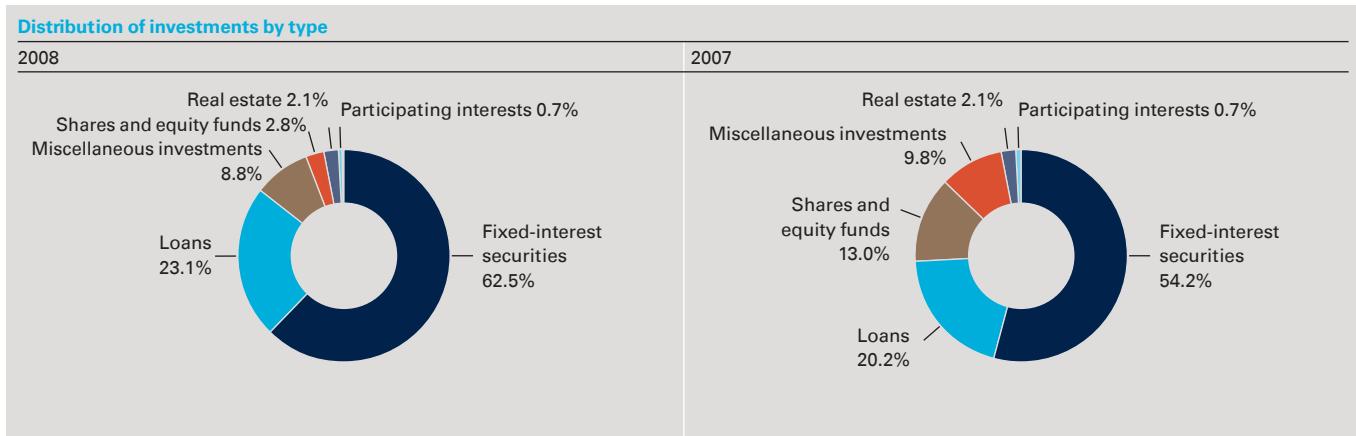
Liquidity

The Munich Re Group's **liquidity** is ensured at all times by means of detailed, Group-wide liquidity planning. As a rule, the Munich Re Group generates significant liquidity from its premium income, from regular investment income and from investments that mature. We also attach great importance to the credit rating and fungibility of our investments. Given the maturity structure of the outstanding bonds and the credit facilities employed (which are, in any case, relatively insignificant in scope), the Munich Re Group has no refinancing requirements.

Significant developments in the 2008 financial year

Considering the capital market upheavals, we achieved a respectable investment result of €5.8bn (9.3bn), although this represented a significant decrease of 36.8% on the previous year. The heavy falls on stock markets worldwide on account of the financial crisis have played a crucial part in this deterioration in the result. Owing to our strict application of the impairment rules, the capital market developments led to high write-downs of €4.9bn on our equity portfolios. Thanks to our active portfolio management, this was partially compensated for by the net balance of €2.8bn from write-ups and write-downs deriving from our hedging transactions. Furthermore, our result from disposals was lower than in the previous year, which had benefited significantly from the sale of a German real-estate package and large sections of our equity portfolios.

Despite the considerable turmoil on the capital markets, we recorded only a slight reduction of €1.2bn or 0.7% to €175.0bn in Group investments. Above all, our equity portfolio shrank noticeably as a consequence of disposals and falling market values. By contrast, the value of our fixed-interest securities improved over the course of the year, partly due to new investments and partly to interest-rate trends. Especially in primary insurance, we classify long-term fixed-interest securities which are not traded on an active market as loans at the time of acquisition, recognising these at amortised cost. At carrying amounts, our investments in loans thus increased appreciably by €4.9bn or 13.9%. For the additional investment in loans, we used cash flows from insurance business as well as liquid funds from disposals. These reallocations led to shifts in our investment mix.



On 13 October 2008, the IASB (International Accounting Standards Board) fast-tracked an amendment of **IAS 39 Financial Instruments** relating to the reclassification of financial instruments. In the light of the financial crisis, the changes made are intended to eliminate the potential competitive advantages of US banks by aligning IFRS with US GAAP and to provide balance-sheet relief in the financial sector.

Until 31 October 2008 and under certain conditions, the amendments permitted non-derivative financial instruments in the categories "securities held for trading" and "securities available for sale" to be reclassified under other categories retroactively to 1 July 2008. As of 1 November 2008, the reclassification will become effective as of the date of execution, enabling such securities to be recognised at amortised cost. As a consequence, losses in value occurring in the second half of the year and in the future generally need no longer be recognised in the income statement or in equity.

Thanks to our well-balanced investment policy and our already somewhat conservative accounting methods, we do not need to reclassify financial instruments in order to take advantage of these relaxations in requirements. We attach importance to continuity in our accounting practices as well as to the transparency of our assets and results.

Investment result

Investment result	€m	2008	2007 ¹	2006	2005	2004
Regular income		7,838	8,110	7,834	7,649	7,498
Write-ups/write-downs		-2,842	-1,032	-865	-748	-775
Net realised capital gains		2,145	2,803	2,559	4,511	2,339
Other income/expenses		-1,295	-628	-556	-594	-1,021
Total		5,846	9,253	8,972	10,818	8,041

¹ Adjusted pursuant to IAS 8.

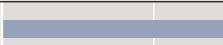
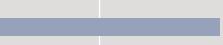
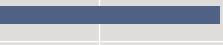
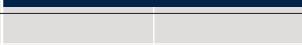
Investment result by type of investment

	2008 €m	Previous year €m ¹	Change %
Real estate	202	853	-76.3
Investments in affiliated companies	-21	-67	68.7
Investments in associates	21	264	-92.0
Mortgage loans and other loans	1,576	1,266	24.5
Other securities	4,967	6,883	-27.8
Deposits retained on assumed reinsurance and other investments	205	456	-55.0
Investments for the benefit of life insurance policyholders who bear the investment risk	-562	2	-
Expenses for the management of investments and other expenses	542	404	34.2
Total	5,846	9,253	-36.8

¹ Adjusted pursuant to IAS 8.

The marked year-on-year decrease in the investment result is attributable largely to lower capital gains and the high write-downs we had to make in our equities portfolio because of the financial crisis. The extraordinary result from equities and derivatives with non-fixed-interest underlyings of -€0.2bn represents a decline of approximately €2.3bn against the same period last year. In conjunction with the change in net gains on real-estate sales of around -€0.6bn, this explains the bulk of the overall reduction in the investment result. With a 3.4% return on investment in 2008, we have thus fallen well short of our target of again achieving an RoI of 4.5% (based on the average investment portfolio at market values).

Extraordinary result from equities and derivatives with non-fixed-interest underlying transactions

	€bn	2008	Change vs. previous year
Write-downs due to the "once impaired, always impaired" rule	-1.5		-1.3
Write-downs due to the 20% or six-month rule	-1.8		-1.6
Balance of write-ups/write-downs of hedged equity portfolios	-1.5		-1.6
Balance of write-ups/write-downs of derivatives (accounting hedge)	1.5		1.6
Balance of write-ups/write-downs of derivatives (economic hedge)	1.3		1.7
Result from write-ups and write-downs	-2.0		-1.2
Result from the disposal of equities	0.0		-3.0
Result from the disposal of derivatives	1.8		1.9
Total	-0.2		-2.3

The modest decline in **regular investment income** mainly reflects decreasing interest income from the reduced volume of deposits retained on assumed reinsurance. Regular income from loans improved owing chiefly to greater investments in such products, whilst earnings fell on our fixed-interest securities available for sale.

We posted net **realised gains on disposal** of €2,145m (2,803m) in the period under review, €1,004m of this in the fourth quarter alone. In 2007, the sale of a real-estate package comprising residential and commercial properties in Germany had already led to gains on disposal of around €630m. The aforementioned decrease in our result from the disposal of equities compared with 2007 is mainly due to the favourable stock market performance in the first half of 2007, which we had exploited by realising considerable gains on disposals. By contrast, 2008 saw an improvement in our result from expired and closed-derivative financial instruments which we had purchased to hedge our equity portfolio and whose performance had benefited from the bear market. In the fourth quarter alone, we thus realised net gains of €1,223m from forward sales on shares we had in some cases arranged before the start of the financial year at much higher price levels. However, this was partly offset in the fourth quarter by a result of –€474m (474m) from the sale of non-fixed-interest securities categorised as “available for sale”, almost exclusively involving our equity portfolios.

The capital market crisis also led to a major decline in the net balance of **write-ups and write-downs**, due particularly to the heavy share-price losses, for which the derivative financial instruments could not compensate entirely. The following special features of IFRS accounting regulations determine that these effects be recognised in the income statement:

Changes in the value of share portfolios categorised as “available for sale” are always recognised in equity with no effect on profit or loss. Only when they are sold are the amounts of such holdings recorded in the income statement. An exception to this rule exists in the event of a sustained impairment. We consider such an impairment to be “sustained” if the stock market price of an equity investment falls below the average historical acquisition cost either for a sustained period, i.e. at least six months, or significantly, i.e. by at least 20%. If an impairment occurs, the accumulated loss previously recognised in equity is eliminated and recognised in the income statement as an expense. Further declines in the prices of equities that have already been written down once are recognised immediately in the income statement (this is referred to as “once impaired, always impaired”). The facts described were relevant for approximately two-thirds of the impairments booked.

Another special feature applies to changes in the fair value of individual equity portfolios for which hedge accounting using derivatives is employed. Where this is the case, any change in value must be recognised immediately in the income statement, i.e. with write-downs for share-price losses and write-ups for price gains. These effects are counterbalanced by the opposite development of the derivative financial instruments.

Between January and December 2008, we had to make total write-downs of €7,191m (2,263m), of which €4,935m (603m) was on our non-fixed-interest securities categorised as "available for sale," virtually all involving our equity portfolios. Approximately one-third of these write-downs affected equity portfolios for which the losses in value were almost offset by price gains on hedging derivatives. Some of the other impairments in our equity portfolio were compensated for by earnings from the performance of economic hedging transactions (without a hedging relationship in the balance sheet). In the course of the year, there were significant increases in the value of derivative hedging instruments, allowing us to achieve a net balance of €2,840m (–533m) from write-ups and write-downs of our derivative financial instruments, €2,831m (–476m) of which was apportionable to derivatives with non-fixed-interest underlying transactions.

Our portfolio of fixed-interest securities in the "available for sale" category is accounted for at fair value and takes into consideration the development of risk spreads as well as current interest-rate trends. Any resulting changes in value are generally recognised in equity with no effect on profit or loss. Nevertheless, as with equity instruments, these fixed-interest securities are subjected to an impairment test at every (quarterly) balance sheet date. If there is objective evidence for an impairment, e.g. the issuer encountering substantial financial difficulties, this must be recognised as an expense in the income statement. In themselves, the downgrading of the issuer's credit rating or an interest-rate-induced decline in market value are insufficient grounds for an impairment, but may (depending on their severity) be a trigger for a more in-depth examination of whether the criteria are met.

Overall, the revaluation of the Munich Re Group's total portfolio of fixed-interest securities categorised as "available for sale" in the period under review resulted in write-downs totalling €478m, of which €60m is apportionable to fixed-interest securities issued by Lehman Brothers. Our business relations with Lehman Brothers, which involve various capital market transactions, have led to write-downs totalling around €115m net following the company's application for creditor protection. Beyond this, we made write-downs in the mid double-digit million range on participation certificates, dormant holdings and similar equity instruments. Our 2008 consolidated financial statements also contain write-downs of around €280m on various portions of our US portfolios, commercial mortgage-backed securities, Alt-A and sub-prime home equity loans because, given the economic prospects, we do not expect them to recover in value.

The spread of the turbulence to other capital-market-oriented companies such as AIG and Washington Mutual will have no notable impact on our results. In Germany, along with the banks and almost the entire insurance sector, we are participating in the rescue package for Hypo Real Estate (HRE) by guaranteeing €111.1m to cover a possible claim on the federal government. In addition, Munich Reinsurance Company has underwritten a government-guaranteed bearer bond and a bearer bond secured by HRE Group assets, each for an amount of €70.7m. Of the last-mentioned bearer bond, €70.1m has been transferred to ERGO Group companies.

In the 2008 financial year, we generated a result of –€562m (2m) from investments for the benefit of life insurance policyholders who bear the investment risk. We have posted this figure in the investment result under "other income/expenses".

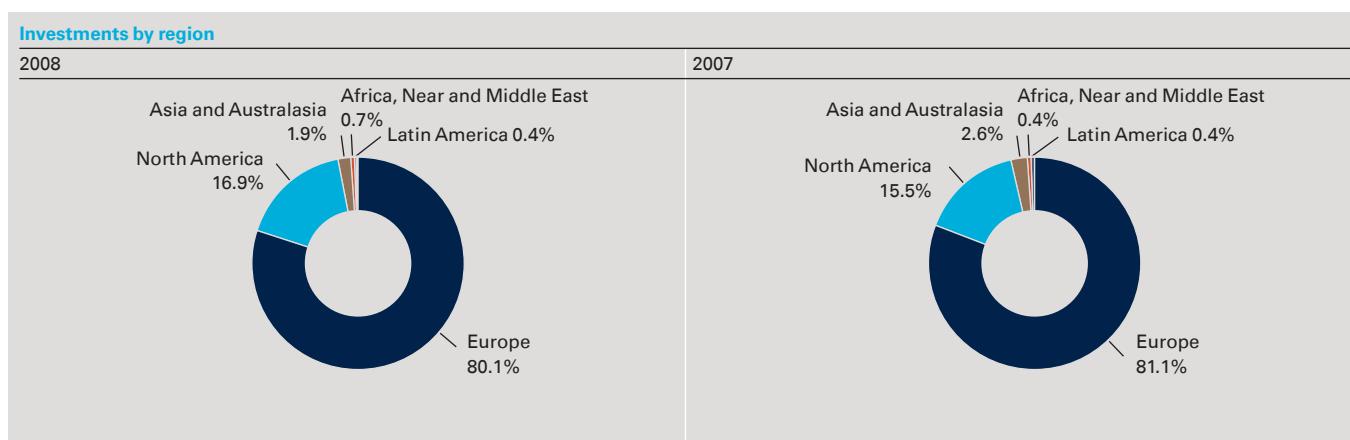
Structure of investment classes

Investment mix												
€m ¹	Life and health		Reinsurance		Life and health		Primary insurance		Asset management		Total	
	31.12. 2008	Prev. year ²	31.12. 2008	Prev. year	31.12. 2008	Prev. year	31.12. 2008	Prev. year	31.12. 2008	Prev. year	31.12. 2008	Prev. year ²
Land and buildings, including buildings on third-party landn	399	452	696	649	2,486	2,500	90	94	61	58	3,732	3,753
Investments in affiliated companies	35	39	58	57	38	34	91	73	12	12	234	215
Investments in associates	84	87	178	182	356	389	298	245	48	50	964	953
Loans	257	128	417	163	37,554	33,537	2,197	1,666	1	8	40,426	35,502
Other securities held to maturity	–	–	–	–	138	192	5	8	–	–	143	200
Other securities available for sale												
Fixed-interest	11,057	9,229	42,836	38,143	49,106	42,647	4,886	4,546	23	20	107,908	94,585
Non-fixed-interest	400	1,917	1,888	9,866	3,672	11,008	955	1,651	21	7	6,936	24,449
Other securities held for trading												
Fixed-interest	6	8	202	356	544	77	425	281	–	–	1,177	722
Non-fixed-interest	1	–	23	8	3	–	3	7	–	–	30	15
Derivatives	204	115	269	130	1,402	303	40	14	–	–	1,915	562
Deposits retained on assumed reinsurance	5,288	6,216	1,269	1,710	86	276	3	4	–	–	6,646	8,206
Other investments	124	537	219	1,118	1,087	2,315	276	409	286	454	1,992	4,833
Investments for the benefit of life insurance policyholders who bear the investment risk	–	–	–	–	2,874	2,178	–	–	–	–	2,874	2,178
Total	17,855	18,728	48,055	52,382	99,346	95,456	9,269	8,998	452	609	174,977	176,173

¹ After elimination of intra-Group transactions across segments.

² Adjusted pursuant to IAS 8.

The **carrying amount** of the Munich Re Group's **investments** showed a slight fall of 0.7% since the beginning of the year. A large portion of the reduction is attributable to our much-reduced equity portfolio, which was affected chiefly by disposals and by the marked decline in share prices, with the value of non-fixed-interest securities available for sale and accounted for at fair value continuing to fall up to the reporting date. Besides this, foreign exchange losses of €1.3bn led our total investment portfolio to shrink somewhat, due particularly to the strong depreciation in the pound sterling since the beginning of the year. Opposite effects resulted from the growth in value of our portfolio of fixed-interest securities and loans. Alongside interest-rate trends, this effect was due above all to our higher investments in loans, which are almost all held by our life and health primary insurers. The reduction of our investment portfolio was also mitigated slightly by the first-time consolidation (in the third quarter) of our new subsidiary BACAV with its investments, which totalled €3.7bn.



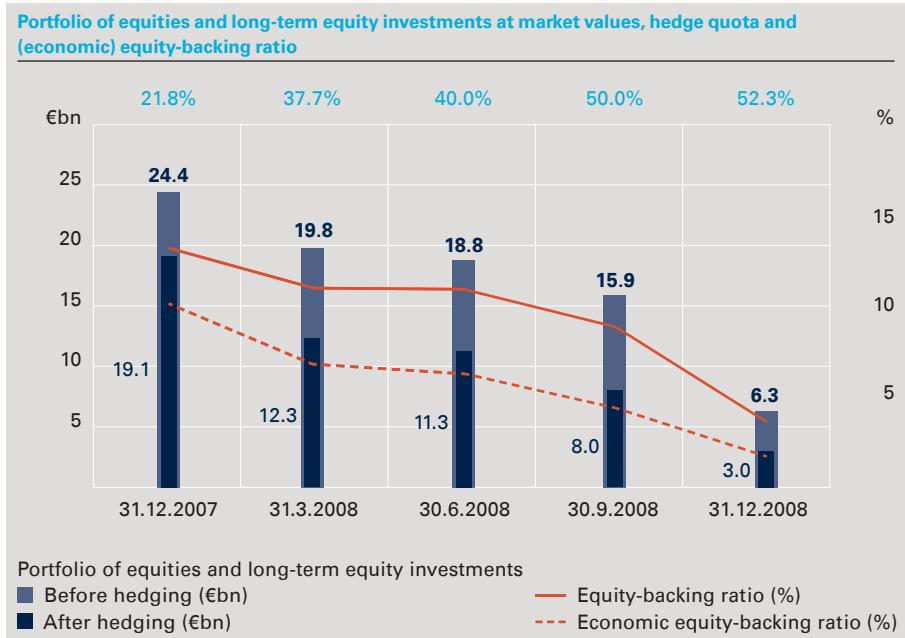
The majority of our investments are in the European area (95% in primary insurance and 55% in reinsurance). By way of currency matching, we base investments on the currency structure of our underwriting liabilities. The focus of ERGO's business, and thus also of the technical provisions requiring investment coverage, is on Germany and other European countries. In reinsurance, investments and technical provisions have a more international spread; our commitment in the US reinsurance market is reflected by the fact that North America has a 39% share of regional investment allocation.

Real estate Our investments in real estate are geared to generating an appropriate yield from regular income and growth in value, which requires continually monitoring existing properties and property funds with regard to their long-term profitability, and their location- and property-specific risks. Following the sale of the German real-estate package comprising residential and commercial properties that we concluded in 2007, we did not expand our portfolio in the 2008 financial year.

Equities and shareholdings In the year under review, the Munich Re Group reduced its portfolio of equities and long-term equity investments from €24.1bn to €6.2bn at carrying amounts, the bulk of which comprises shares in European companies. This was due on the one hand to our selective equity portfolio cutbacks in the course of 2008, in which we sold hedged items on a large scale, and on the other hand to sharp setbacks in share prices on the stock exchanges. At market value, our equity portfolio (including investments in affiliated companies and associates) represents 3.6% of our overall investment portfolio – down 10.2 percentage points on the start of the year. However, because our remaining portfolio at the reporting date is hedged to a large extent using derivatives, our economic exposure to equities at the end of the year accounts for only 1.7% (10.8%) of our investments at market value. Disposals and falls in market values aside, this decreased ratio is mainly attributable to the greater use of additional derivative financial instruments. Expressed as a percentage of adjusted equity¹, the volume of investments in equities – minus derivatives, policy-holders' bonuses and deferred taxes – is 5% ("equity gearing"). Based on a percentage of 71% at the end of 2006 and 51% at the end of 2007, our dependence on the stock market has been significantly reduced as part of our prudent investment policy and in the light of the volatile capital market environment. This strategy is also apparent in our hedge quota, where the hedged share of our equity portfolio is expressed as a percentage of our total equity portfolio

¹ Less minority interests and plus net off-balance-sheet reserves.

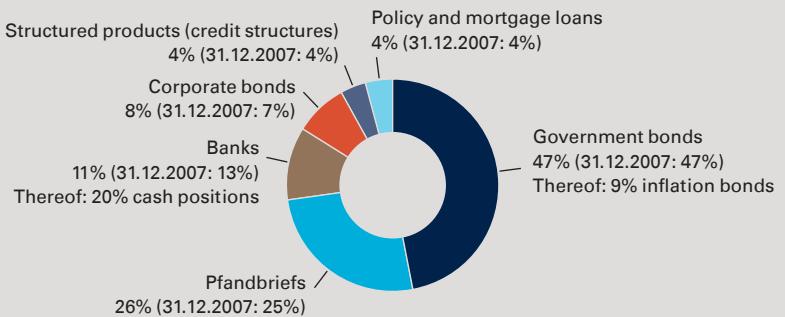
(both at market value and including investments in affiliated companies and associates). Over the course of the year, this hedge quota climbed significantly from 21.8% to 52.3% at the reporting date.



Fixed-interest securities and loans

Our investment portfolio is chiefly made up of fixed-interest securities and loans, which totalled €150bn at 31 December 2008, making up around 85.6% of our overall investments at carrying amounts. This is a clear increase of 11.2 percentage points compared with the situation at 31 December 2007.

In the current financial year, our investments in loans grew markedly by €4.9bn or 13.9% to €40.4bn (35.5bn). Most of these were in pfandbriefs, government bonds and variable rate notes. The latter participate in rising long-term interest rates, but guarantee a minimum return if interest rates fall, thus helping secure contractually agreed interest-rate guarantees under life insurance policies. A large proportion of these investments were consequently made by our life and health insurance companies. At the same time, the share of investments in fixed-interest securities available for sale in our total investment portfolio moved up by €13.3bn to €107.9bn (94.6bn).

Fixed-interest securities and loans, including short-term items, on a market-value basis¹

¹ Presentation based on economic view and not fully comparable with IFRS figures.
The economic view includes cash positions.

Our balanced investment policy is reflected in our portfolio of fixed-interest securities and loans, which includes short-term items at market value: a good 47% is in government bonds or similarly secure instruments for which public institutions are liable, an area in which we invested more strongly in the year under review. Additionally, around 26% of our investments are in securities and debt instruments with top-quality collateralisation, mainly German pfandbriefs. Since the start of the year, we have also cautiously expanded our portfolio of credit-exposed fixed-interest securities, particularly asset-backed securities, mortgage-backed securities and corporate bonds. We took advantage of the considerable widening of risk spreads in comparison with government bonds to restructure our portfolio accordingly and earn higher interest income, thus building up our portfolio of corporate bonds selectively as the year progressed. These accounted for approximately 8% at the reporting date.

At the reporting date, our portfolio of asset-backed securities and mortgage-backed securities totalled €6.1bn, which corresponds to an increase of approximately €0.6bn since the beginning of the year, mainly achieved in the first quarter. In the following quarters, on the other hand, we largely refrained from additional commitments. We invest only in items with a high credit rating. Consequentially, our portfolio has a good rating structure (despite the massive deterioration in ratings for structured credit investments in the market as a whole): as at 31 December 2008, 98.2% of these securities in our portfolio were rated A to AAA. Even though the credit crisis has made it clear that the ratings of complex financial instruments are of limited relevance as an analysis tool, we consider our portfolio to be relatively low-risk in the current economic climate.

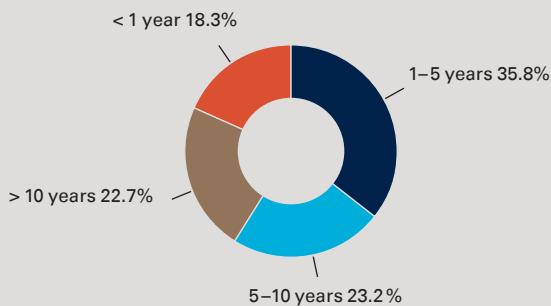
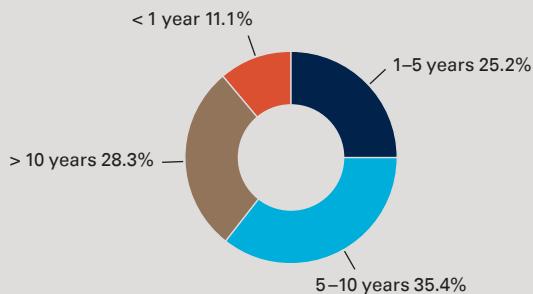
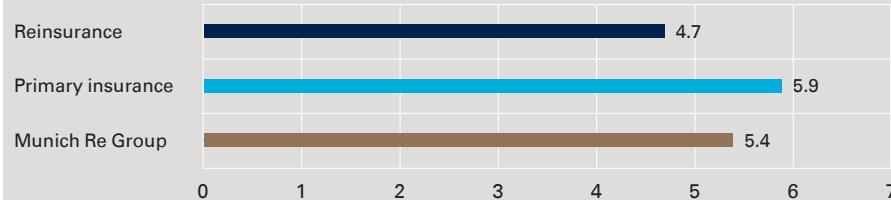
Structured product portfolio	€m	AAA	AA	A	BBB	<BBB	Not rated	Total
ABS								
Consumer-related ABS	735	7	13	5	–	–	–	760
Corporate-related ABS	196	–	29	3	–	–	4	232
Subprime HEL	198	34	7	–	–	–	–	239
CDO/CLN								
Subprime-related	2	4	1	–	5	–	–	12
Non-subprime-related	79	36	65	2	–	–	87	269
MBS								
Agency	3,245	106	–	–	–	–	–	3,351
Non-agency prime	429	28	25	5	–	–	–	487
Non-agency other (not subprime)	162	3	2	–	–	–	–	167
Commercial MBS	558	7	1	–	–	–	–	566
Total	5,604	225	143	15	5	91	6,083	

As at the balance sheet date, our bank exposure was around 11% of our portfolio of fixed-interest securities and loans, which includes short-term items at market value. Approximately 3% of this portfolio is composed of dormant holdings, participation certificates and similar equity instruments. In addition, we hold around 9% of our bank exposure primarily in subordinated bonds with limited maturities.

In our choice of investments, we estimated the risk of continued inflation expectations as high, gradually adding to our portfolio of inflation-indexed bonds over the course of the year to protect us from the inflation risk and the associated rise in interest rates. In this way, we also compensated to some degree for the risks arising from the inflation-related increase in our claims payment obligations. The above-mentioned bonds are linked to a consumer price index, ensuring that where there is inflation, interest payments and redemptions increase continuously. Our expectations were initially fulfilled: inflation grew until mid-year, and the prices of inflation-indexed bonds rose. As the financial crisis escalated, however, so too did fears of a recession, leading to a sharp decline in inflation. Consequently, in line with our active portfolio management, we sold off part of our portfolio of inflation-indexed bonds in the fourth quarter. The resulting losses on disposal were confined to the low two-digit million range. As at 31 December 2008, the volume of inflation-indexed bonds at market values was just under €6.5bn (3.3bn), thus making up 4.3% of our portfolio of fixed-interest securities and loans at market values.

Our entire balance sheet portfolio of fixed-interest investments has a good rating structure, described in detail in the notes to the consolidated financial statements on pages 217–222.

In order to cover our obligations from underwriting business with appropriate investments, we match the maturity structure of our fixed-interest investments with our liabilities. In view of the long time horizons in life and health insurance business, which is predominant in our primary insurance, long-term investments are to the fore, whereas the maturities of interest-bearing securities in reinsurance vary more widely. This diverse maturity structure is also apparent in the duration (i.e. in the average capital commitment) of the Munich Re Group's bond portfolios, which was 5.4 years as at the reporting date.

Maturities of fixed-interest securities and loans in reinsurance**Maturities of fixed-interest securities and loans in primary insurance****Duration of fixed-interest securities and loans as at 31 December 2008 (in years)**

Market value development of key types of investment, their unrealised gains and losses and off-balance-sheet valuation reserves

Capital market developments have a direct effect on our unrealised gains and losses and on our off-balance-sheet valuation reserves.

The downward trend on the stock exchanges prevalent since the start of 2008 continued apace, especially at the start of the fourth quarter. Prices in the most important indices have been plummeting globally since January. The EURO STOXX 50 alone lost 1,952 points or 44.4% in the past financial year, 590 points or 19.4% in the fourth quarter. As a result of these developments and our disposals, the market value of our equity portfolios fell from €22.9bn at the start of the year to €5.0bn at the reporting date, equivalent to a decline of 78.4% and involving a €9.5bn decrease in the fourth quarter.

Since the beginning of the year, net unrealised gains on equities dropped by €4.8bn to €1.8bn. Some €0.2bn of this fall derives from equity funds.

In the course of the year up to the reporting date, there was a distinct slump in risk-free interest rates. By contrast, risk spreads expanded steadily in the period under review. Although the rise in risk spreads may predominate in individual asset classes, overall the reduction in risk-free interest rates more than compensated for the rise in risk spreads because our portfolio of fixed-interest securities and loans is mainly composed of lower-risk assets. The positive effect of this development on the market value of our fixed-interest securities available for sale was bolstered further for by the first-time consolidation of BACAV, which has 49% of its investments in such securities. There was an opposite effect from the foreign exchange losses due to the marked depreciation in the pound sterling. Altogether, therefore, between January and December we recorded a clear increase of €13.3bn to €107.9bn (94.6bn) in the market value of our fixed-interest securities available for sale, thus achieving a marginally positive balance of €1.4bn (–) in terms of net unrealised gains over the course of the year.

Valuation reserves not recognised in the balance sheet

	Valuation reserves	Fair value	Carrying amount	Valuation reserves	Fair value	Carrying amount
€m	31.12.2008	31.12.2008	31.12.2008	Prev. year	Prev. year	Prev. year
Land and buildings ¹	1,506	7,551	6,045	1,556	7,547	5,991
Associates	168	1,117	949	337	1,277	940
Loans	626	41,052	40,426	-1,323	34,179	35,502
Other securities	1	144	143	–	200	200
Total	2,301	49,864	47,563	570	43,203	42,633

¹ Including owner-occupied property.

As in previous years, loans are carried in the balance sheet at amortised cost. Nevertheless, like fixed-interest securities available for sale, they still have a value which is influenced by fluctuations in market interest rates and the credit rating of the respective debtor. This means that their performance (and with it the development of hidden reserves) is also linked to market interest rates with regard to both the risk-free interest rate and the risk spreads. In consequence, rising interest-rate levels lead to losses in the market value of even low-risk, long-term securities, and falling interest rates lead to market-value gains.

In addition to the overall drop in interest rates, increased new investment in the period under review also resulted in a considerable improvement in market value from €6.9bn to €41.1bn, of which €2.8bn was apportionable to the fourth quarter.

The general decline in interest rate levels since the start of the year reduced our hidden negative valuation differences relating to loans by €1.9bn, resulting in hidden reserves totalling €0.6bn on balance as at the reporting date.

Overall, our off-balance-sheet valuation reserves rose by €1.7bn, meaning that as at the reporting date, valuation reserves on our investments (excluding owner-occupied property) were positive on balance, totalling €2.0bn.

If policyholders' bonuses, deferred taxes and minority interests are subtracted from our total off-balance-sheet valuation reserves of €2.3bn, 37% of the total hidden reserves are allocable to shareholders.

Third-party investments

Total assets under management		2008	Prev. year
Third-party investments	€bn	8.5	9.2
Group asset management result	€bn	36	60

MEAG MUNICH ERGO AssetManagement GmbH is the asset manager of Munich Re and the ERGO Insurance Group. In addition to its function as asset manager for the Group, MEAG also offers its expertise to private and institutional clients.

The monies managed by MEAG in private-client business decreased to €1.7bn (2.5bn) due to the negative market trend affecting equities and bonds alike. On account of the market ructions, private investors were also very restrained where new investments were concerned – so much so that they even disregarded the incentive of not having to pay tax on gains made on the future sale of equity funds purchased before the end of 2008.

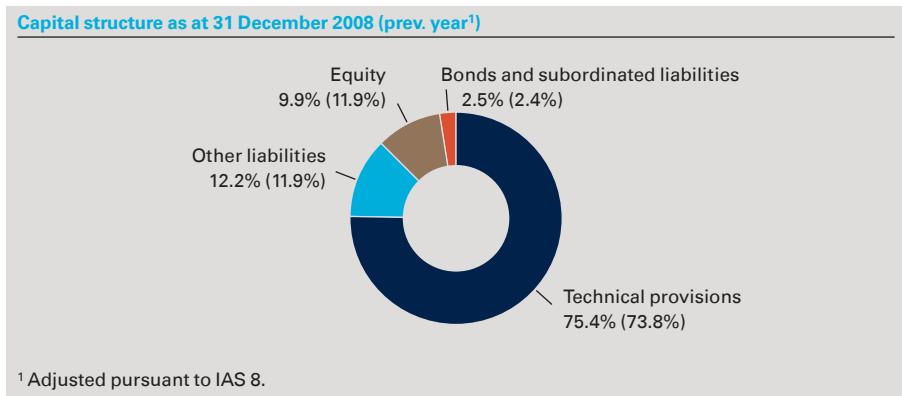
MEAG's assets under management for institutional clients grew slightly over the course of the year to €6.8bn (6.7bn). Owing to the difficult environment, the result of this business decreased to €36m (60m).

The assets managed by PICC Asset Management Company Ltd. (PAMC), Shanghai, 81% of which belongs to PICC People's Insurance Company of China, and 19% to MEAG, reached €11.0bn (6.5bn).

Financial position

Analysis of our capital structure

The capital structure of the Munich Re Group is essentially governed by its activity as an insurer and reinsurer. Investments on the assets side of the balance sheet serve mainly to cover technical provisions (75.4% of the balance sheet total). Equity (9.9% of the balance sheet total) and bonds classified as strategic debt (2.5%) are the most important sources of funds.



Reinsurance business accounts for approximately 32% of technical provisions, and primary insurance business for about 68%. In contrast to liabilities under loans and securities issued, we cannot foresee with certainty how high our liabilities from underwriting business will be and when they will arise. This is especially true of reinsurance. Whilst in property insurance a major portion of the provisions is generally paid out after one year, in life insurance or liability insurance substantial amounts are still due decades after the contracts were concluded. The currency distribution of our provisions reflects the global orientation of our Group. Besides the euro, our main currencies are the US dollar and pound sterling. We ensure that our business is sufficiently capitalised at all times by monitoring the situation continuously and taking suitable measures, which are dealt with in the section on capital management.

Strategic debt has not changed significantly compared with the previous year. A detailed analysis of the structuring of this type of funding is provided in the section on strategic debt on page 116 f.

Given our solid capitalisation, we decided in May 2008 to continue our share buy-back and repurchase shares with a value of €1bn by the next Annual General Meeting on 22 April 2009. We have virtually completed this share buy-back programme 2008/2009. By 2 March 2009, we had repurchased 8.9 million shares worth €989m. This means that since November 2006, including dividends for the financial years 2006 and 2007, we have paid out a total of around €6bn to our shareholders.

On account of this capital returned and a strong decrease in net unrealised gains, equity decreased by €4,160m in 2008. Also, equity's share of total capital fell marginally compared with the previous year.

Since we are an international (re)insurance group, some of our financial resources are subject to restraints on disposal. Supervisory authorities in some countries, for example, require foreign reinsurers to establish premium and reserve deposits with primary insurers. At the reporting date, this affected investments with a volume of €11.9bn (12.1bn).

In addition, there were contingent liabilities, which are described in the notes to the financial statements (see page 272). Off-balance-sheet financing does not play a significant role in the Munich Re Group.

Asset-liability management

The structure of our technical provisions and other liabilities is the basis for the Munich Re Group's investment strategy, the main focus of which is asset-liability management: the aim is to ensure that economic factors influence the value of our investments and that of our technical provisions and liabilities in the same way, thus cushioning the effect of capital market fluctuations. For this purpose, we mirror important features of the liabilities, such as maturity patterns, currency structures and inflation sensitivities, on the assets side of the balance sheet by acquiring investments with similar characteristics if possible. If, for instance, there is a strong rise in inflation, our nominal outflows as a result of claims payments increase significantly. This applies in particular to lines of business with long payout patterns, e.g. liability, as inflation accumulates over a number of periods. To an increasing extent we are endeavouring in our asset-liability management to structure our investment portfolio in such a way that inflows from investments increase in line with rising inflation rates.

To configure our asset management as effectively as possible, we also use derivative financial instruments, which are described on page 220 ff. of the notes to the financial statements.

Capital management

Through active capital management, we ensure that the capital of the Munich Re Group is maintained at an appropriate level. The Group's available financial resources must always be sufficient to cover the capital requirements determined both by our internal risk model and by the requirements of supervisory authorities and rating agencies. We aim to ensure that our financial strength is such that it enables us to take advantage of measured opportunities for growth, is not significantly affected by normal fluctuations in capital market conditions, and remains at a reasonable level even in the wake of major loss events or substantial falls in the stock markets. At the same time, we also define an appropriate level of Group economic equity as one which does not exceed that required for our operations. Such a needs-based, risk-commensurate capital level makes a decisive contribution to financial discipline in all our business processes.

We derive our economic equity from IFRS equity by means of various adjustments. These are described in the section on available financial resources on page 167 f. of the risk report.

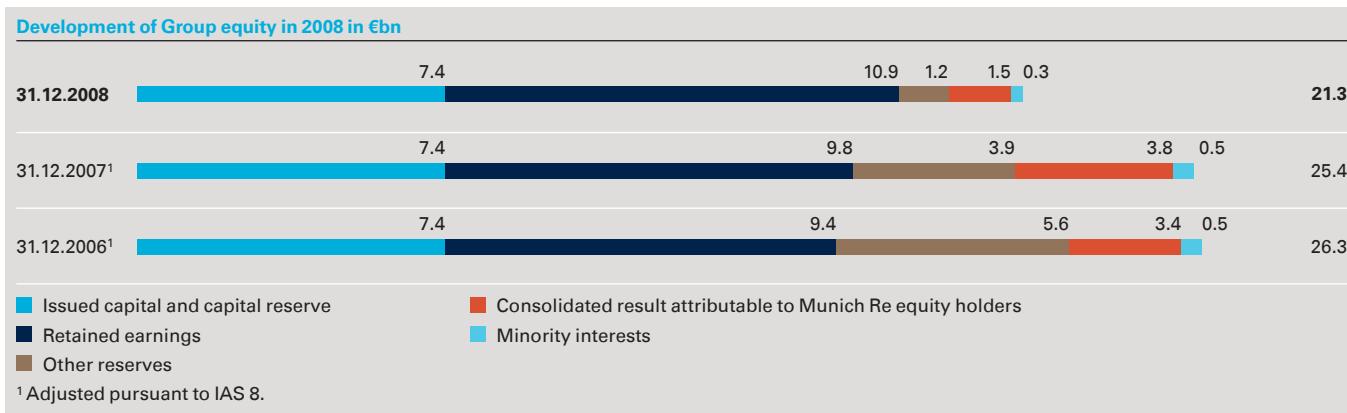
We return surplus capital to equity holders through attractive dividends and share buy-backs, within the scope permitted by Munich Reinsurance Company's revenue reserves as determined under German commercial law, and provided this does not impair our strategic flexibility or our overall capital strength. As things stand at present, we aim in principle to continue the share buy-back programme we announced in 2007. Given the economic crisis, however, we will – in the interests of our shareholders – carefully weigh the benefit of the buy-backs against the advantages of comfortable capitalisation, also with a view to our opportunities for organic and possible external growth. In addition, subject to the approval of the Supervisory Board and the Annual General Meeting, we intend to pay our shareholders a dividend of €5.50 per share for the financial year 2008.

Essentially, we see efficient and transparent capital management – always geared to what is feasible – as an appropriate means of achieving our goal of being recognised as a reliable partner in the capital markets. This should guarantee our ability to raise capital quickly and easily on the capital markets, especially for large potential growth opportunities and the optimisation of our capital structure.

The available capital should not only be adequate, it should also be deployed efficiently. We use our value-based management to set performance targets designed to ensure that every investment achieves a sustainable return commensurate with the risk involved. To limit fluctuations in results owing to major losses, we have also developed guidelines and limit systems within the framework of integrated risk management and corporate underwriting for our reinsurance companies. We protect the results and capital of our primary insurance and reinsurance companies against unacceptable fluctuations by means of suitable reinsurance and retrocession covers. We also use asset-liability management and a system of limits to restrict the risks involved in our investments.

Our internal risk model plays a central role in capital management. We use it to analyse how certain risk scenarios affect segment results and investments. We explain how we determine our economic risk capital on page 162 ff. in the risk report. The risk report also provides information on the economic equity (see page 167 f.).

Group equity



Compared with the end of 2007, our equity decreased by €4.2bn or 16.4% to €21.3bn in the year under review. The most important changes in equity were due to the following:

- The consolidated profit attributable to Munich Re equity holders fell by 60.9% to €1.5bn. The previous year's profit of €3.8bn, net of the dividend payment for 2007 (€1,124m), was transferred to retained earnings.
- Within the framework of the share buy-back programmes announced in May 2007 and May 2008, we bought back shares to the value of approximately €1.4bn in 2008, which we offset against retained earnings.
- Net unrealised gains were €2,725m lower than at the beginning of the year. Owing to the marked reduction in risk-free interest rates, which altogether more than compensated for the rise in risk spreads, there was a positive balance in terms of net unrealised gains on our fixed-interest securities classified as available for sale. By contrast, net unrealised gains in our portfolio of equities classified as available for sale decreased, owing to disposals and the fall in stock market prices persisting since the start of the year.
- Our equity is affected by changes in the exchange rates of foreign currencies against the euro (see explanations on page 74). At the reporting date of 31 December 2008, our reserve for currency translation adjustment showed a slight reduction of €25m to €1,186m mainly as a result of two opposite effects. The rise due to the appreciation in the US dollar over the course of the year was marginally exceeded by the marked depreciation in the pound sterling.

Changes in Group equity and in the valuation reserves not recognised in the balance sheet					
	€bn	31.12.2008	31.12.2007	31.12.2006	31.12.2005
Group equity		21.3	25.4 ¹	26.3 ¹	24.3
Valuation reserves not recognised in the balance sheet. including those apportionable to minority interests and policyholders (before tax)					
		2.3	0.6	1.9	2.6
					3.2

¹Adjusted pursuant to IAS 8.

Information in accordance with Section 315 para. 4 of the German Commercial Code and explanatory report of the Board of Management

Composition of the issued capital

As at 31 December 2008, Munich Reinsurance Company's share capital of €587.7m was divided into 206,403,804 registered, no-par-value, fully paid shares. The shares are endowed with full voting and dividend rights, with the exception of the 10,748,453 shares held by the Munich Re Group itself at 31 December 2008 (Section 71b of the German Stock Companies Act). Each voting share carries one vote at the Annual General Meeting. Article 5 para. 1 of the Articles of Association excludes the right of shareholders to have share certificates issued for their shares. Shareholders' participation in the Company's profit is based on the proportion of the share capital they hold (Section 60 of the German Stock Companies Act).

Restrictions on voting rights or the transfer of shares

Registered shares – unlike bearer shares – are issued in the name of their owner, whose name, address and date of birth are entered in the Company's register of shareholders together with the number of shares held. This allows Munich Re to communicate directly with the owners. With respect to the Company, the only parties deemed shareholders in accordance with the German Stock Companies Act (Section 67) are those entered in the Company's register of shareholders. This is one of the preconditions for attendance and exercise of voting rights at the Annual General Meeting. For our shareholders, having registered shares means, above all, that they are informed directly, quickly and comprehensively about our Company and its current activities and that they are also personally invited to take part in our Annual General Meeting.

The listed registered shares are subject to transfer restrictions. The issuing of restrictedly transferable registered shares by Munich Re dates back to the Company's foundation in 1880 and is a very common phenomenon in the insurance industry. Restricted transferability means that these shares may be transferred to another holder only with Munich Re's consent, which, according to Article 3 para. 2 of Munich Re's Articles of Association, is granted at the Company's discretion. Since the share-trading processes have been made very efficient, the consent requirement does not lead to any delays in entry in the register. In recent decades, it has been granted without exception.

As at the balance sheet date, 58,846 shares issued in an employee share programme were also subject to a restriction on disposal until 31 July 2009.

Shareholdings exceeding 10% of the voting rights

Under the German Securities Trading Act, any investor whose shareholding – through acquisition, disposal or other means – attains, exceeds or falls below specified percentages of the voting rights in our Company must notify us and the German Federal Financial Supervisory Authority. The lowest threshold for this notification requirement is 3% of the voting rights. We have neither been notified nor do we know of any direct or indirect shareholdings in our Company equal to or exceeding 10%.

Shares with special control rights

There are no shares with special control rights.

System of control for employee share scheme where the control rights are not exercised directly by the employees

Like other shareholders, employees exercise control rights directly on shares issued to them, in accordance with statutory provisions and the Articles of Association.

Powers of the Board of Management to issue or buy back shares	<p>The powers of the members of the Board of Management are defined in Sections 71 and 76 to 94 of the German Stock Companies Act. The Board of Management has the following powers to issue and buy back shares (the complete wordings of the relevant resolutions and provisions in the Articles of Association can be viewed under the heading "Investor Relations" on our website at www.munichre.com):</p>
	<ul style="list-style-type: none"> – The Annual General Meeting of 17 April 2008 authorised the Company, pursuant to Section 71 para. 1 item 8 of the German Stock Companies Act, to buy back shares until 16 October 2009 up to a total amount of 10% of the share capital at the time of the Annual General Meeting resolution (€587,725,396.48). The shares acquired plus other own shares in the possession of the Company or attributable to the Company in accordance with Section 71a ff. of the German Stock Companies Act may at no time amount to more than 10% of the share capital. The shares may, in accordance with the provisions of the authorisation, be acquired in various ways: via the stock exchange, via a public purchase offer to all shareholders, via a solicitation to all shareholders to submit offers (request to sell) or via a public offer to all shareholders of the Company to exchange Munich Re shares for shares in another listed company as defined in Section 3 para. 2 of the German Stock Companies Act. In so doing, it may buy back shares amounting to a maximum of 5% of the share capital using derivatives in the form of put options, call options or a combination of the two. The Board of Management is authorised to use shares thus acquired for all legally admissible purposes, in particular those specified in the authorisation, whilst excluding subscription rights; among other things, the Board of Management is empowered under Section 71 para. 1 item 8 sentence 6 of the German Stock Companies Act to retire the shares without requiring further approval from the Annual General Meeting.
	<ul style="list-style-type: none"> – The Annual General Meeting of 28 April 2005 authorised the Board of Management to issue, with the consent of the Supervisory Board, convertible bonds or bonds with warrants on one or more occasions up to 27 April 2010 for a maximum nominal amount of €3bn with or without a limited maturity period. Shareholders are generally entitled to a subscription right in respect of these bonds, but the Board of Management is authorised, with the consent of the Supervisory Board, to exclude this subscription right in the cases specified in the authorisation. The holders of such bonds may be granted conversion or option rights in respect of shares issued by the Company up to a maximum amount of €100m of the share capital, in accordance with the respective bond or warrant conditions; as a precautionary measure, capital of €100m was conditionally authorised under Article 4 para. 4 of the Articles of Association.
	<ul style="list-style-type: none"> – The Annual General Meeting of 11 June 2003 also empowered the Board of Management in the event of a capital increase at any time up to 11 June 2008 from the capital authorised for this purpose, with the consent of the Supervisory Board, to attach one bearer warrant to each of the new shares to which the shareholders have a subscription right when the capital authorised for this purpose is issued. No use was made of this authorisation up to the end of its term.
	<ul style="list-style-type: none"> – Under Article 4 para. 1 of the Articles of Association, the Board of Management is authorised, with the consent of the Supervisory Board, to increase the Company's share capital at any time up to 25 May 2009 by an amount of up to €280m by issuing new shares against cash or non-cash contribution (Authorised Capital Increase 2004). In accordance with the above-mentioned provisions of the Articles of Association, it may exclude subscription rights.

- Under Article 4 para. 2 of the Articles of Association, the Board of Management is authorised to increase the share capital at any time up to 18 April 2011 by an amount of up to €5m by issuing new shares against cash contribution (Authorised Capital Increase 2006). The subscription right of shareholders is excluded insofar as this is necessary to allow the shares to be issued to employees of the Munich Reinsurance Company and its affiliated companies.

The above-mentioned authorisations to issue or buy back shares are within the range of what is customary in the market and allow the Company to engage in active capital management. They enable it to cover any capital needs, even at short notice, for taking swift and flexible advantage of market opportunities in different fields of business. As demonstrated by the Company's share buy-backs, the authorisations also offer the opportunity to return capital that is no longer required to the equity holders.

Further information and explanations relating to items 6 to 9 of Article 315 para. 4 of the German Commercial Code may be found in the corporate governance report on page 130 ff.

Strategic debt

We define as strategic debt all financial instruments with the character of outside financing that do not have a direct link with our operative business. It supplements our equity and is essentially designed to reduce the cost of capital and ensure that we have sufficient liquidity at all times. With a view to making our capital structure transparent, we detail below the calculation of our debt leverage, which is defined as the ratio of strategic debt to the sum of Group equity and strategic debt expressed as a percentage. Our technical provisions are not considered, even though they are mostly available to us on a very long-term basis as a source of financing for investment.

Strategic debt	€m	31.12.2008	Prev. year
Subordinated bonds of Munich Reinsurance Company, Munich	4,902	4,877	
Senior notes of Munich Re America Corporation, Princeton ¹	302	341	
Bank borrowing of Munich Re America Corporation, Princeton	180	171	
Subordinated liabilities of Bank Austria Creditanstalt Versicherung AG, Vienna	60	–	
Subordinated bonds of The Midland Company, Cincinnati	17	–	
Other	79	54	
Total	5,540	5,443	

¹ In August 2008, the issuer bought back notes with a principal amount of US\$ 79m.

The subordinated bond with a volume of €1.5bn issued by Munich Re in June 2007 is a perpetual bond, but callable by us for the first time from ten years after the date of issue. The term of the Munich Re subordinated bond issued in 2003 is limited. The tranches with nominal values of €3.0bn and £300m will mature in 2023 (euro tranche) and 2028 (pound sterling tranche) and are callable by us for the first time on 21 June 2013 and 21 June 2018 respectively.

The other strategic debt was incurred to finance our operating activities in the long term. A portion of this, namely US\$ 79m of the Munich Re America Corporation senior bond, was paid back in August 2008 through a cash tender offer.

As at 31 December 2008, our debt leverage was 20.7%, up 3.1 percentage points on the previous year. The interest expenses for strategic debt are shown separately in the consolidated income statement under "finance costs" and are explained in detail in the notes to the financial statements. At 10.3 (16.0), our interest cover – an indicator of our ability to service our strategic interest payments from the result before finance costs, tax and impairment losses of goodwill – was at a comfortable level for 2008.

Debt leverage		31.12.2008	Prev. year ¹
Strategic debt	€m	5,540	5,443
Group equity	€m	21,256	25,416
Total	€m	26,796	30,859
Debt leverage	%	20.7%	17.6%

¹ Adjusted pursuant to IAS 8.

The subordinated bonds are recognised in part as own funds by the German Federal Financial Supervisory Authority (BaFin). When this is considered in calculating the strategic debt, the latter is reduced to €2,026m and the debt leverage amounts to only 7.6%.

Group solvency

The Munich Re Group is subject not only to the supervisory requirements applying to individual insurance companies but also to supervision at Group level. Munich Reinsurance Company as the parent has introduced suitable control methods and, when reporting to the German Federal Financial Supervisory Authority (BaFin), which is also responsible for the Munich Re Group, includes supplementary aspects at Group level, such as shareholdings, consolidated financial data and intra-Group transactions. Solvency in the case of insurance companies is generally understood to be the ability of an insurer to always meet the obligations assumed under its contracts. In concrete terms, this means an insurance company must fulfil specific minimum capital requirements. The aim of the "adjusted solvency" rules is to prevent the multiple use of equity to cover risks from underwriting business at different levels of the Group hierarchy. To calculate the adjusted solvency, the minimum equity required for the volume of business (required solvency margin) is compared with the eligible equity actually available (actual solvency margin) on the basis of the IFRS consolidated financial statements. To determine the eligible capital elements, the IFRS equity is adjusted; in particular, it is increased by portions of the subordinated liabilities and reduced by intangible assets. The Munich Re Group's eligible capital is more than two-and-a-half times higher than the legal requirement.

Adjusted solvency		31.12.2008	Prev. year
Eligible capital of the Group	€bn	19.9	24.9
Adjusted solvency ratio	%	263.9	342.2

The change in the adjusted solvency ratio from 342.2% in the previous year to 263.9% in 2008 is mainly due to the reduction in Group eligible capital, the chief causes of which were the decrease in IFRS equity and the increase in intangible assets.

Rating

Despite the financial crisis, Munich Re's financial strength continues to be assigned the second-highest rating category by each of the leading rating agencies. Standard & Poor's, for example, explicitly refers to Munich Re's continued strong capitalisation.

Financial strength ratings for the Munich Re Group

Rating agency	Rating	Prospects
A. M. Best	A+ (Superior)	Stable
Fitch	AA- (Very strong)	Stable
Moody's	Aa3 (Excellent)	Stable
Standard & Poor's	AA- (Very strong)	Stable

The ratings for our subsidiaries on 2 March 2009 at a glance:

Reinsurance group	A. M. Best	Fitch	Moody's	S&P
American Alternative Insurance Corporation	A+			AA-
American Modern Insurance Group	A+			
Great Lakes Reinsurance (UK) Plc.	A+			AA-
Münchener Rück do Brasil Resseguradora S.A.			A3	
Münchener Rück Italia S.p.A. ¹	A+			AA-
Munich American Reassurance Company	A+			AA-
Munich Mauritius Reinsurance Company Ltd.				A
Munich Reinsurance America	A+	AA-	Aa3	AA-
Munich Reinsurance Company of Africa Ltd.				A
Munich Reinsurance Company of Australasia Ltd.				AA-
Munich Reinsurance Company of Canada	A+			AA-
Munich Re Life E. E. C. A.			A2	
Munich Re of Malta p.l.c.				AA-
New Reinsurance Company	A+			AA-
The Princeton Excess and Surplus Lines Insurance Company	A+			AA-
Sterling Life Insurance Company	A-			
Temple Insurance Company	A+			

¹ Rating as at 31 December 2008. Company merged into Munich Reinsurance Company in January 2009.

Primary insurance group	A. M. Best	Fitch	Moody's	S&P
D.A.S. Legal Insurance Co. Ltd.				A
DKV Deutsche Krankenversicherung Aktiengesellschaft	AA-			AA-
ERGO Previdenza S.p.A.		A		
Hamburg-Mannheimer Sachversicherungs-AG				AA-
Hamburg-Mannheimer Versicherungs-Aktien-Gesellschaft	AA-		Aa3	AA-
KarstadtQuelle Lebensversicherung AG				A+
Victoria Lebensversicherung Aktiengesellschaft	AA-		Aa3	AA-
Victoria Versicherung Aktiengesellschaft				AA-
Vorsorge Lebensversicherung Aktiengesellschaft	A+			

Bonds and notes issued**The bonds and notes issued by our Group are rated as follows:**

	A. M. Best	Fitch	Moody's	S&P
Munich Reinsurance Company 6.75% until 2013, thereafter floating, €3,000m Subordinated bonds 2003/2023	a+	A+	A2	A
Munich Reinsurance Company 7.625% until 2018, thereafter floating, £300m Subordinated bonds 2003/2028	a+	A+	A2	A
Munich Reinsurance Company 5.767% until 2017, thereafter floating, €1,498m ¹ Subordinated bonds 2007/perpetual	a	A+	A3	A
Munich Re America Corporation 7.45%, US\$ 421m ² Senior notes 1996/2026	bbb+	A+	A2	A-
The Midland Company LIBOR +350 BP, US\$ 24m Subordinated bonds 2004/2034			Not rated	
Bank Austria Creditanstalt Versicherung AG 4.95%, €50m Subordinated registered bonds 2004/2014			Not rated	
Bank Austria Creditanstalt Versicherung AG Secondary market yield on federal government bonds (Austria) +70 BP, €13m ³ Subordinated registered bonds 1998/perpetual			Not rated	
Bank Austria Creditanstalt Versicherung AG , 6% until 2010, thereafter floating, €12m ⁴ Subordinated registered bonds 2001/perpetual			Not rated	

¹ Bank Austria Creditanstalt Versicherung AG has bonds with a nominal value of €2m in its portfolio; the volume outstanding has been reduced accordingly.
² In August 2008, the issuer bought back notes with an aggregate principal amount of US\$ 79m.
³ ERGO AG has bonds with a nominal value of €3m in its portfolio; the volume outstanding has been reduced accordingly.
⁴ ERGO International AG has bonds with a nominal value of €3m in its portfolio; the volume outstanding has been reduced accordingly.

Analysis of the consolidated cash flow statement

Our primary insurance and reinsurance operations have a significant influence on the cash flow of the Munich Re Group. We generally first collect the premiums for the risks assumed and do not make payments until later, in the event of a loss. The cash flow statements of insurance companies are therefore of limited relevance. The cash flow statement is adjusted to eliminate the effects of fluctuations in exchange rates and changes in entities consolidated.

Consolidated cash flow statement	€m	2008	Prev. year ¹
Cash flows from operating activities	8,428	6,617	
Cash flows from investing activities	-5,587	-5,344	
Cash flows from financing activities	-2,982	-911	
Cash flows for the financial year	-141	362	

¹ Adjusted pursuant to IAS 8.

In the consolidated cash flow statement, the Group profit of €1,528m is used as the starting point for determining the **cash inflows from operating activities**. The consolidated result is adjusted by €1,067m to take account of the higher technical provisions. There was an increase in provisions for future policy benefits at the Group's primary insurers due to portfolio development and strong new business production at recently established companies abroad, whilst the high maturity payouts of the past decreased further. By contrast, our reinsurers' provisions for future policy benefits fell, mainly owing to our reductions of large-volume quota share treaties. Their loss reserves increased, primarily because a large portion of the many major losses (e.g. those caused by Hurricanes Gustav and Ike) had not yet been settled. The net gains on the disposal of investments – which in adjusting the consolidated profit have to be deducted from the cash flows from operating activities – are essentially attributable to the disposal of securities available for sale and equity derivatives. The negative balance from write-ups and write-downs (triggered by share price losses that could not be fully offset by the use of derivatives) has to be added to the consolidated result again.

The **cash outflows for investment activities** were determined by payments for the acquisition of investments. These exceeded the inflows from the sale/maturity of investments by €3,461m. In the financial year, we completed the following main acquisitions: in the second quarter, we acquired 100% of the shares in the US primary insurer The Midland Company. The purchase price of €861m has been reduced in the cash flow statement by the cash of €131m held. The Munich Re Group additionally assumed a total of €643m in investments and €466m in technical provisions through the acquisition. On 30 September 2008, we acquired a further 61% in BACAV, thus increasing our shareholding to 90%. The purchase price of €416m has been reduced by the cash of €96m held. The acquisition added investments of €3,851m and technical provisions of €3,920m to the Munich Re Group's books. Besides this, we purchased Sterling Life Insurance Company and Olympic Health Management Systems Inc. in the year under review for a total of €223m. We paid the amount in cash, reducing this in the cash flow statement by the cash of €92m held. As a result of the acquisition, the Munich Re Group assumed a total of €96m in

investments and €72m in gross technical provisions. We also acquired 65% of the share capital of ERGO Daum Direct Auto Insurance Co. The purchase price of €37m has been reduced by the cash of €0.2m held. As a consequence of the purchase, investments of €112m and technical provisions of €121m were transferred to the Munich Re Group. Lastly, we purchased 100% of the shares in the holding company The Roanoke Companies for €34m, less the cash of €9m held. In this connection, the Munich Re Group assumed intangible assets of €43m and liabilities of €12m.

The **cash outflows for financing activities** stem mainly from the share buy-backs of €1,498m and the dividend payment of €1,181m for 2008.

Overall in the year under review, cash – which encompasses cash with banks, cheques and cash in hand – fell by €151m to €2,354m.

Other success factors

In addition to our ongoing profit-focused business operations, we aim to secure the long-term economic success of the Munich Re Group with factors that cannot be measured by financial performance indicators. These include:

- Open dialogue with our clients
- A firm commitment to new, needs-oriented products and solutions
- Corporate responsibility towards employees, society and the environment
- Efficient business processes for managing our Group and identifying or avoiding risks

Clients and client relationships

The Munich Re Group has different client bases in reinsurance and primary insurance. The reinsurance group works together with over 4,000 corporate clients – traditional insurers and captives – from more than 160 countries. By contrast, our primary insurers service some 34 million policyholders – mostly private clients – in around 30 countries in Europe and Asia. The products and services we offer therefore differ accordingly.

Reinsurance As reinsurers, we aspire to be the preferred partner in risk for our clients. We consequently provide companies wishing to cede insurance risks with the full range of underwriting products. They benefit not only from our financial strength but also from our risk knowledge. Our clients' appreciation of this was again endorsed by the 2008 Flaspöhler Survey: last autumn, in this most important client opinion poll for the reinsurance industry, they voted Munich Re the best reinsurer overall in both life and non-life business.

In order to further optimise our client management, we reorganised the servicing of our cedants in the divisional units in 2008. Our new client management is designed to achieve uniform quality standards and intensify cooperation. Thus each cedant has its own contact who knows its needs and market specifics especially well. This not only promotes open dialogue but also facilitates more individual and precise consultancy.

In Munich and at our many offices and subsidiaries, we staged more than 100 seminars and workshops for our clients on topics related to insurance and reinsurance in 2008. Through ongoing dialogue, we remain in close contact with our clients and support them in all aspects of their business.

Our two scholarship programmes, the "Alois Alzheimer Scholarship – High potential development programme" and the "Horst K. Jannott Scholarship – Management programme for future executives", have for many years also created close ties with our cedants. More than 450 former scholarship holders from all over the world are registered in the Munich Re Alumni Network, established at the end of 2007.

Our client portal connect.munichre usefully augments our client management. Here cedants and business partners can access services, analysis and quotation tools, and knowledge from all our divisional units, globally and round the

clock. In this way, connect.munichre both supports primary insurers in their daily business and presents a direct and secure interface to Munich Re. With its interactive features, it supplements our services and rounds off personal client relationships. We are currently refining our client platform to gear its contents even more closely to the target group.

Besides this, we pass on our knowledge to our business partners in printed form: in 2008, we again brought out around 50 technical publications in various languages. How much our clients appreciate this service is indicated by the nearly one million downloads last year from our publication portal at www.munichre.com.

Last but not least, our cedants benefit from our local presence. Branches and subsidiaries around the world ensure that clients can always find us where and when they need us. And by combining international know-how with in-depth knowledge of local conditions, we can always offer our clients individual solutions.

Primary insurance

In primary insurance, we focus on private clients, who make up the bulk of our clientele, along with small and medium-sized commercial firms. From ERGO, they can obtain a full range of products from one source: life and health insurance, property-casualty insurance, legal expenses insurance, fund products offered by MEAG, and bank products from our cooperation partner UniCredit Group. Consultancy and other services supplement the portfolio. ERGO is working constantly at expanding this range and networking it to achieve integrated solutions. This enables us to provide flexible answers to all clients' needs, even if these change over time. Among other things, ERGO is set to combine its knowledge in various centres of competence, e.g. for all products related to travel or bancassurance.

ERGO addresses clients via the full spectrum of distribution channels: through agents and brokers, direct selling or cooperation partners. We aim to further improve our competitiveness through stronger sales support. In Germany, a multi-line IT distribution platform is being set up step by step. It is designed to support sales and administration processes and accelerate the launching of new products. A unified broker sales force will be selling products of different brands from one source as from 2009.

Our field staff attach great importance to consultancy, customer care and service – and not only in their sales talks. After policies have been taken out, ERGO continues to convince clients through good service, such as swift and fair claims settlement. ERGO's professional client management has been tested for client satisfaction and service by the German technical inspection agency TÜV and rated as "good." The quality of its claims management is certified to DIN-EN-ISO9001, for which regular on-the-spot checks are made in addition to the extensive audit and claims controlling that occurs.

Research and development

Trends and markets change rapidly. In order to respond appropriately to this shifting environment, we need to concern ourselves with the relevant factors at an early stage. Only then can we adjust our products and services to the new circumstances, devise innovative solutions, develop special segment strategies or introduce new distribution approaches.

Reinsurance In our divisional units, we have six innovation teams in place. These are interdisciplinary groups made up of highly qualified experts who work together with specialists from the underwriting units to develop new business opportunities. They also collaborate closely with the client managers at home and abroad, whose direct contact with the cedants gives them the best insight into needs and market requirements. They therefore provide valuable input for new business ideas. Our clients benefit in different ways from the solutions we come up with, often in joint projects with them: risk management analyses and support, optimised individual policy design, and new risk transfer solutions for risks on the boundary of insurability.

A key role for product development is also played by our more than 20 centres of competence with their wide range of specialist areas – from biosciences to D&O, Solvency II and environmental liability risks. They analyse the parameters and investigate their implications for the insurance industry. The focus is always on tapping new business potentials.

Risk knowledge is our most important resource. Securing it and using it efficiently requires a living culture of dialogue. We have therefore established over 50 knowledge networks in which experts exchange information about business topics across divisions and borders. These knowledge and topic networks can be accessed by all staff in the reinsurance group worldwide.

Some of our centres of competence are recognised for their importance beyond the insurance industry. A prime example is our Corporate Climate Centre (CCC), in which all Munich Re's activities in the field of climate change have been concentrated since May 2007. Internally, the CCC forms the link between our geoscientific research and operative underwriting. It makes its knowledge available to the Group's underwriters on the one hand and clients throughout the world on the other, with the aim of providing them with support in the quantification and risk management of natural hazards.

In addition, we are increasingly supplementing our internal expertise with the specialist knowledge of external partners by entering into cooperations with well-known institutions (cf. page 27 ff.).

Primary insurance In primary insurance, we place the emphasis of our research and development on analysing and forecasting demographic trends. After all, these trends constitute important parameters for calculating policy durations and thus for structuring products. Besides this, demographic change is affecting social security systems and consequently influencing our clients' need for private provision. Our product development combines our own know-how with scientific findings, e.g. of the Intergenerational Compacts Research Centre at the Albert Ludwig University in Freiburg.

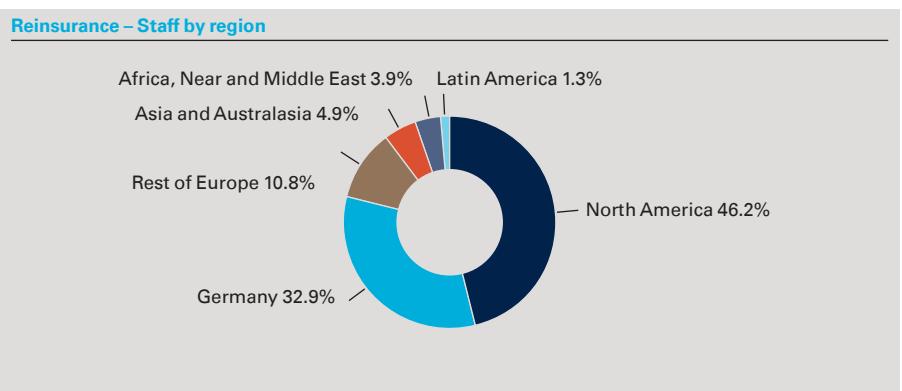
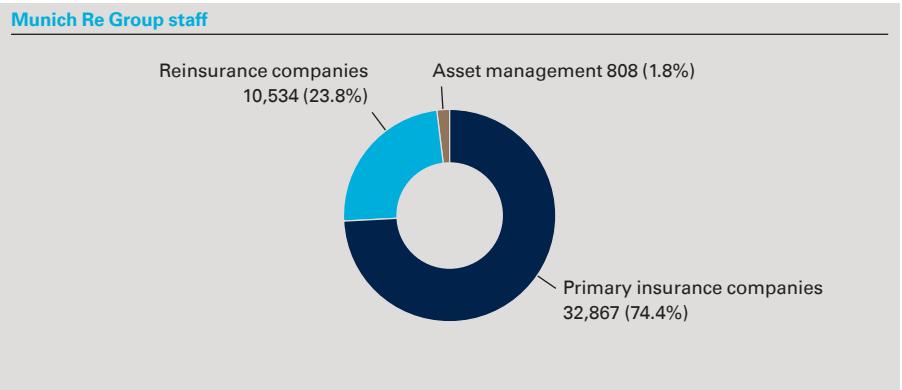
ERGO's life insurers also use their own mortality tables in order to have customised data available for their specifically structured portfolios. The health insurers make use of the German Association of Private Health Insurers' mortality tables. Our actuaries work closely with the German Association of Actuaries to extend and update their knowledge about client life expectancy.

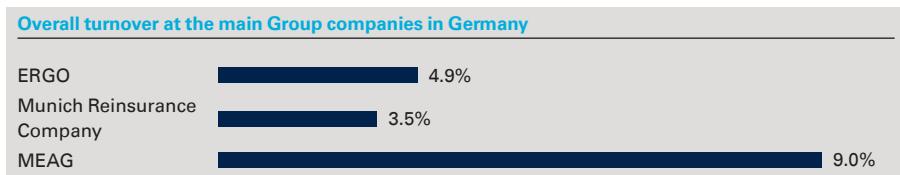
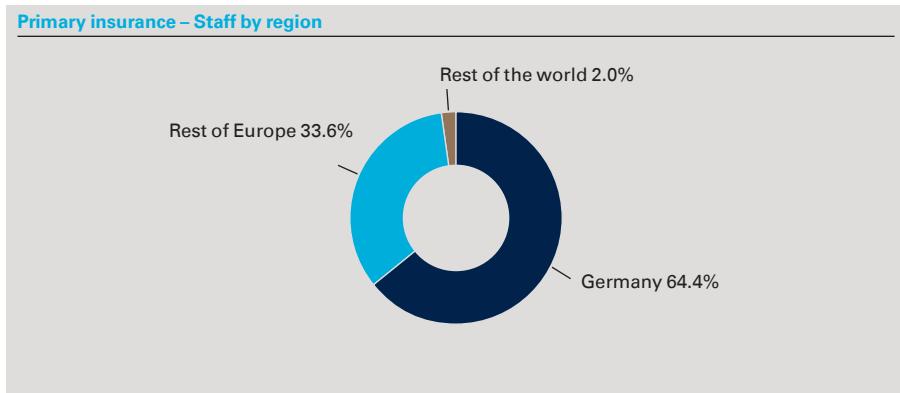
Staff

Highly qualified and motivated staff are key to the success of our business. And given the global nature of Munich Re's operations, an internationally oriented approach to human resources management is essential. Last year, we restructured our HR activities, placing even more emphasis on a business- and performance-related corporate and leadership culture. This supports the process of cultural change within the Group, in which change itself, achievement and learning are self-evident concepts.

Facts and figures

On 31 December 2008, 44,209 (38,634) staff were employed with the Munich Re Group worldwide, 10,534 (7,372) in the reinsurance group, 32,867 (30,460) in the primary insurance group and 808 (802) in asset management. In reinsurance and asset management, staff numbers increased by 3,162 and 6 respectively. The 42.9% rise in reinsurance is attributable to international acquisitions.





Reinsurance In connection with Changing Gear, we have restructured our Human Resources Division. We are aiming for a more pronounced performance culture throughout the Group. We have therefore introduced a new performance management system, bringing together individual tools for the agreement of objectives, performance appraisals, salary structuring and career planning, and have consistently improved incentive systems. In addition, we attach great importance to the development and further training of our staff, in order to maintain their knowledge edge. We thus make substantial investments in specialist and personal training measures: in 2008, these amounted to a total of 9,465 participant days throughout Germany, at a cost of €7,326,333. We also support swift and flexible acquisition of knowledge Group-wide by means of innovative methods such as e-learning. Our objective is "to lead through knowledge". Consequently, our leadership monitoring, in which all staff regularly assess their managers, is also designed to help ensure that learning and talent management are realised as central tasks of management.

Besides this, our remuneration policy makes an important contribution to enhancing performance and gearing it to commercial success. Remuneration models and incentives are consistently linked to the achievement of agreed objectives and are geared to financial results. Company pensions are also a central component of our human resources policy. Furthermore, by means of flexible working-time models, we give our staff the opportunity to combine job and family and to achieve a good work-life balance.

Attracting, winning and keeping the best talents worldwide and filling key positions with the best possible candidates is of major significance for us. That is why we created the Employer Branding initiative, which is intended to improve Munich Re's systematic positioning in the international labour market. We also aim to step up our recruitment of university graduates nationally and internationally and to promote our image as an attractive employer beyond the confines of the insurance industry. Beyond this, we have enhanced our manpower planning qualitatively and quantitatively, and have networked our succession planning for key positions. To take account of the changing parameters of the internal and external employment market, we adjust our staff succession planning on an ongoing basis.

The percentage of trainees in the Munich Re Group in 2008 was 4.92%. In addition, three candidates commenced the Master of Science course we have integrated into our training programme.

Primary insurance

With a view to enhancing its competitiveness on a lasting basis, ERGO launched the project "Continuous improvement of our competitive position" in 2008, which also has important implications for employees. The objective is to further improve administration and acquisition cost ratios in Germany, as well as increasing service quality in business processes. In order to achieve the expense ratio target for 2010, ERGO aims to save office and personnel expenses of €180m by 2010, which involves a reduction of 1,800 jobs. Against this background, the ERGO Insurance Group's management and the ERGO Group Staff Council have agreed on an extensive package of measures. Besides important agreements to reach savings targets, it comprises arrangements relevant for co-determination, such as the introduction of a Group social plan and a Group internal agreement on the topic of "compatibility of family and working life". An understanding has been reached that there will be no forced redundancies for desk staff or salaried field staff before 31 December 2012. The agreements with the Staff Council enable ERGO to start implementing the measures without delay. Independent of this, a continual process of permanent improvement in quality and service is planned.

Another field of activity involved preparing the integration of Europäische and Mercur into the ERGO Insurance Group. Subject to negotiation with the co-determination bodies, this is scheduled to be concluded by the end of March 2009.

A further significant topic, last year and this, is the "ERGO – one entity" initiative. Its objective is to reflect in terms of labour law the cross-market, function-oriented organisation and process structure we have established for ERGO in Germany over the last few years. As from the end of 2009, insurance operations staff are to have employment contracts solely with ERGO Versicherungsgruppe AG, rather than with the individual brand companies. Field staff and staff working in the sales offices of the brand companies are to remain employees of those companies.

Asset management

The high professional quality of staff in asset management is a crucial success factor. MEAG has taken advantage of the fluctuation in the market resulting from the financial crisis to recruit further qualified staff. This applies particularly to the core functions in asset management. In real-estate operations, structures have been further streamlined and adjusted to meet increased market requirements. The "quality offensive" is rounded off by programmes for new executives and top management.

Corporate responsibility

Corporate responsibility is an integral part of the Munich Re Group's strategy. For us, it primarily covers four main topics:

- Economic excellence
- Good corporate governance
- Corporate environmental responsibility
- Corporate social responsibility

The Munich Re Group aims to create long-term corporate value. One of the guiding principles of our corporate responsibility is to identify the business opportunities inherent in central global challenges and to realise these profitably. Thus, for example, we have devised a range of different insurance solutions for climate protection and adaptation.

As an international group, Munich Re manages substantial assets. Security, liquidity and diversification are the main principles of our investment strategy. In 2002, we determined that our investments in shares and corporate bonds must meet sustainability requirements. We aim to invest at least 80% of the market value of our investments in assets that are included in a sustainability index or satisfy generally recognised sustainability criteria. We have already surpassed this target and are convinced that taking account of sustainability criteria in our investments will have a favourable effect on risk and return in the long term.

Corporate governance is of central importance to us. We meet all the recommendations of the German Corporate Governance Code and, as an international group, comply with the corporate governance rules of the various legal systems under which we operate. In our Code of Conduct, we specify our rules for correct and responsible behaviour, i.e. conduct which is legally impeccable and based on ethical principles. We have also made a firm commitment to the highest ethical standards at international level: in August 2007, the Munich Re Group signed up to the UN Global Compact Initiative, whose ten principles set international standards for companies and organisations in the fields of human rights, labour rights, environmental protection, and anti-corruption.

Reinsurance Even if we, as a service provider, place comparatively little burden on the environment, we take our ecological responsibility seriously. We are working constantly on reducing our consumption of resources. In 2009, we will make the business activities at our Munich location carbon-neutral. The entire reinsurance group, currently numbering more than 50 locations worldwide, will follow suit by 2012. To this end, we are pursuing a threefold strategy: increasing the energy efficiency of our office buildings, using electricity from renewable energy sources, and compensating for unavoidable emissions through the purchase and retirement of emission credits. Nevertheless, our overall objective is to achieve carbon neutrality as far as possible with our own projects and internal measures.

At a number of its locations, the Munich Re Group has implemented environmental management systems certified to EMAS (EU Eco-Management and Audit Scheme) and to ISO 14001. The environmental management systems at our international locations are to be continually extended.

Selectively promoting scientific work and sponsoring cultural and social projects is a key part of our corporate responsibility. Munich Re supports a large number of scientific institutions globally. For example, we collaborate with the London School of Economics and Political Science (LSE) to substantially advance research into the economic consequences of climate change. In the field of culture, we have been sponsoring the pan-European Gustav Mahler Jugendorchester for a number of years now. As part of our social commitment, we focus on supporting socially disadvantaged groups such as the disabled and the homeless.

Munich Re Foundation	Under the motto "From Knowledge to Action" the Munich Re Foundation has set itself the aim of helping people in risk situations and improving their lot, especially in developing countries. The foundation not only provides direct support but also devotes itself to promoting knowledge, heightening awareness and networking, which facilitates self-help. In its work, it can build on the highly developed risk knowledge of its benefactor.
The Schinzler Foundation	The Schinzler Foundation is our platform for corporate volunteering. The aim of the foundation is to support staff worldwide in their voluntary work in various areas of society. As a result, numerous projects in Germany, Latin America, Africa and Asia benefit.
Primary insurance	ERGO also has a tradition of social commitment. DKV, for instance, has been collaborating with the German Hygiene Museum in Dresden for ten years and supports this all-round museum as an institutional sponsor. Then there is the "victorianer helfen e.V." association, which backs such causes as the provision of medical and psychological care for war-traumatised children from various nations. In the "DASler helfen" initiative, staff also support charitable projects for people in need. The Hamburg-Mannheimer foundation "Jugend hat Zukunft" (Youth has a future), whose main aim is to improve prospects for deprived youngsters, enjoys a high public profile, especially when it awards its €100,000 national promotion prize: in 2008, the motto of this prestigious award was "Music moves", for which 155 projects from all over Germany were entered. The first prize went to the Jamliner Music Bus from Hamburg, a team of music teachers who, using instruments and sound systems, introduce music, composition and texts to youngsters in run-down inner cities.

Security and availability

Ensuring the protection of persons, information, property and financial assets is of fundamental importance for Munich Re. The same applies to our ability to maintain business operations when protective measures fail or new operational risks occur.

Meeting these objectives requires professional risk management in all the Group's operational and central units. Central responsibility for the coordination and monitoring of the relevant activities lies with the unit Group Security and Continuity Management (GSCM), located in the Integrated Risk Management Division. We focus particularly on an appropriate cost-risk relationship and on the consistency and balance of the loss prevention and minimisation measures taken. Headed by the Chief Security Officer (CSO), the GSCM ensures that the relevant processes and guidelines are implemented, updated and complied with throughout the Group. The CSO is also responsible for coordinating the protection of persons, property and information, as well as availability management. He supervises a global network of specialists from reinsurance, primary insurance and asset management with interfaces to the compliance officers, to internal audit, to data protection officers and to the operational units for protection of persons and property, as well as IT security. In addition, he is in charge of the security training and awareness programme for employees, geared to developing the security culture as a cornerstone of a successful protection concept.

Corporate governance report

It is our conviction that good corporate governance creates lasting value. We therefore apply the highest standards to our operations and activities, complying with all the recommendations and proposals of the German Corporate Governance Code. Beyond this, we have our own Munich Re Code of Conduct specifying high-level ethical and legal requirements that must be met by employees. This document is available from our website at www.munichre.com.

How we view corporate governance

Corporate governance stands for a form of responsible company management and control geared to long-term creation of value. Of particular importance to us in this context are the promotion of shareholders' interests, efficient practices on the Board of Management and Supervisory Board, good collaboration between these bodies and the companies' staff, and open and transparent corporate communications.

Continually improving our good corporate governance is an important principle underlying our business activities.

What rules apply to Munich Re?

Due to its international organisation, the Munich Re Group has to consider corporate governance rules in different national legal systems. Clearly, we observe not only the respective national standards but also internationally recognised best practices. In Germany, where Munich Re has its headquarters, corporate governance rules are laid down above all in the German Stock Companies Act, the German Co-Determination Act and the German Corporate Governance Code. The latter, which entered into force in 2002 and has since been amended several times, contains the main legal rules that must be observed by German listed companies. In addition, it includes recommendations and proposals based on nationally and internationally recognised standards of good and responsible management. Every year, Munich Re's Board of Management and Supervisory Board publish a declaration stating how far the Code's recommendations have been complied with. The 2008 declaration of conformity can be found on page 133.

Corporate legal structure

Munich Re is a joint-stock company ("Aktiengesellschaft") within the meaning of the German Stock Companies Act. It has three governing bodies: the Board of Management, the Supervisory Board and the Annual General Meeting. Their functions and powers are derived from this Act and our Articles of Association. This means that our Articles of Association (which can be accessed on our website) are of considerable importance.

Statutory regulations and provisions in the Articles of Association concerning amendments to the Articles

The German Stock Companies Act contains general provisions governing amendments to the Articles of Association (Sections 124 para. 2 sentence 2, and 179–181 of the Act). These state that only the Annual General Meeting can make resolutions on changes to the Articles of Association. In order to be carried, a resolution must receive at least three-quarters of the votes cast by the share capital represented in the vote. The Articles of Association may stipulate a different capital majority (higher or lower) or other requirements, but Munich Re's Articles of Association do not provide for any such special features.

The German Stock Companies Act contains special regulations on amendments to the Articles of Association where increases and reductions in share capital are concerned (Sections 182–240 of the Act). Under these regulations, all resolutions on capital measures are generally to be made by the Annual General Meeting. Within a self-determined scope, however, the Annual General Meeting can authorise the Board of Management to initiate certain (capital) measures (see page 115 f. for the authorisations relating to Munich Re). In all such cases, a resolution of the Annual General Meeting is required that has been adopted by at least a three-quarter majority of the share capital represented in

the vote. Where these resolutions are concerned, Munich Re's Articles of Association again do not provide for other (i.e. higher) majorities or further requirements.

The Annual General Meeting is entitled to transfer to the Supervisory Board the authority to make amendments to the Articles of Association that affect only the wording (Section 179 para. 1 sentence 2 of the German Stock Companies Act). This is the case with Munich Re and has been regulated in Section 14 of the Articles of Association.

Board of Management [Duties and responsibilities of the Board of Management](#)

The Board of Management is responsible for managing the Company. In doing so, it must safeguard Company interests and endeavour to achieve a long-term increase in the Company's value. The Board of Management must ensure compliance with statutory requirements and internal company directives, and is responsible for effecting adequate risk management and risk controlling in the Company.

[Internal regulation of the Board of Management](#)

Munich Re's Board of Management had eight members in the 2008 financial year. An overview of its composition can be found on page 61. Additional information on individual members of the Board of Management is available on our website. Pursuant to Article 16 of the Articles of Association, the Board of Management must comprise a minimum of two persons; beyond this, the number of members is determined by the Supervisory Board. The Board of Management has had two committees since 1 January 2006 – one for Group operations and one for reinsurance operations – in order to enhance the efficiency of its work. Rules of procedure issued by the Supervisory Board regulate the work of the Board of Management, in particular the allocation of responsibilities between the individual Board members, matters reserved for the full Board of Management, and the required majority for Board of Management resolutions.

[Statutory regulations and provisions in the Articles of Association governing the appointment and dismissal of members of the Board of Management](#)

The legal parameters for the appointment and dismissal of members of the Board of Management are specified in Sections 30–33 of the German Co-Determination Act and Sections 84 and 85 of the German Stock Companies Act. Munich Re's Articles of Association do not deviate from this. The Supervisory Board appoints the members of the Board of Management and may dismiss them at any time for good cause. On initial appointment, members of the Board of Management are usually given contracts for a term of between three and five years. Extensions of up to five years are possible and – in exceptional cases – members of the Board of Management may also be appointed by a court of law.

[Powers of the Board of Management with particular regard to the option of issuing or buying back shares](#)

Pursuant to Article 4 of the Articles of Association, Munich Re's Board of Management is authorised to implement certain capital measures (Authorised Capital Increases 2004 and 2006, Contingent Capital Increase 2003 I and 2005). Furthermore, by resolution of the Annual General Meeting of 17 April 2008, the Board of Management is authorised to buy back and use the Company's own shares – and to do so to a limited degree by using derivatives. The complete wording of the resolution adopted on agenda items 5 and 6 can be accessed on our website at any time. The Board of Management availed itself

of this authorisation by its resolution of 6 May 2008. By 31 December 2008, a total of approximately 8.4 million shares had been purchased for an overall price of around €942m. As part of the 2007/2008 share buy-back programme, around 3.4 million own shares were acquired in 2008 for an overall price of approximately €444m. These shares have already been retired.

Collaboration between Board of Management and Supervisory Board

The Board of Management and Supervisory Board cooperate closely to the benefit of the Company. The Board of Management coordinates the Company's strategic approach with the Supervisory Board and discusses the current state of strategy implementation with it at regular intervals. It reports regularly to the Supervisory Board about all questions relevant to the Company. The Supervisory Board has defined the Board of Management's information and reporting requirements in detail. Specific types of transaction, such as investments of substantial size and individual capital measures, generally require the Supervisory Board's consent.

Supervisory Board

The Supervisory Board monitors the Board of Management and gives counsel where appropriate. Certain transactions like major investments or capital measures require its approval, but it is not authorised to take management action. The Supervisory Board also appoints the external auditor of the financial statements. Remuneration of the members of the Supervisory Board is regulated in the Articles of Association, i.e. is determined by the shareholders. The 2008 Annual General Meeting adjusted the existing remuneration structure to current developments; the new structure generally applies as of the 2009 financial year. Most significantly, a long-term compensation component was introduced in accordance with the Corporate Governance Code. The criteria for variable short-term remuneration have been made more stringent. Furthermore, greater allowance than in the past has been made for the substantial workload and specialist knowledge required by the chairs of the Supervisory Board and its committees by awarding higher supplements for these positions.

In compliance with the law and the Company's Articles of Association, Munich Re's Supervisory Board has a total of 20 members. Half are elected representatives of the employees, and half representatives of the shareholders, elected by the Annual General Meeting. Supervisory Board resolutions on the nomination of candidates for election to the Supervisory Board at the Annual General Meeting only require the majority of votes cast by the Supervisory Board members representing the shareholders. An overview of the members of the Supervisory Board can be found on page 62. Additional information on individual members of the Supervisory Board (shareholder representatives) is available on our website.

Munich Re's Supervisory Board has set up five committees: the Standing Committee, the Personnel Committee, the Audit Committee, the Conference Committee, and the Nomination Committee.

Annual General Meeting

The regular responsibilities of the Annual General Meeting include reaching a resolution on the appropriation of profits and approving the actions of the Board of Management and Supervisory Board.

At Munich Re's AGM, the principle of "one share, one vote" applies. Shareholders may exercise their voting rights personally or authorise a proxy appointed in writing, a bank or a shareholders' association to cast their votes. Munich Re also offers its shareholders the opportunity to have their voting rights exercised in accordance with their personal instructions by one of the proxies nominated by the Company.

Significant agreements which take effect, alter or terminate upon a change of control following a takeover bid	Based on our underwriting guidelines, our reinsurance agreements generally include a clause that grants both parties to the agreement a right of extraordinary cancellation in the event that "the other party merges with another company or its ownership and control undergoes a material change." Such or similar clauses are typical of the industry. Munich Re's long-term incentive plans provide for special exercise conditions in the event of a change of control.
Corporate governance topics in 2008	At its meeting on 10 November 2008, the Supervisory Board decided that in future the Supervisory Board (and not, as previously, the Personnel Committee) will determine the system used for the Board of Management's remuneration, along with the key elements of relevant contracts.
	In the past year, the Supervisory Board again performed an efficiency audit. The main focus was on the content and scope of reports from the Board of Management to the Supervisory Board and the work of the Supervisory Board and its committees. Despite a number of suggestions for improvement, both areas were assessed as consistently positive and efficient.
Recommendations and proposals of the German Corporate Governance Code	<p>In November 2008, the Board of Management and the Supervisory Board published the following declaration of conformity, in accordance with Section 161 of the German Stock Companies Act:</p> <p>"Münchener Rückversicherungs-Gesellschaft Aktiengesellschaft in München fulfils all the recommendations of the German Corporate Governance Code of 6 June 2008 (published on 8 August 2008) and will continue to do so in future. Since the last declaration of conformity in November 2007, Münchener Rückversicherungs-Gesellschaft Aktiengesellschaft in München has fulfilled all the recommendations of the German Corporate Governance Code of 14 June 2007 (published on 20 July 2007)."</p> <p>Munich Re also complies with all the proposals of the German Corporate Governance Code.</p>

Remuneration report

Structure of the remuneration system for the Board of Management

In conformity with the German Corporate Governance Code, we here explain the principles of the remuneration system for Munich Re's Board of Management and the structuring of the individual remuneration components.

Until now, the structure and system governing the Board of Management's remuneration has been determined by the Supervisory Board's Personnel Committee, whose three members comprise the Chairman of the Supervisory Board, another of the shareholder representatives and one of the employee representatives. Regular reviews of the remuneration structure have been conducted by the full Supervisory Board.

In accordance with the German Corporate Governance Code, in future the remuneration system for the Board of Management, along with the key elements of relevant contracts, will be determined by the full Supervisory Board. The Supervisory Board's Personnel Committee will prepare the draft resolutions for submission to the full Supervisory Board, which will review the remuneration system at least every three years unless earlier reviews become necessary in individual cases.

Structure and system of the Board of Management's remuneration in 2008

Component	Share	Assessment basis/parameters	Corridor	Precondition for payment	Payment
Basic remuneration, remuneration in kind/fringe benefits					
Basic remuneration	25%	Function Responsibility Length of service on the Board	Fixed	Contractual stipulations	Monthly
Short-term compensation component					
Annual bonus	35%	Consolidated result Company result Divisional result Individual objectives	0–150% (fully achieved = 100%)	Achievement of objectives	Annually in following year
Medium- and long-term compensation component					
Medium-term bonus	20%	Consolidated result	50–150% (fully achieved = 100%)	Achievement of objectives at least 50% on average over three years	In the fourth year
Share-price-based compensation component					
Long-term incentive plan (stock appreciation rights; term: seven years)	20%	Appreciation in share price	0–150% (cap at 150% of share price increase)	– End of vesting period (two years) – 20% share price increase – MR shares have out- performed EURO STOXX 50 twice at the end of three-month period during the term of the plan	As from third year of plan until end of plan
Retirement plan					
Pension entitlement	–	Basic remuneration Number of years on the Board	Fixed	– Retirement – Insured event – Premature termination or non-extension of employment contract under certain circumstances	–

Fixed components **Basic remuneration**

The fixed annual basic remuneration is paid in the form of a monthly salary.

Remuneration in kind/fringe benefits

Remuneration in kind and fringe benefits are granted according to function, and are commensurate with market conditions (DAX 30 companies). Income tax on the benefits in question is paid individually for each member of the Board of Management, with the Company bearing the amount due.

Variable components **Short-term compensation component – Annual bonus**

This compensation component is based on different categories of objectives. The targets and scaling for Group, corporate and divisional objectives are geared to particular indicators; individual objectives form the basis for the achievement of personal targets. The key indicator used for the Group objective is "return on risk-adjusted capital – RORAC", which is comprised of key figures from external accounting, and from other key portfolio and performance data. Information on the definition of RORAC is provided on page 59. We use the performance measures embodied in value-based management for the corporate and divisional objectives.

The processes defined to specify objectives and assess their achievement also involve the external auditor, who subjects the envisaged financial objectives to a predefined review procedure regarding their consistency and assessability, which includes analysing the calculation of the individual results achieved. The outcome of this review and any potentially controversial aspects are rendered transparent for the Supervisory Board's Personnel Committee.

Medium- and long-term compensation component – Medium-term bonus

The medium-term bonus is based on performance over a three-year period and is measured on the basis of the Group result category from the short-term compensation component. Payments are made only if the achievement rate is at least 50% on average for the three-year period. The most recent three-year planning period expired on 31 December 2008.

A medium-term bonus has again been set up for the 2009 financial year, although its structure differs significantly from the previous three-year bonus plans. Whilst the new mid-term incentive plan is also geared to performance over a three-year period, it is set up afresh each year. It is intended to promote the mid- and long-term increase in the Munich Re Group's value in terms of internal value creation (value-based success factors) and improving the Munich Re share's total shareholder return (TSR).

Share-price-based compensation component – Long-term incentive plan

This remuneration component, with a long-term perspective, is linked to the sustained appreciation of Munich Re's share price. The long-term incentive plan is set up each year, and the participants receive a certain number of stock appreciation rights. These can only be exercised if, after a two-year vesting period, Munich Re's share price has risen by at least 20% since inception of the plan and the shares have outperformed the EURO STOXX 50 at least twice at the end of a three-month period during the term of the plan. The exercise hurdles are exacting and in keeping with the German Corporate Governance Code.

Whether the stock appreciation rights can be exercised and, if so, when, is not certain at the time they are granted. The exercising and proceeds depend on the development of the share price and the exercise price and date. The amount of income is limited. Up to now, stock appreciation rights have only been exercised under the plans set up in 1999 and 2003 to 2005. Further information on the long-term incentive plans can be found on pages 267 to 270 of the notes to the consolidated financial statements.

Weighting of remuneration components	In the case of 100% achievement of objectives (annual bonus, medium-term bonus) and based on the imputed value of the share-price-linked compensation (long-term incentive plan) at the granting date, the weightings of the individual components in terms of total remuneration are as follows: basic remuneration approx. 25%, annual bonus approx. 35%, medium-term bonus approx. 20%, and long-term incentive plan approx. 20%. Annual bonus, medium-term bonus and long-term incentive plan together form a well-balanced and economic, i.e. strongly risk-based incentive system, ensuring that the targets set for the members of the Board of Management do not have undesirable effects.
	In accordance with the recommendations of the German Corporate Governance Code, the monetary remuneration of the Board members thus comprises fixed and variable components.
	The total remuneration is set at an appropriate level by the Supervisory Board's Personnel Committee and reviewed at regular intervals, also taking into consideration data from peer-group companies. Criteria for the appropriateness of compensation are in particular the respective Board member's duties, the Board member's personal performance, the performance of the Board as a whole and the financial situation, performance and future prospects of Munich Re. New Board members are generally placed at a level which allows sufficient potential for development in the first three years.
Continued payment of remuneration in the case of incapacity to work	In the case of temporary incapacity to work due to illness or for other cause beyond the Board member's control, the remuneration will be paid until the end of the contract of employment. The Company may terminate the contract prematurely if the Board member is incapacitated for a period of longer than 12 months and it is probable that he will be permanently unable to fully perform the duties conferred on him (permanent incapacity to work). In this event, the Board member will receive a disability pension.
Other remuneration	In the case of seats held on other boards, remuneration for board memberships must be paid over to the Company or is deducted in the course of regular compensation computation. Excepted from this is remuneration for memberships explicitly recognised by the Company as personal. No such memberships exist at present. In the event of a change of control, the members of the Board of Management have no contractual entitlement to payments. As far as the share-price-based remuneration is concerned, the conditions merely provide for special exercise options in the event of a change of control. Details of this are provided in the notes to the consolidated financial statements on page 270.
Pension	Up to and including 2008, the members of the Board of Management are members of a defined benefit plan under which they will receive a fixed pension whose amount depends on their basic remuneration and years of service on the Board. The pension level starts at 30% and can reach a maximum of 60% of annual basic remuneration.

Benefits on termination of employment		
Benefit	Precondition	Benefit amount
Occupational pension		
	– Reaching the age of 60; at the latest, turning 65	– For six months, previous monthly basic remuneration (only for Board members appointed prior to 2006) – Defined benefit of between 30% and 60% of annual basic remuneration – Reduced for other income earned from third parties before reaching the age of 65
Disability pension		
Contract ends owing to non-extension or revocation of Board member's appointment due to permanent incapacity to work	– The Board member is incapacitated for longer than 12 months and will probably be permanently unable to fully perform duties of office	– For six months, previous monthly basic remuneration (only for Board members appointed prior to 2006) – Defined benefit of between 30% and 60% of annual basic remuneration – Reduced for other income earned from third parties before reaching the age of 65
Reduced occupational pension on early retirement		
Contract ends owing to non-extension or revocation of Board member's appointment, but not due to – gross violation of duties – the Board member giving notice	– Older than 50 – More than ten years' service with the Company – Board member's appointment extended at least once	– For six months, previous monthly basic remuneration (only for Board members appointed prior to 2006) – Defined benefit of between 30% and 60% of annual basic remuneration – Reduced by 2% for each year or part thereof short of 65th birthday – Reduced for other income earned from third parties before reaching the age of 65
Vested benefits for occupational pension, disability pension and surviving dependants		
Benefits drawn under entitlements a) and b) on – reaching the age of 65 – incapacity to work – death of Board member		
a) Entitlement under the German Employers' Retirement Benefits Act	Entitlement to vested benefits – Leaving the Board before reaching the age of 60 – At least five years' service with the Company	– Defined benefit of between 30% and 60% of annual basic remuneration – The vested benefits are a proportion of the occupational pension, based on the ratio of actual service with the Company to the period the Board member would have worked for the Company altogether until 65th birthday
b) Improved entitlement Contract ends owing to non-extension of Board member's appointment (by the Company), but not due to – gross violation of duties – the Board member giving notice	Entitlement to vested benefits – Leaving the Board before reaching the age of 60 – At least ten years' service with the Company	– For six months after leaving the Board, previous monthly basic remuneration (only for Board members appointed prior to 2006) – Defined benefit of between 30% and 60% of annual basic remuneration – Reduced by 2% for each year or part thereof short of 65th birthday

Benefit	Precondition	Benefit amount
Benefits for surviving dependants		
Widow(er)'s/orphan's pension		
a) Active Board member	– Death of Board member during active service	<ul style="list-style-type: none"> – For six months, previous monthly basic remuneration (only in the case of Board members appointed prior to 2006) – For three months, previous monthly basic remuneration (in the case of Board members appointed since 2006)
b) Retired Board member	<ul style="list-style-type: none"> – Death of Board member after retirement – Marriage and/or birth of child before drawing occupational pension 	<ul style="list-style-type: none"> – For three months, previous monthly occupational pension – If Board member's occupational pension is reduced owing to early retirement, widow(er)'s and orphan's pensions are based on reduced occupational pension
a) and b)	<p>Entitlement ceases</p> <ul style="list-style-type: none"> – for widow(er) on remarrying (only in the case of Board members appointed since 2006) – for orphans <ul style="list-style-type: none"> · on reaching the age of 18 · on reaching the age of 20 (only in the case of Board members appointed prior to 2006) · on reaching the age of 27 if the orphan is in full-time education or vocational training, is doing military or civilian service, or is unable to support himself or herself owing to a physical or mental disability 	<ul style="list-style-type: none"> – Widow(er)'s pension = 60% of defined benefit – Possible age-related reduction (max. 50%) of the widow(er)'s pension depending on age of married couple – Offsettable against widow(er)'s pension <ul style="list-style-type: none"> · Income up to a maximum of 50%, insofar as such income exceeds 50% of widow(er)'s pension · Any benefits received from previous employers of the widow(er) (in the case of Board members appointed since 2006) – Orphan's pension = 20% of defined benefit per orphan – Doubling of orphan's pension if no widow(er)'s pension is payable (only in the case of Board members appointed prior to 2006) – Widow(er)'s and orphan's pensions together may not exceed the occupational pension

Occupational pensions and pensions for surviving dependants are reviewed for adjustment if salaries payable under pay-scale agreements in the insurance industry have increased by more than 12% (based on the average final salary of all pay-scale categories) since the pensions were last fixed or more than three years have passed since that date. The adjustment made will at least be in line with the increase in the cost of living in the meantime according to the consumer price index for Germany. Vested benefits are not adjusted.

Insofar as members of the Board of Management are entitled to vested benefits under a company pension scheme as a result of their previous employment with the Company or one of its affiliates or with other companies that they previously worked for, such benefits are offset against the Company's occupational pension payments.

Beginning in 2009, pension plans for Board members have been changed to a defined contribution system. It should be stressed that the main aim of this change is the fullest possible outsourcing of all pension-specific risks from the Company's balance sheet. This major risk transfer will be achieved by financing future increases in entitlements exclusively by paying premiums into insurance policies concluded to cover these benefit obligations.

A defined contribution approach is thus being taken for the Board members as of 2009. This means the Company is no longer liable for the pension benefits, as these are covered by the aforementioned insurance policies. The longevity risk, the biometric risks of premature occurrence of a pensionable event (e.g. disability or death of a member of the Board during active service), and the capital market risk are transferred to the insurer and the individual Board members.

As a consequence of the risk transfer to an external insurer, there will be a clearly noticeable and lasting increase in the visible pension costs as of 2009. The Company accepts this increase in order to avoid higher costs in future and to eliminate long-term pension-specific risks.

Total remuneration of the Board of Management

The basis for reporting the remuneration of Board members is German Accounting Standard No. 17 (DRS 17), according to which the amounts shown for the annual bonus and the medium-term bonus are the provisions established for those bonuses, since the performance on which the bonuses are based has been completed by the balance sheet date of the financial year and the requisite Board resolution is already foreseeable. The members of Munich Reinsurance Company's Board of Management received remuneration totalling €18.5m (12.8m) for fulfilment of their duties in respect of the parent company and its subsidiaries in the financial year. This amount includes the provisions of €7.9m for the medium-term bonus 2006–2008 disclosed in the annual reports for 2006 and 2007, which explains the notional increase in total remuneration.

Remuneration of individual Board members in accordance with DRS 17

(in accordance with Section 285 sentence 1 item 9a sentences 5–9 of the German Commercial Code and Section 314 para. 1 item 6a sentences 5–9 of the German Commercial Code)

Name	Financial year	Basic remuneration	Remuneration in kind and fringe benefits	Annual bonus ¹	Medium-term bonus 2006–2008 ²	Value of stock appreciation rights granted ⁴	Total	Number of stock appreciation rights
		€	€	€	€	€	€	€
Dr. Nikolaus von Bomhard	2008	885,000	36,863	349,370	2,040,000	871,232	4,182,465	31,820
	2007	864,000	51,878	1,588,650	–	666,000	3,170,528	21,442
Dr. Ludger Arnoldussen	2008	350,000	40,225	178,220	450,000	344,550	1,362,995	12,584
	2007	300,000	39,647	479,640	–	240,000	1,059,287	7,727
Dr. Thomas Blunck	2008	400,000	29,879	277,970	780,000	393,779	1,881,628	14,382
	2007	350,000	28,026	509,110	–	280,000	1,167,136	9,015
Georg Daschner	2008	450,000	33,549	305,550	1,020,000	443,008	2,252,107	16,180
	2007	450,000	33,133	752,220	–	360,000	1,595,353	11,590
Dr. Torsten Jeworrek	2008	570,000	35,372	434,434	1,260,000	561,126	2,860,932	20,494
	2007	550,000	33,538	1,007,930	–	440,000	2,031,468	14,166
Dr. Peter Röder ³	2008	300,000	23,901	141,855	90,000	295,348	851,104	10,787
	2007	75,000	4,029	124,425	–	60,000	263,454	1,932
Dr. Jörg Schneider	2008	625,000	42,402	392,875	1,440,000	615,283	3,115,560	22,472
	2007	600,000	41,958	1,134,000	–	480,000	2,255,958	15,454
Dr. Wolfgang Strassl	2008	400,000	19,225	386,610	780,000	393,779	1,979,614	14,382
	2007	350,000	14,508	603,190	–	280,000	1,247,698	9,015
Total	2008	3,980,000	261,416	2,466,884	7,860,000	3,918,105	18,486,405	143,101
								90,341

¹ At the balance sheet date, no Board resolution had yet been passed on the amounts to be paid for 2008. The amount shown for the annual bonus is based on estimates and the corresponding **provisions** posted. For the 2007 annual bonus, a total of €79,905 less was paid out than had been reserved. The provisions for the 2008 annual bonus have been reduced by this amount.

² At the balance sheet date, no Board resolution had yet been passed on the amounts to be paid. The amount shown for the 2006–2008 medium-term bonus is based on estimates and the corresponding **provisions** posted. The amount shown for 2008 embraces the financial years 2006–2008.

The bonus is to be paid in the financial year 2009.

³ Member of the Board of Management since 1 October 2007.

⁴ The total expenditure recognised in the period under review for the share-price-based remuneration component – long-term incentive plan – breaks down as follows: von Bomhard €835,586.90, Arnoldussen €457,445.69, Blunck €500,705.05, Daschner €458,953.75, Jeworrek €641,480.47, Röder €353,867.83, Schneider €474,197.91, Strassl €455,176.31.

The share-priced-based compensation component is accounted for at fair value at the granting date. Details of the fair value are provided in the notes to the consolidated financial statements on page 267 f. Whether the variable components will actually be paid out to the Board members and, if so, how high the sums will be, is not yet certain and will depend on the degree to which individual objectives are achieved, and on the exercise conditions of the long-term incentive plans. Munich Re shares have been acquired to cover future obligations arising from the long-term incentive plans as from 2003, so that the expenses resulting from a growth in value of the stock appreciation rights are neutralised by an increase in the value of the share portfolio.

Dr. Hasford, who retired on 28 February 2007, received the following amounts in 2008 for 2007: remuneration in kind and fringe benefits totalling €164.99, as well as a pro-rata payment of €164,267.00 from the 2007 annual bonus.

Mr. Phelan, who retired on 31 December 2007, received the following amounts in 2008 for 2007: remuneration in kind and fringe benefits (including travel expenses from Princeton to Munich) of €63,646.74, an annual bonus payment of €1,507,487.98, and €1,317,632.34 from Munich Re America's long-term incentive plan.

The presentation of remuneration after allocation to appropriate periods shows the economic apportionment of the amounts between the individual financial years, which is particularly relevant for the medium-term bonus 2006–2008. In this view, the total remuneration shows a reduction of €6.2m compared with the previous year, the main reasons being the economic situation and the resultant lower result foreseeable in the achievement of objectives for the remuneration components "annual bonus" and "medium-term bonus" in 2008. After allocation to appropriate periods, total remuneration for the year under review amounts to €10.7m (16.9m).

Remuneration of individual Board members after allocation to appropriate periods

Name	Financial year	Basic remuneration	Remuneration in kind and fringe benefits	Annual bonus ¹	Medium-term bonus 2006–2008 ²	Value of stock appreciation rights granted	Total	Number of stock appreciation rights
		€	€	€	€	€	€	€
Dr. Nikolaus von Bomhard	2008	885,000	36,863	408,870	0	871,232	2,201,965	31,820
	2007	864,000	51,878	1,529,150	1,020,000	666,000	4,131,028	21,442
Dr. Ludger Arnoldussen	2008	350,000	40,225	168,560	0	344,550	903,335	12,584
	2007	300,000	39,647	489,300	360,000	240,000	1,428,947	7,727
Dr. Thomas Blunck	2008	400,000	29,879	240,240	0	393,779	1,063,898	14,382
	2007	350,000	28,026	546,840	420,000	280,000	1,624,866	9,015
Georg Daschner	2008	450,000	33,549	294,840	0	443,008	1,221,397	16,180
	2007	450,000	33,133	762,930	540,000	360,000	2,146,063	11,590
Dr. Torsten Jeworrek	2008	570,000	35,372	421,344	0	561,126	1,587,842	20,494
	2007	550,000	33,538	1,021,020	660,000	440,000	2,704,558	14,166
Dr. Peter Röder ³	2008	300,000	23,901	138,180	0	295,348	757,429	10,787
	2007	75,000	4,029	128,100	90,000	60,000	357,129	1,932
Dr. Jörg Schneider	2008	625,000	42,402	476,875	0	615,283	1,759,560	22,472
	2007	600,000	41,958	1,050,000	720,000	480,000	2,891,958	15,454
Dr. Wolfgang Strassl	2008	400,000	19,225	397,880	0	393,779	1,210,884	14,382
	2007	350,000	14,508	591,920	420,000	280,000	1,656,428	9,015
Total	2008	3,980,000	261,416	2,546,789	0	3,918,105	10,706,310	143,101
		3,539,000	246,717	6,119,260	4,230,000	2,806,000	16,940,977	90,341

¹ At the balance sheet date, no Board resolution had yet been passed on the amounts to be paid for 2008. The amount shown for the annual bonus is based on estimates and the corresponding provisions posted.

In the financial year 2007, a total of €6,716,127 was reserved for the annual bonus, whereas the actual amount paid out was €6,636,047 (including a total payment of €516,787 to Dr. Hasford and Mr. Phelan).

² At the balance sheet date, no Board resolution had yet been passed on the amounts to be paid. The amount shown for the medium-term bonus is based on estimates and the corresponding provisions posted. For the financial year 2006, provisions of €3,630,000 were posted for the 2006–2008 medium-term bonus. The bonus is to be paid in the financial year 2009.

³ Member of the Board of Management since 1 October 2007.

Pension entitlements Personnel expenses of €1.4m (1.3m) were incurred in the financial year to finance the pension entitlements of active members of the Board of Management. The following pension commitments result for the individual members of the Board of Management:

Pension entitlements		
Name	Pension commitments as at 31 December	Personnel expenses for provisions
	€	€
Dr. Nikolaus von Bomhard	2008	407,100
	2007	380,160
Dr. Ludger Arnoldussen	2008	157,500
	2007	150,000
Dr. Thomas Blunck	2008	120,000
	2007	105,000
Georg Daschner	2008	180,000
	2007	180,000
Dr. Torsten Jeworrek	2008	171,000
	2007	165,000
Dr. Peter Röder	2008	90,000
	2007	90,000
Dr. Jörg Schneider	2008	275,000
	2007	252,000
Dr. Wolfgang Strassl	2008	120,000
	2007	105,000
Total	2008	1,520,600
	2007	1,427,160

Total remuneration of the Supervisory Board	<p>The current rules applicable to the remuneration of the Supervisory Board provide for a fixed remuneration component of €45,000 and a variable result-related remuneration component. The Chairman of the Supervisory Board receives twice (two-and-a-half times as of the 2009 financial year), and the Deputy Chairman one-and-a-half times, this fixed and variable remuneration.</p> <p>The result-related annual remuneration is based on the undiluted earnings per share from continuing operations, as shown in the consolidated financial statements in accordance with International Financial Reporting Standards (IFRSs): each Supervisory Board member receives €4,500 for each full euro by which earnings per share exceed €4, but a maximum of €36,000. As of the 2009 financial year, each Supervisory Board member will receive €4,000 for each full euro by which earnings per share exceed €12, but a maximum of €40,000. Furthermore, in accordance with the German Corporate Governance Code, a long-term compensation component of €10,000 has been introduced as of the 2009 financial year. This will be paid out if earnings per share in the remuneration year exceed earnings per share in the third financial year preceding the remuneration year by at least 30%.</p> <p>The additional remuneration for work on committees – which is based on the fixed remuneration only – takes into account the recommendations of the German Corporate Governance Code.</p> <p>The limitation of the total remuneration of each member of the Supervisory Board to two-and-a-half times the fixed remuneration (as of the 2009 financial year: three times) ensures that the overall remuneration of individual Supervisory Board members remains appropriate even if further committees are set up.</p>
Share trading and shares held by members of the Board of Management and the Supervisory Board	<p>The Company has to be notified promptly of the acquisition or sale of Company shares or financial instruments based on these by members of its Board of Management and Supervisory Board and by certain persons closely related to or connected with them. This notification must take place for acquisition and sales transactions equal to or exceeding €5,000 in a single calendar year. Under Section 10 para. 1 of the German Securities Prospectus Act, Munich Re is obliged to publish information of this kind on its website without delay as well as in an annual document.</p> <p>The total number of Munich Re shares and financial instruments based on these held by all members of the Board of Management and Supervisory Board amounts to less than 1% of the shares issued by the Company.</p>

Remuneration of Supervisory Board members in the financial year 2008 in accordance with Article 15 of the Articles of Association¹

Name	Financial year	Fixed remuneration		Result-related remuneration	Total
		Annual	For committee work ²		
Dr. Hans-Jürgen Schinzler, Chairman	2008	90,000.00	72,250.00	27,000.00	189,250.00
	2007	90,000.00	66,250.00	72,000.00	225,000.00 ³
Herbert Bach, Deputy Chairman	2008	67,500.00	22,500.00	20,250.00	110,250.00
	2007	67,500.00	22,500.00	54,000.00	144,000.00
Hans-Georg Appel	2008	45,000.00	21,250.00	13,500.00	79,750.00
	2007	45,000.00	23,250.00	36,000.00	104,250.00
Holger Emmert	2008	45,000.00	–	13,500.00	58,500.00
	2007	45,000.00	–	36,000.00	81,000.00
Ulrich Hartmann	2008	45,000.00	–	13,500.00	58,500.00
	2007	45,000.00	–	36,000.00	81,000.00
Dr. Rainer Janßen	2008	45,000.00	–	13,500.00	58,500.00
	2007	45,000.00	–	36,000.00	81,000.00
Prof. Dr. Henning Kagermann	2008	45,000.00	19,250.00	13,500.00	77,750.00
	2007	45,000.00	21,250.00	36,000.00	102,250.00
Prof. Dr. Hubert Markl	2008	45,000.00	–	13,500.00	58,500.00
	2007	45,000.00	–	36,000.00	81,000.00
Wolfgang Mayrhuber	2008	45,000.00	–	13,500.00	58,500.00
	2007	45,000.00	–	36,000.00	81,000.00
Kerstin Michl	2008	45,000.00	–	13,500.00	58,500.00
	2007	45,000.00	–	36,000.00	81,000.00
Prof. Karel Van Miert	2008	45,000.00	–	13,500.00	58,500.00
	2007	45,000.00	–	36,000.00	81,000.00
Ingrid Müller	2008	45,000.00	–	13,500.00	58,500.00
	2007	45,000.00	–	36,000.00	81,000.00
Prof. Dr. Heinrich von Pierer	2008	45,000.00	–	13,500.00	58,500.00
	2007	45,000.00	–	36,000.00	81,000.00
Dr. Bernd Pischetsrieder	2008	45,000.00	28,500.00	13,500.00	87,000.00
	2007	45,000.00	22,500.00	36,000.00	103,500.00
Dr. Jürgen Schimetschek	2008	45,000.00	–	13,500.00	58,500.00
	2007	45,000.00	–	36,000.00	81,000.00
Dr. Dr. Albrecht Schmidt	2008	45,000.00	49,750.00	13,500.00	108,250.00
	2007	45,000.00	45,750.00	36,000.00	112,500.00 ³
Dr. Ron Sommer	2008	45,000.00	–	13,500.00	58,500.00
	2007	45,000.00	–	36,000.00	81,000.00
Wolfgang Stögbauer	2008	45,000.00	21,250.00	13,500.00	79,750.00
	2007	45,000.00	23,250.00	36,000.00	104,250.00
Josef Süßl	2008	45,000.00	11,250.00	13,500.00	69,750.00
	2007	45,000.00	11,250.00	36,000.00	92,250.00
Judy Vö	2008	45,000.00	–	13,500.00	58,500.00
	2007	45,000.00	–	36,000.00	81,000.00
Total	2008	967,500.00	246,000.00	290,250.00	1,503,750.00
	2007	967,500.00	236,000.00	774,000.00	1,960,000.00

¹ Plus turnover tax in each case, in accordance with Article 15 para. 6 of the Articles of Association.² In the case of members of the Audit Committee and/or Nomination Committee, the amount includes attendance fees in accordance with Article 15 para. 4 of the Articles of Association.³ After capping in accordance with Article 15 para. 5 of the Articles of Association.

Prospects

- Challenges in a difficult economic environment; opportunities for the Group thanks to our relative strength
- Impact of economic crisis uncertain: recession-related losses versus increased need for security among clients
- Better prices, terms and conditions probable, especially in reinsurance
- Adherence to long-term result target of 15% after tax on risk-adjusted capital (RORAC) over the full cycle
- Result forecast for 2009 not possible; achievement of previous target of €18 earnings per share for 2010 no longer realistic at present
- Proposed dividend of €5.50 per share for 2008
- Fundamental adherence to share buy-back programme, but further realisation only after careful review

Predictions about the forthcoming development of our Group are based primarily on planning figures, forecasts and expectations. Consequently, the following assessment of the Munich Re Group's development merely reflects our assumptions and views. It follows that we cannot accept any responsibility or liability in the event that they are not realised in part or in full.

Overview

The slowdown in global economic growth, rising levels of unemployment and sinking real incomes will naturally have a curbing effect on demand for insurance and reinsurance covers. In such a situation, fewer cars are purchased and insured, industrial production requiring insurance declines, and consumers have less scope for making private provision. Nevertheless, a number of factors also act in the opposite direction and should lead to a stabilisation of insurance terms and conditions. After all, price losses on the capital markets have hit investments, thus reducing the entire insurance industry's capital base. As a consequence, insurance and reinsurance capacities worldwide will tend to become scarcer. At the same time, the general need for security will grow, which – all other circumstances remaining equal – will have a stimulating impact on demand for insurance protection. This applies to some lines of primary insurance but in particular to the relations between reinsurers and their clients, the insurance companies. Primary insurers have lost capital and therefore risk-bearing capacity. As they are currently only able to borrow fresh capital, if at all, at very unfavourable terms and conditions, they need more reinsurance cover. This increased demand coincides with a reduced supply of reinsurance, resulting in an improvement in prices, terms and conditions. The high security of the Munich Re Group companies has become a distinct competitive advantage in this context, and our financial solidity provides us with market opportunities in a difficult economic environment.

In reinsurance, we anticipate a flight to quality in the wake of the financial crisis. The market should harden in the current year, opening up good opportunities for profitable business. We are well-positioned for this environment, owing to our consistent cycle management and solid capitalisation. We will provide our clients with high indemnity limits at risk-adequate prices, and we expect our financial strength to be rewarded with a growing amount of business at prices that differ from those of our competitors. These developments should enable us to at least partly offset the as yet unquantifiable recession-related losses in premium and to operate profitably.

In primary insurance, too, the crisis-related negative factors will be counterbalanced in the medium term by positive aspects, especially in life and health business. The general public's need for care and provision is rising and has to be financed privately as the gaps in cover under state social security systems in the majority of European countries are becoming more and more apparent. Furthermore, we expect that life and annuity insurance, as traditional forms of old-age provision backed with solid guarantees, will recapture a larger share of our clients' expenditure on private provision, particularly because trust in banking products generally offering only inadequate guarantees has suffered considerably from the financial crisis. This will give rise to major opportunities for our life, health and personal accident insurers in the medium to long term, provided state intervention does not distort competition. For property-casualty insurance, we project that – given normal economic parameters – premium income will rise, mainly owing to strong growth in our international business and selective expansion in German commercial and industrial business. However, here too there are strong reservations in view of the currently unassessable impact of the severe recession.

All the following prognoses are subject to considerable uncertainty, and reliable profit estimates for 2009 and 2010 are impossible under the present circumstances. With risk-free interest rates low and our equity exposure considerably reduced, we must expect a significantly lower investment result than previously envisaged. On the whole, however, we remain confident and are adhering to our long-term objective of achieving an attractive 15% return on risk-adjusted capital after tax for the coming years (a definition of RORAC is provided on page 59).

With a profit for the year of over €1.5bn (3.9bn) and a post-tax RORAC of 6.9% (20.2%), we fell short of our target for 2008. Although our basic business performed satisfactorily, our investment result dropped appreciably, impacted in particular by the massive declines in share prices on the stock markets and by the defaults and credit-rating problems among counterparties. In addition, our investment result in the previous year had profited from exceptionally high gains on disposals and we had benefited from an extraordinary tax effect of €0.4bn. In 2008, the crisis certainly did not leave us unscathed. However, thanks to our long-standing adherence to a strictly risk-conscious corporate strategy, it has not put us on the defensive like many other financial service providers but is offering us opportunities to extend our market position.

Now we are benefiting from the raft of initiatives launched in the past two years and in some cases already concluded. These initiatives were geared above all to improving our competitive position and to optimising our capital management. They have enabled the Munich Re Group to further sharpen its business profile and become an even more attractive partner for its clients. For our shareholders, Munich Re shares have proved a relatively good investment that has delivered a stable performance in the capital market crisis. We are financially and strategically well-positioned and able to effectively exploit our competitive strength to systematically tap opportunities without having to run unreasonable risks.

For the financial year 2008, the Board of Management and the Supervisory Board propose to pay our shareholders a dividend of €5.50 per share in 2009, i.e. the same level as last year. This is equivalent to a total of approximately €1.1bn for the shares currently issued. We are essentially still committed to our share buy-back programme but, as hitherto, will carefully review the advantages and disadvantages before implementing it further.

Economic parameters

Macroeconomic parameters have deteriorated even further in 2009, which has implications for insurance demand and for expected returns on investments.

Economy	There has been a dramatic slackening in economic growth worldwide. All industrial nations have entered into a recession whose overall magnitude and duration are not yet foreseeable. Consumer demand will be adversely impacted by rising unemployment, high levels of private debt in some countries and negligible real increases in wages. Owing to its dependency on exports, Germany is being hit by a collapse in demand from abroad, and the USA and UK are suffering because of their strong focus on the financial sector. The implications of state intervention and soaring national debt are still open, and emerging countries will show noticeably reduced growth at best. No recovery is in sight before the end of 2009. Since global demand is dropping, inflation in 2009 (subject to the inflationary impact of state intervention) is likely to be moderate, and oil prices should rise only slightly, if at all.
Capital markets	In view of the gloomy prospects for the economy, the environment for higher-risk investments in 2009 will continue to be difficult. The bonds of countries considered particularly solid are in demand because of their safe-haven characteristics, but do not really offer attractive investment opportunities, given their very low interest rates. Investors whose risk appetite is moderate therefore cannot expect to obtain high returns.
Insurance industry	The above situation also applies to the insurance industry. Though less hard hit than other industries in its core business, it will nevertheless be substantially affected by the economic downturn. In 2009, growth in the global insurance industry, if any, will be achieved in the emerging countries and then at a clearly reduced pace. Only in the medium to long term is the superior concept of private provision likely to lead to appreciably increased demand again. But the recession seems set to cause the international insurance industry's growth rates to suffer at first. In an economic crisis, D&O, professional indemnity, and credit and bonding business are the lines of property-casualty reinsurance most likely to be affected by rising claims burdens due especially to the increasing number of insolvencies. Premium volume is expected to be lower in many other non-life insurance classes, but at the same time claims expenditure is also likely to decline. Similarly, new business in life insurance suffers from a prolonged recession because the funds available for old-age provision drop. If interest rates remain low, it will also become increasingly difficult for life insurers to pay the returns they have promised to their clients without taking a cut in profit.

As far as terms and conditions are concerned, the capacity effects described in the overview will stand strong insurers and reinsurers in good stead. In the renewals of reinsurance treaties at 1 January 2009, market terms and conditions were already hardening and even improved markedly in some segments. This trend is likely to continue. After all, sustained risk-adequate prices, terms and conditions are also in the interests of end clients, who attach more importance than ever before to reliable protection by strong insurers.

Risks The risks have recently risen considerably. The economic prospects are subject to the imponderables described. Especially the liquidity and confidence crisis in the international financial markets could have further, as yet unforeseeable implications. The recession could spiral into a deflation and long-term depression. Other risks include geopolitical threats, especially in the Near and Middle East, the risk of major new terrorist attacks and protectionist trade policies.

The insurance industry must cope not only with macroeconomic uncertainties but also with political risks, including even stronger state influence on private health insurance or other disadvantageous measures in the field of social, economic and fiscal policy. Further risks may result from the expected tightening of supervisory regulations. Although the general conviction is that the worst deficiencies occurred in the banking industry, there is a danger that remedial measures designed for the banking sector will be applied to the insurance industry in an undifferentiated way. Conceivable in this context are excessive reporting regulations, exaggerated capital requirements and restrictions for individual types of business.

In the insurance markets, a recession-related slump in demand could trigger unexpectedly fierce price competition. For instance, financially weakened providers might pursue an aggressive pricing policy and thereby exceed their risk-bearing capacity, hoping just to be fortunate or to receive government help. The state umbrellas could thus stand in the way of the self-healing and rehabilitation of the markets that is so desirable from the competitive point of view. In this case, state intervention to combat the crisis would have an adverse impact on the structure of competition and the opportunities available to healthy companies. Providers with relatively strong finances will find it difficult to exploit their competitive advantage against this background. They will need to focus on profitability rather than volume and on the effectiveness of their risk-based management and control systems. Responsible buyers, as well as the state supervisory authorities, should consider the durability of providers' financial strength and make their price tolerance conditional on the quality of the cover offered by the different companies.

Development of the Munich Re Group

Reinsurance Reinsurance continues to hold considerable promise for the future, with a wide variety of earnings opportunities in the long term. On the one hand, the economic burdens for primary insurers also impact reinsurers' growth and profit opportunities. On the other hand, reinsurance gains in importance in the current financial situation. Since the capital base of insurers has shrunk as a result of the crisis, the capital-relief effect of reinsurance is in demand. In addition, the lasting security of the cover offered is more important than ever. The Munich Re Group will benefit from this trend. Owing to our consistent financial solidity and expertise in the field of risk assessment and risk management, we are in a position to offer our clients reliable solutions and added value.

Economic recovery should be accompanied in the medium to long term by increased demand in all classes of business. We predict that the highest percentage growth rates will come from the emerging markets of Asia and Latin America. Given their higher starting level, however, Europe and North America should record significantly greater absolute growth. With our worldwide presence, we will be able to tap the potential in all regions of the world and fields of business assuming we emerge stronger than our competitors from the economic crisis.

Especially **life reinsurance** will offer good growth opportunities in the medium to long term. It is frequently used by our clients in particular as a capital substitute. Further impulses for new business are also expected to derive from the restructuring of European supervisory rules (Solvency II), the continuing privatisation trend in old-age and disability provision in the developed markets, the growing need for asset protection, and the dynamic expansion of the Asian and eastern European life insurance markets. As an important component of our diversification and due to its relatively low volatility, life reinsurance is being strengthened as a core element of our strategy. Munich Re is renowned for its in-depth risk and market expertise, good client relations, and financial strength. It is not possible at present to provide a reliable forecast of how the result will develop in 2009. A severe recession may negatively impact disability and suicide rates. Also, short-term premium development may come under pressure owing to declines in the business production of our primary insurance clients. Nevertheless, we remain committed to our very ambitious aim of doubling the value added by new business in the period 2006 to 2011 based on embedded value calculations.

A range of growth opportunities also present themselves in the field of **health-care**, where the Munich Re Group covers the whole value chain through its integration of insurance and reinsurance. Our services, ranging from risk assessment and risk management to healthcare support, involve much more than just the assumption of risks. With our expertise, we are thus closer to the markets and can devise viable and sustainable solutions tailored to the needs of our clients. In the second quarter of 2009, we plan to merge our International Health operations into an independent organisational unit at Munich Re, which will enable us to leverage the many synergies even better.

In **property-casualty reinsurance**, which is naturally cycle-dependent, Munich Re will maintain its clear, profit-oriented underwriting policy and accept risks only at commensurate prices, terms and conditions. During the renewals at 1 January 2009, market terms and conditions in most regions hardened and prices in some segments improved markedly. In a difficult environment, our financial solidity, acknowledged risk expertise, service and client-centric focus

have increasingly enabled us to negotiate better prices and conditions with our clients than those obtained by a number of less well-positioned competitors.

At 1 January 2009, about two-thirds of our property-casualty reinsurance portfolio was up for renewal, which corresponds to a premium volume of around €8.3bn. The situation of the economy as a whole, with its effects on the insurance industry's capitalisation and results, has not yet led to a situation in all markets where the players recognise the need for pricing that is consistently risk-adequate. The development of prices, terms and conditions varied greatly between classes of business and regions but generally followed a positive trend. Overall, we succeeded in halting the erosion of reinsurance prices that has taken place over the last few years and in improving our portfolio, partly through price increases for existing business and partly through attractive new business, but also by terminating business where prices were no longer sufficient.

Of the total business up for renewal, 17.6% (around €1.5bn) was not renewed. New business of €954m was written in more attractive segments. Together with the renewed business (around €6.8bn) and a slight rise in shares in existing business (€256m), the net outcome was a reduction of 3% in premium volume to around €8.0bn. The price level improved by 2.6% compared with the previous year – an increase required just to offset the lower interest income and thus satisfactory at best.

Although not all of our expectations were fulfilled, we are nevertheless satisfied with the improved portfolio quality we have achieved. The share of casualty business fell by around four percentage points, whilst the share of other lines – mainly shorter-tail business – rose. In particular, owing to inadequate original rates, we scaled back proportional business in China, motor business in Germany, and workers' compensation business in the USA. On the other hand, we grew our business in other lines. An example is offshore energy business, where the price level improved markedly, rising in some cases by over 100% following last year's hurricane losses. Other treaties with US hurricane exposure now also have a much improved rate level. Agricultural business, which has produced profitable results for many years, was expanded.

Reinsurance is currently one of the few possibilities for primary insurers to overcome shortages in capital. We are therefore firmly convinced that there will be a further increase in the significance of reinsurance, and particularly in the importance of individual reinsurers' security. For the forthcoming renewals on 1 April 2009 (Japan and Korea) and 1 July 2009 (parts of the US market, Australia and Latin America), we expect a positive trend.

The acquisition of the HSB Group, one of the world's leading providers of specialty insurances and the inspection of engineering risks, is an important step towards realising our new US strategy, enabling us to expand our position in highly specialised and thus profitable niche segments. The purchase price for the 100% stake is US\$ 742m (€531m) – plus or minus any changes in HSB's equity occurring between 30 September 2008 and the ultimate completion date – and will be fully financed from our own resources. The transaction is expected to be concluded at the end of the first quarter of 2009, once the requisite approvals have been obtained from the competent authorities.

If exchange rates remain stable and the cyclical losses in premium income for primary insurers remain within reasonable bounds, gross premiums in reinsurance should range between €21bn and €22bn in 2009. Owing to the anticipated increase in demand for reinsurance as a substitute for equity and the shortages in capacity on the supply side, terms of trade should improve in 2009 – despite the weakened overall economy. In addition, we project that the growth markets will continue to develop favourably, albeit at a temporarily reduced rate. For property-casualty reinsurance, we anticipate a combined ratio of around 97% for 2009 of our net premiums earned, in line with our target for the market cycle as a whole. This estimate is based on an average major-loss burden of 6.5% from natural catastrophes, which takes account of shifts in the portfolio. The uncertainties involved in the estimate derive not only from the random incidence of major individual losses: a strong rise in losses due to the recession cannot be completely ruled out, particularly in the highly exposed classes previously mentioned. Conversely, if market conditions continue to harden, experience is likely to be far more favourable.

Primary insurance Despite substantial uncertainty regarding the effects of the bleak macroeconomic environment, we expect that we will be able to post higher premium income across all segments in the current financial year. Of great significance in this regard is the long-term nature of our client relationships, in particular in life, health and personal accident insurance.

In **life insurance**, we anticipate that our overall premium income will grow, owing to international business. This increase will result mainly from the first-time consolidation of BACAV, whose premium income we have recognised in our consolidated figures since the fourth quarter of 2008. We expect premium volume in Germany to reduce marginally, in line with general market developments. As far as new business is concerned, we are reckoning with major challenges in view of the economic environment, even if clients tend towards more secure forms of investment and provision as a result of the financial crisis. We project that regular-premium private-provision products will develop more favourably than single-premium business.

In **health business**, we are aiming for a rise of around 2% in Germany, whereas in international business we consider a higher increase in premium income possible. Especially in the field of supplementary health insurance, growth should be attainable owing to people's heightened awareness of the need to bridge the ever greater gaps in state health insurance coverage by taking out private insurance.

Premium volume in **property-casualty insurance** is likely to show an increase, especially in non-German business. We are also aiming for a slight increase in German business in 2009, although the market as a whole is stagnating. However, it must be feared that the poor overall economic situation will have a stronger impact on insurance demand than we currently expect. It is, for instance, unlikely that premium volume in German motor business will rise in 2009, since sales of new and used cars have collapsed. A counterbalancing effect derives from the fact that people's need for protection tends to rise in economically challenging times. Our goal is to keep the **combined ratio** for property-casualty business including legal expenses insurance at the good level of under 95%.

Total premium income in primary insurance should range between €18.5bn and €19.5bn in 2009, with gross premiums written reaching €17.5–18.5bn. Unlike in 2008, the premiums written by Lloyd's Watkins Syndicate will no longer be included in the primary insurance segment (€418m in 2008).

Investments The year 2008 was overshadowed by the financial crisis. Uncertainty regarding the amount and extent of the losses sustained by banks and other financial institutions caused confidence in the markets to evaporate over the course of the year. Whilst the capital markets initially stabilised at a lower level following the rescue of investment bank Bear Stearns in the spring of 2008, the difficulties encountered by the USA's main mortgage lenders and, above all, the collapse of Lehman Brothers investment bank caused the prices of all risk-carrying assets – from corporate loans, asset-backed securities, and inflation-indexed bonds to equities – to nosedive.

Central banks have reacted by introducing sharp interest-rate cuts, and governments all around the world have adopted economic programmes, providing capital injections for banks and guarantees for bank bonds worth several trillion euros. A rapid end to the turmoil in the financial sector and a restoration of confidence are not yet in sight; a deep-seated structural change in the industry has only just begun. Since the events of 2008, with a credit crunch and recession, will also impact 2009, we expect the inflation rate to continue to fall and volatilities to remain high in the current year. The yields on bonds issued by countries assessed as safe are likely to retain their present low levels. Heightened demand for investment alternatives carrying a reasonable amount of risk has already caused the greatly increased risk spreads for corporate bonds with good security to narrow slightly.

In 2009, the dollar should benefit from the fact that the volume and breadth of impulses from US monetary and fiscal policy have the potential to stabilise the confidence of international investors.

2008 was an especially bleak year for equities. After the financial crisis increasingly clouded economic prospects and caused share prices to plummet, equity investments suffered from the fact that there was sufficient liquidity on the always functioning stock markets: shares were the only risk-carrying assets that could be sold in the volume desired.

As in previous years, we again significantly reduced our equity portfolio and equity exposure in 2008. As at 31 December 2008, our economic exposure to equities accounted for only 1.7% of our investments at market value. Unrealised losses on the remaining equity portfolio totalled €319m as at 31 December 2008, and will burden our investment result for 2009 in the form of impairments if the markets remain unchanged. Unrealised gains on equities totalled €2,105m. As we expect further uncertainties on the stock markets, we are currently planning on the basis that our economic equity exposure will still be well below 5% at the end of 2009. Since an end to the financial crisis is not yet in sight, we will refrain in particular from investing in financial stocks.

If there were a recovery on the stock markets, our remaining hedging derivatives would have a negative effect on the result, whereas increases in the market value of shares are only reflected in equity. Where hedge accounting is applied to equity portfolios, changes in the value of the hedging derivatives and the shares are recognised in the income statement, where they largely offset each other.

As part of our balanced and still conservative investment policy, we aim to selectively build up our credit exposure. We have started to marginally reduce our considerable portfolio of government bonds and reinvest the capital in corporate bonds with a minimum rating of BBB–, but without increasing our exposure to the financial sector. Although we expect the current rating levels to deteriorate, we calculate that this development is already partially anticipated in the current risk spreads. We consider the rise in risk spreads exaggerated in most cases and expect that the unrealised losses incurred up to the end of 2008 in our portfolio of corporate bonds and structured products will decrease in the following years until maturity. As things stand at present and depending on further market development, we intend to realise only that portion of the losses that is incurred in regular trading in 2009.

We also intend to maintain a conservative approach in managing interest-rate risks in 2009 and to largely gear the periods to maturity in our bond portfolios to match the periods of our liabilities. For our life insurers, moreover, the hedging programme we adopted against falling interest rates will be further adjusted and refined in the current year.

Up to now, we have not invested heavily in hedge funds or private equity. We do not plan to significantly increase these investments in the current financial year.

In the previous years, we strongly cut back our investment in real estate. Our real estate portfolio at market value totalled €7.6bn as at 31 December 2008. The proportion of real estate in Germany amounted to around two-thirds. This market has shown moderate appreciation in value in the past and is unlikely to be hit by a drastic deterioration. For office properties, we anticipate that the adverse economic situation will result in a marked increase in vacancy rates worldwide. By contrast, residential property in Germany should follow a stable trend; in individual, particularly attractive markets, vacancies may even recede owing to an increase in tenant demand and restricted new building activity. In summary, we regard our real estate investments to be comparatively conservative, with the clear focus on Germany. Nevertheless, we see the current crisis as an opportunity to carefully diversify further internationally, without significantly increasing overall real estate exposure.

All in all, the financial crisis is likely to have a distinctly negative impact on our investment result in 2009. The economic slump will lead to an at least temporary deterioration in companies' credit ratings. This will probably be reflected in a decrease in the market values of the investments concerned insofar as this development has not already been anticipated in the current market values.

Owing to the high write-downs we made in our equity portfolios in 2008, our return on investment of 3.4% fell far short of our target of 4.5%. For the current financial year, our planning calculation is based on the assumption that, given the very low risk-free market interest rate, the return will not be significantly higher than in 2008. According to rough estimates for 2009, regular income, which in 2008 generated a return of 4.6% on the market values of our investments, will be significantly lower at a little over 4%. This is partly because reinvestment returns have reached a very low level but also because the dividends paid on our already much smaller equity portfolio have tended to be much reduced. Despite the selective and prudent expansion of our credit risk exposure, we do not intend to even remotely compensate for the losses in interest income from risk-free interest carriers by assuming higher investment risks. Depending on the further development of the financial markets, we cannot fully rule out the need for additional write-downs of equities and fixed-interest products with their corresponding implications for the result. Given

the extensive measures in the 2008 financial year and based on our broadly diversified investment portfolio, however, we do not see any immediate, significant threat. Taking into account all gains and losses on disposals, write-ups and write-downs and expenses for the management of investments, however, we project that our return on investment will be distinctly below our long-term target of 4.5%.

MEAG will pursue its successful business strategy for institutional investors outside the Munich Re Group. It will continue to focus on assuming the asset management of institutions which, like us, are subject to the German Insurance Control Act or to comparable restrictions in other sectors and states. This ranges from the pure management of their portfolios to the complete outsourcing of the whole investment value chain, including back office and risk controlling. In the next few years, German insurance companies will come under increasing pressure to consolidate in view of ever stricter supervisory regulations in connection with risk management and Solvency II. MEAG is able to offer its special competence in the management of capital market risks under special mandates and sees the ongoing financial crisis as an opportunity to expand sustainable business relations with institutional investors.

In the light of the continuing financial crisis, the marketing of retail funds for private clients is likely to be affected by German investors' increasing preoccupation with security. Traditional life insurance will experience a renaissance, reviving the importance of conventional products of investment and provision in ERGO's marketing programme – the main sales channel in MEAG's private client business. MEAG will exploit this trend with attractive products and marketing campaigns geared to ERGO's sales structure.

Premium of the Munich Re Group

If exchange rates remain stable compared with those at the end of 2008, we expect gross premiums written in reinsurance and primary insurance in 2009 to be in the range of €37.5–39.5bn (total consolidated premium). In view of the continued upheaval in the financial markets and the severe global recession, this prognosis is subject to considerable uncertainty.

Focus on long-term result target

The uncertainty is even greater when it comes to the development of our result, making a serious projection of the annual profit for 2009 impossible. The financial crisis and global recession have led to a fundamental change in the parameters for our result target of €18 earnings per share by 2010 announced in May 2007, i.e. before the onset of the developments described here. Therefore, achieving this target no longer appears realistic at present. In view of the considerably reduced risk-free market interest rates and our noticeably decreased equity exposure, we must expect an appreciably lower investment result for 2010 than we could have foreseen in 2007. All in all, however, we remain confident with regard to the Munich Re Group's value-based corporate development and are adhering to our long-term objective of a 15% RORAC after tax across the cycle. After the failure of many financial service providers who aimed for much higher profitability targets, it has become clear that while our objective is certainly ambitious, it does not and will not induce us to take irrational risks.

Capital management and dividend

For the 2008/2009 share buy-back programme, which will be concluded by the Annual General Meeting on 22 April 2009, we resolved to repurchase further Munich Re shares with a volume of €1bn. Altogether, we had already repurchased 8.9 million shares with a total volume of €989m by 2 March 2009. We will conclude the programme as planned by the Annual General Meeting. For the following two twelve-month periods preceding the Annual General Meeting 2011, we had intended to carry out further share buy-backs totalling over €1bn. As things stand at present, we are still able to adhere to this objective and essentially wish to do so. However, in view of the economic crisis, we wish to pause for reflection before further implementing the share buy-backs. In the interests of our shareholders, we will in particular carefully weigh up the benefit of the buy-backs against the advantages of comfortable capitalisation, also with a view to opportunities for organic and possibly external growth.

Subject to the approval of the Supervisory Board and Annual General Meeting, the proposed dividend in 2009 for the financial year 2008 is €5.50 per share (i.e. the same level as last year), equivalent to a total of €1.1bn for the shares currently issued. We are thus one of the few companies that remain committed to an attractive dividend policy in these turbulent times.

Risk report

Risk governance und risk management system

Risk management organisation, roles and responsibilities

Risk management: Remit and objectives

Risk management is a key part of our corporate management. Its task is not only to safeguard the Group's financial strength in order to satisfy our obligations to clients and create sustained value for our shareholders, but also to protect Munich Re's reputation. We achieve these objectives through global risk management encompassing all areas of our operations.

Risk management: Organisational structure

To provide for efficient risk management, Munich Re has established specific risk management functions and bodies. The Integrated Risk Management (IRM) Division supervises risk management Group-wide, building on the decentralised risk management structures in all units of the Group. It is headed by the Group Chief Risk Officer (Group CRO), to whom the decentralised risk officers report. He is supported – as are the decentralised CROs of individual units – by interdisciplinary teams of highly qualified staff and by state-of-the-art systems. Our stringent risk governance ensures that staff of the risk management organisation and the whole Group are sufficiently informed about our business and risk strategy, organisation and the relevant roles and responsibilities.

As a result, our risk management covers all units and the Group's total exposure both geographically and in terms of the units' many different business activities. This creates transparency and enables us to actively manage the risks taken.

Risk management: Risk governance

The Chief Risk Officer is a permanent member of the Group Committee of the Board of Management, the body responsible for decisions in matters concerning the whole Group. Risk topics are routinely dealt with at this level by the Group Risk Committee, whose members comprise the Group Committee plus other specialists from insurance and reinsurance. We take a similar approach at business-field level. For reinsurance, a dedicated risk committee – the Global Underwriting and Risk Committee (GURC) – has been formed from within the ranks of the Reinsurance Committee. In our primary insurance business, ERGO IRM supervises risk management and is supported in its function by decentralised risk management structures in all ERGO units. The ERGO Board of Management has established the ERGO Risk Committee as a decision-making body.

Risk management: Determining the risk strategy

The basis for accepting risks is determined by the Board of Management's directives and decisions on risk appetite. These are defined by the Group's risk strategy, adopted in the annual planning, and consider the impact on capitalisation, liquidity and earnings volatility. They include "whole portfolio criteria" as well as "supplementary" criteria designed to limit and steer peak exposures, concentrations, accumulations and systematic risks across the Group.

Of key importance within these requirements and processes is our Strategic Risk Management Framework (SRMF). Through close integration into strategic and operative planning, the SRMF enables the Group's risk appetite to be determined and the limits derived from it to be monitored, with a view not only to limiting risks but also to taking business opportunities. The calibration of the limits defined in the SRMF gives due regard to the interests both of our clients and of our shareholders. Consequently, the main limits are geared to securing our capital strength and avoiding "financial distress", i.e. restricting the likelihood of an economic loss for the year. These main criteria are supplemented by additional limits for individual risks, e.g. concentration limits for natural catastrophes, terrorism or pandemic risks, and criteria for market and credit risks. In the current financial market crisis, the SRMF requirements – especially the criteria "result volatility" – are subjected to a stress test.

Implementation of strategy and the risk management cycle

The risk appetite determined by the Board of Management enables us to consider the limits and rules relevant for risk management at the business planning stage and to anchor these in operational business management. In the event of capacity shortages or conflicts with the systems of limits and rules, there are fixed escalation and decision-making processes which ensure that business interests and risk management aspects are reconciled. If necessary, risks are ceded or hedged by means of reinsurance, securitisation or other forms of risk relief.

Our practical implementation of risk management embraces the identification, measurement, analysis and evaluation of risks, and the resultant risk reporting, limitation (reduction to a deliberately chosen measure) and monitoring. In these processes, we endeavour to consider all risks.

Risk identification is performed by means of appropriate systems and indicators (quantitative component) and through various risk surveys, which are supplemented by expert opinions and assessments by selected top managers (qualitative component). Our ad-hoc reporting process provides for staff to report risks to central risk management (IRM) at any time.

Risk measurement: We are constantly refining the tools with which we measure risks. Our suite of tools is tailored to the business or operational segment we are monitoring. In each case, the lead risk measure is an economic risk measure designed to best reflect the risk in our portfolio. We regularly compare the results of our risk model with both regulatory and rating-agency measures. These comparisons are made at many levels, including Group, segment, legal entity, risk type, geographical and line of business. We also regularly perform outside-in benchmarking of our capital-model results and participate in industry surveys to constantly challenge and continuously refine our risk measurement tools. Thus we recently undertook a comparison with the results of the Quantitative Impact Study 4 (QIS4) carried out as part of the work to create a new, harmonised regulatory regime in the European Union (Solvency II). We explain the results of our internal risk model on page 162 ff.

Risk analysis and evaluation are carried out at the top-most level in IRM, in the form of a consolidated Group view, taking into account restrictions of capital fungibility. They are based on the analyses prepared in the central risk management units of the Munich Re reinsurance group, ERGO, and MEAG. Besides this, IRM is responsible for checking and validating the analyses of downstream parties. To this end, IRM collaborates closely with many units and experts within the Group and in some cases with outside parties. This provides us with a quantitative and qualitative assessment that considers possible interdependencies between risks.

Risk limitation is integrated into the Strategic Risk Management Framework. Based on the defined risk appetite, risk-reducing measures are decided on and implemented. Various units in the Group work hand in hand to comply with the specified risk criteria, whilst simultaneously taking account of business interests. If a business unit identifies attractive business that exceeds its individual risk criteria, Corporate Underwriting and IRM analyse the potential impact of the business on the Group portfolio and the risk tolerance of the whole Group. Taking these results and the expected earnings from the business into consideration, the Risk Trading Unit and IRM draw up a risk limitation concept with which the business can be accepted in our books if appropriate.

Risk monitoring is carried out at central points for the quantitative monitoring (based on indicators), e.g. at MEAG for investments. As far as qualitative risks are concerned, we monitor these on a decentralised or centralised basis, depending on their significance and classification.

Control and monitoring systems

In mid-2008, we launched a project geared to harmonising and coordinating the various control and monitoring systems in the Group more closely, in order both to satisfy future legal requirements and to take account of the Group's development (through acquisitions, for example). This refinement of our integrated internal control system will take some time and will continue to occupy us in the current year (cf. outlook section on page 171 f.).

Our **investments** are constantly monitored on the basis of various key risk and earnings figures as part of a Group-wide early-warning system. This process is designed to ensure that we do not take any inappropriate risks and that we fulfil equity capital requirements at individual company as well as at Group level.

For **underwriting risks**, we have set ourselves limits and rules, compliance with which is supervised by the respective hierarchy levels (underwriters, senior underwriters, heads of department, heads of division, Board members). These underwriting guidelines are drawn up by Corporate Underwriting, which regularly controls their implementation by means of reviews. Exceptions have to be approved in advance by the competent committees, e.g. the Global Underwriting and Risk Committee, on which IRM is represented.

Other risks, such as operational risks, are monitored and minimised using specific approaches. For example, prior to launch all new products of the Munich Re Group – be they insurance or capital market products – have to go through a “new product process”, which ensures not only that regulations are complied with, administrative rules adhered to and risk management or accounting aspects taken into account, but also that products are critically examined in terms of risk-return criteria.

Risk reporting Internal risk reporting provides management with regular information on the risk situation, both as regards the individual risk categories (ongoing) and the whole Group (quarterly). This ensures that faint signals and negative trends are identified in sufficient time for countermeasures to be taken. IRM is responsible for the risk reporting, whilst Group Reporting attends to related annual-report requirements deriving from the accounting rules applied.

The aim of our external risk reporting is to provide a clear overview of the Group's risk situation. This includes information on our risk management methods and processes, our risk governance, and the individual risks to which Munich Re is exposed.

We not only meet current legal requirements with our risk reporting, but also create transparency for management, our clients and our shareholders.

Significant risks At Munich Re Group level, we classify risks as significant if their implications are serious enough to endanger the viability of the Group as a whole. Bearing in mind individual risk tolerance, we have applied this definition consistently to the individual business units and legal entities. The assessment of whether a risk is significant for a unit within the meaning of this definition is carried out in the risk management units, i.e. Group IRM or ERGO's IRM. This involves taking particular account of how the risks affect our main criteria of financial strength and earnings volatility.

Specifically, we distinguish between the following categories from which significant risks can arise.

[Underwriting risk: Property-casualty insurance](#)

This is defined as the risk that insured losses in property-casualty business (insurance and reinsurance) may be higher than our expectations.

Binding underwriting guidelines and limits and clear underwriting authorities regulate who is authorised and accountable for concluding insurance and reinsurance contracts in the Munich Re Group.

In addition, Corporate Underwriting draws up best-practice standards – mainly for the reinsurance segment – based on risk and performance analyses. These define how underwriters model individual risk types and which underwriting methods are to be applied. In underwriting reviews, we check compliance with the underwriting guidelines and analyse to what extent actual underwriting in the respective unit conforms to best practice.

Underwriting risk: Life and health insurance

The underwriting risk in this case is defined as the risk that insured benefits payable in life or health business (insurance and reinsurance) may be higher than expected.

In life insurance and reinsurance, biometric and lapse risks are especially relevant. The calculation of technical provisions is based on "biometric" actuarial assumptions, i.e. on assumptions with regard to mortality and disablement, which take future trends into account and are regularly adjusted to reflect new knowledge.

The remarks on underwriting guidelines and limits and on our corporate underwriting (see "property-casualty" section) also apply to life and health business.

Further risk-relevant information on our underwriting as a whole can be found under (36) Risks from insurance contracts in the life and health segment and (37) Risks from insurance contracts in the property-casualty segment, in the notes to the consolidated financial statements.

Market risk

Munich Re defines market risk as the risk of economic losses resulting from changes on the capital markets. Relevant here are, *inter alia*, the equity risk, the interest-rate risk, the property risk and the currency risk. Market price fluctuations affect investments and liabilities.

We deal with market risks by means of suitable limit and early-warning systems and through our asset-liability management. We limit the deviations in current investments from those investments that are economically required to cover underwriting liabilities (referred to as the replicating portfolio). Furthermore, we take account of risk-relevant restrictions for investments under German Commercial Code and/or IFRS accounting.

A presentation of the economic risk capital for market risks can be found on page 165 f.

Credit risk

We define credit risk as an economic loss which the Munich Re Group could incur as a result of changes in the financial profile of a counterparty, issuer of securities or other debtor with liabilities towards our Group.

In order to monitor and control our Group-wide credit risks, we have implemented a cross-balance-sheet counterparty limit system valid throughout the Group. The limits per individual counterparty (a group of companies or country) are based on its financial situation and the risk tolerance defined by the Board of Management. The Group-wide limit per counterparty is broken down for the primary insurance and reinsurance segments, and for the underwriting and investment sides. The recording of the exposure is based on the estimated financial loss in the event of default by the counterparty, after realisation of collateral (loss given default – LGD). These factors are estimated on the basis of historical evaluations and expert opinions.

In the area of retrocession, we control the default risk through the Retro Security Committee, which monitors the quality of our potential retrocessionaires independently based on various criteria, and issues appropriate limits. With this system, we achieve a broad spread of our cessions in the reinsurance market.

The credit exposure of capital market placements, such as our catastrophe bond, is generally reduced by depositing first-class collateral or integrating suitable hedging mechanisms. We further adjusted these measures in the year under review in the light of experience gained in the financial crisis.

In our fixed-interest investments, we control the related credit risk by selecting issuers of suitable quality and observing counterparty limits. We set very high standards for issuers, which are also reflected in our Group-wide investment principles. Investments in structured products are additionally limited according to their risk profile.

Operational risk

Munich Re defines operational risks as potential losses resulting from inadequate processes, technical failure, human error or external events. These include criminal acts committed by employees or third parties, insider trading, infringements of antitrust law, business interruptions, inaccurate processing of transactions, non-compliance with reporting obligations or disagreements with business partners.

We minimise such risks through systematic application of specific risk management measures. It is our declared corporate aim, which we consistently pursue, to sensitise employees to possible risks and to establish an appropriate risk culture. This encompasses the willingness to learn from mistakes and to recognise and grasp these as opportunities for improvement.

In our management of operational risks, we also focus on the following topics:

Risks in information technology

These risks are identified and limited by IRM's security and emergency planning team, which is supported by decentralised security organisations.

Risks involving human resources

Targeted personnel marketing measures, staff potential assessment and development schemes, and systematic succession planning are designed to reduce the risk of shortages in qualified staff. Modern management tools and adequate monetary and non-monetary incentives ensure a high level of motivation.

Liquidity risk

Munich Re defines liquidity risk as the risk of not being in a position to meet our financial obligations when they are due.

Our risk management system considers liquidity risks in a similar way to, for example, market risks. As a rule, they are integrated in our system of rules and limits, which is updated annually. To this end, IRM has developed a range of scenarios from which the limits and procedures are derived. IRM proposes the general regulations, procedures and limits for approval by the Board of Management. On this basis, liquidity risks are managed in the first instance on a decentralised basis, depending on the underlying scenario, with aggregation provided by our reinsurance and primary insurance liquidity management departments, which report regularly to the Board committees responsible. These departments are monitored by the two units responsible for asset-liability management in primary insurance and reinsurance, which – depending on the selected scenario – also function as liquidity risk managers for risks requiring an overall perspective.

Detailed liquidity planning at legal-entity and segment level ensures that the Group companies are able to make the necessary payments at all times. Funding requirements for Group financing activities as well as Group acquisitions and divestitures are taken into account in an overall Group-wide view.

Strategic risk

Munich Re defines strategic risk as the risk of making wrong business decisions, implementing decisions poorly, or being unable to adapt to changes in our operating environment.

We counter this risk through the activities of our Strategy Committee, which discusses strategic planning and significant strategic issues and decisions, and regularly monitors their realisation. The Strategy Committee comprises members of the Group Committee, and thus the CRO, plus the CEOs of the business fields and the Head of Group Development. As a result, strategic decision-making processes are closely intermeshed with risk management. IRM is additionally involved in the operational business planning and in the processes for mergers and acquisitions.

Reputational risk

The reputational risk is the risk of a loss resulting from damage to the Group's public image or its reputation among clients, shareholders or other parties such as the supervisory authorities.

We monitor the reputational risk through the identification processes we have established in various internal units (e.g. Group Communications). As soon as such a risk is identified, further procedure is decided on by a Reputational Risk Committee set up specifically for this purpose. This prevents risks from arising out of business transacted. The Committee is made up of experts from various units and is headed by the Compliance Officer. Our Code of Conduct formulates the main rules and principles for legally correct and responsible behaviour by employees. How Munich Re is perceived in public depends essentially on each and every member of staff. By stipulating high ethical and legal standards, we protect the reputation of the Company and the Group.

Economic risk capital

Overview of the risk situation

We assess our risk situation on the basis of qualitative and quantitative factors. This assessment is carried out by central risk management. Throughout the entire period under review, the Munich Re Group's risk situation was manageable and under control. Our carefully implemented, modern risk management processes combined with our solid capitalisation ensured the solvency and viability of the Group at all times. In addition to the underwriting and capital market risks inherent in our business model, which we can assess well and therefore consciously take (see below), there are a large number of other risks to which Munich Re – like every other company – is exposed. The incidence of these risks is not planned and their occurrence probability and impact are mostly difficult to estimate. We therefore attach great importance to closely monitoring our environment and our own Group to identify such risks in good time and to take suitable measures to avert loss or damage.

On the following pages, we provide several examples of the above-mentioned risks and how we deal with them.

Internal risk model

Munich Re steers its business on the basis of a consolidated Group view, using its own integrated risk model to determine the capital needed to ensure the Group's ability to pay even after extreme loss events.

The Munich Re Group's risk model specifies the distribution of the economic equity over a one-year time horizon. It is based on separately modelled distributions for the segments property-casualty, life and health, market, credit, and operational risks. Every risk segment embraces all the risks that the Group runs within the area concerned, both in the reinsurance and the primary insurance segments. We also consider (tail) dependencies between the segments.

To determine the economic risk capital (ERC) of the Munich Re Group, we use the economic profit-loss distribution across all risk segments. The economic risk capital corresponds to 1.75 times the value at risk of this distribution over a one-year time horizon with a confidence level of 99.5%. The value at risk with a confidence level of 99.5% gives the economic loss of the Munich Re Group which, given unchanged exposures, will be statistically exceeded once every two hundred years at most. It represents the probable risk tolerance under Solvency II. By calculating 1.75 times the capital requirement in respect of this risk tolerance, our Group follows a conservative approach, aimed at offering our clients a high level of security.

The distribution of economic losses between the individual legal entities of the Munich Re Group may vary, but the options for one unit to support another in the event of a loss are subject in part to legal constraints. In determining the Munich Re Group's capital requirement, restrictions of capital fungibility resulting from legal or regulatory requirements are therefore explicitly taken into account.

Economic risk capital (ERC)

	€bn	31.12.2008				Segment diversification	Prev. year				Change Group
		Group	Re-insurance	Primary insurance	Group		Re-insurance	Primary insurance	Group		
Property-casualty	8.0	7.8	0.6	-0.4	7.0	6.9	0.5	-0.4	1.0		
Life and health	4.0	3.5	1.1	-0.6	3.3	2.7	0.9	-0.3	0.7		
Market	5.4	4.3	3.7	-2.6	7.9	6.2	3.3	-1.6	-2.5		
Credit	2.7	2.1	0.7	-0.1	1.5	1.2	0.3	-	1.2		
Operational risk	1.4	1.0	0.4	-	1.2	0.8	0.4	-	0.2		
Subtotal	21.5	18.7	6.5	-3.7	20.9	17.8	5.4	-2.3	0.6		
Diversification effect	-5.0	-5.5	-1.3	-	-4.4	-3.8	-0.9	-	-0.6		
Total	16.5	13.2	5.2	-1.9	16.5	14.0	4.5	-2.0	-		

The table shows the economic risk capital of the Munich Re Group and its risk categories as at 31 December 2008. Over the past year, the economic risk capital remained constant at €16.5bn. The following contributory factors worked in different directions:

- The economic risk capital for the risk category “property-casualty” rose by around €1bn, of which €0.5bn is due to a modelling effect in respect of the peak risk “Storm Europe”. At year-end 2007, exposures that were difficult to assess (e.g. facultative business) were modelled using a high correlation in the aggregation process. In the 2008 model for “Storm Europe”, such exposures were included directly in the exposure calculation. The overall influence of this modelling change on the Group ERC is negligible. A further €0.25bn results from an improved modelling of and change in external relief cover (retrocession, cat bonds). Changes in business composition lead to an increase of €0.2bn.
- The rise of approximately €0.7bn in risk capital for life and health business is mainly due to the lower interest-rate level in the USA and Canada. In other words, it derives primarily from the increase in the present value of possible future losses, rather than from a higher nominal assessment of the risk.
- The economic risk capital for market risks fell by about €2.5bn, chiefly on account of the substantial decrease in the equity risk due to the reduction of our equity-backing ratio.
- The economic risk capital for credit risks rose by around €1.2bn, essentially as a consequence of the major increase in spreads on the capital markets. A growth in the volume invested in fixed-interest securities and loans also had the effect of increasing the economic risk capital.
- The change in the operational risk is due to a modelling improvement. Whereas at the end of 2007 the operational risk was essentially derived as a percentage of the ERC of the other risk categories, the calculation is now based on a number of explicit scenarios individually quantified with loss probability and loss potential. These scenarios were prepared by various expert teams from the Group in close cooperation with IRM and will be annually reviewed and refined as part of the ICS review (see outlook section on page 171 f.). Besides this, operational risks are now aggregated under the assumption of a certain diversification with the other risk categories

The table also makes clear the diversification effects we achieve through our broad spread across the different risk categories (underwriting, market, credit) and through our combination of primary insurance and reinsurance business. The diversification effect between the risk categories “property-casualty”, “life and health”, “market”, “credit” and “operational risks” grew by around €0.6bn owing to a certain levelling of the risk exposures between risk categories. The diversification effect between the primary insurance and reinsurance segments has fallen slightly, although the risk exposures have levelled in this case as well. This results from a higher discount for restrictions in capital fungibility due to the lower available financial resources.

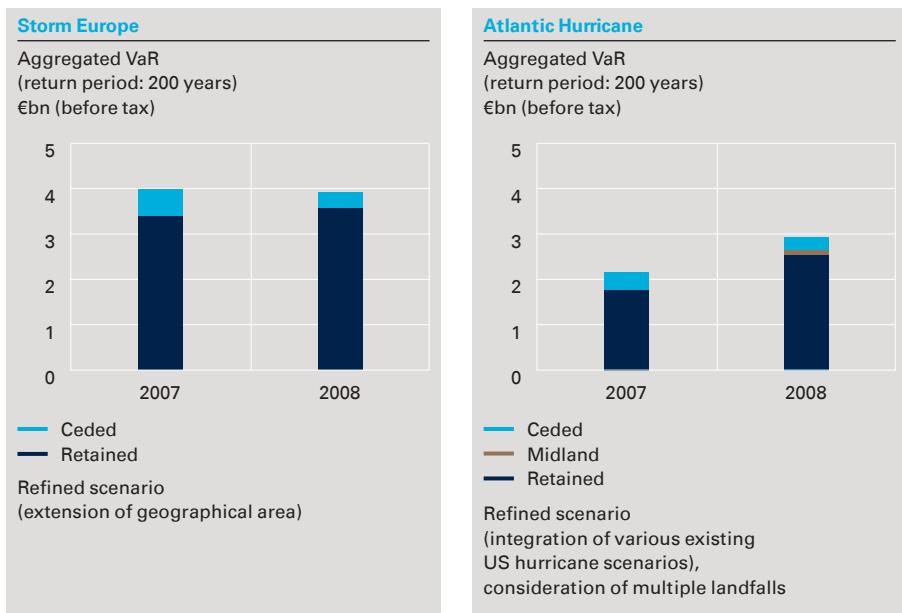
Altogether, all changes to the risk model, proceeding from the situation at the end of 2007, had an accumulated influence of €0.7bn. Given the constant ERC of €16.5bn, this means that total Group ERC effectively reduced by €0.7bn in 2008.

Property-casualty

As described, Munich Re actively controls its risk exposure. This includes restricting our exposure through limits and budgets for natural catastrophe risks, where our experts consider scenarios for possible natural events, the scientific factors, occurrence probabilities and potential loss amounts. Significant losses from claims burdens can nevertheless not be ruled out.

The greatest natural catastrophe exposure for Munich Re Group is currently the €3.6bn (value at risk for return period of 200 years) retained for the "Storm Europe" scenario. Our exposure to hurricanes in North America has been quantified using the scenarios we have developed as €2.6bn for own account.

The following diagram shows how we estimate our exposure to the two peak scenarios for a return period of 200 years.



Whereas the exposure in the Storm Europe scenario is almost unchanged, there is a clear increase in the Atlantic Hurricane scenario. The reasons for this derive from the expansion of business in North America and additional exposure from the acquisition of Midland in 2008, as well as currency translation effects.

The underwriting risk capital for property-casualty is made up as follows from the two components "basic losses" and "large and accumulation losses":

Economic risk capital (ERC) for "property-casualty"											
	31.12.2008				Segment diversification	Prev. year				Segment diversification	Change Group
	Group	Re-insurance	Primary insurance	Group		Re-insurance	Primary insurance	Group	Re-insurance		
Basic losses	3.8	3.7	0.5	-0.4	4.4	4.3	0.5	-0.4	-0.6		
Large and accumulation losses	7.5	7.4	0.3	-0.2	5.7	5.5	0.3	-0.1	1.8		
Subtotal	11.3	11.1	0.8	-0.6	10.1	9.8	0.8	-0.5	1.2		
Diversification effect	-3.3	-3.3	-0.2	-	-3.1	-2.9	-0.3	-	-0.2		
Total	8.0	7.8	0.6	-0.4	7.0	6.9	0.5	-0.4	1.0		

Losses with a return period of two or more years involving individual risks are classified as major losses. Accumulation losses are losses affecting more than one risk (or several lines of business). We classify all other losses as basic losses.

The marked increase in the risk capital for large and accumulation losses is largely due to the fact that we have refined our "Storm Europe" natural catastrophe scenario.

As a global risk carrier, we can diversify our portfolio through the broadest possible mix and spread of individual risks, thus significantly reducing the volatility of total claims payments and substantially increasing the value added by all divisional units.

Life and health

Details of the sensitivities of the value of business in force and new business in our life reinsurance and life and health primary insurance business may be obtained from the notes to the consolidated financial statements under (36) Risks from insurance contracts in the life and health segment.

Market risks

Market risks are established using a scenario-based simulation calculation. The risk category "market risks" can be broken down further into the subcategories "equity risks", "interest-rate risks", "property risks" and "currency risks". The specific spread risk is included in the interest-rate risks.

Economic risk capital (ERC) for "market"											
	31.12.2008				Segment diversification	Prev. year				Segment diversification	Change Group
	Group	Re-insurance	Primary insurance	Group		Re-insurance	Primary insurance	Group	Re-insurance		
Equity risks	2.4	1.1	1.4	-0.1	6.3	4.6	2.1	-0.4	-3.9		
Interest-rate risks	3.6	3.4	3.2	-3.0	1.7	2.2	2.3	-2.8	1.9		
Property risks	1.5	1.0	0.6	-0.1	1.5	1.0	0.6	-0.1	-		
Currency risks	2.3	2.2	0.1	-	1.0	1.0	-	-	1.3		
Subtotal	9.8	7.7	5.3	-3.2	10.5	8.8	5.0	-3.3	-0.7		
Diversification effect	-4.4	-3.4	-1.6	-	-2.6	-2.6	-1.7	-	-1.8		
Total	5.4	4.3	3.7	-2.6	7.9	6.2	3.3	-1.6	-2.5		

Equity risks

The market value of our equity investments, including participating interests, amounted to €6.3bn on 31 December 2008. At this date, on a market-value basis and without taking hedging transactions into account, the ratio of equities to total investments amounted to approximately 3.6% (13.8%).

The fall in the equity risk is mainly due to the reduction of 10.8% in the equity-backing ratio (after hedging) to 1.7%.

Interest-rate risks

We reinvested the liquid funds from reducing the proportion of investments in equities mainly in fixed-interest securities, which is reflected in a rise in the interest-rate risk in the reinsurance segment. Besides this, owing to the lower interest-rate level, the duration of our commitments (convexity) in the primary insurance segment has increased, which has also contributed to the rise in interest-rate risks. Overall, the interest-rate risk grew by around €1.9bn.

In reinsurance, the interest-rate risk on investments in units of modified duration (interest-rate sensitivity) is around 4.7, whereas the modified duration of liabilities is approximately 5.1. Owing to the larger portfolio of fixed-interest securities and loans compared with the liabilities, the reinsurance segment is nevertheless exposed to rising interest rates. The sensitivity of the available financial resources (see following section) to a parallel increase in all interest-rate curves by one basis point (DV01) amounts to approximately –€7.1m. This means a change in the available financial resources, given the parallel shift in the interest-rate curve, by the given amount.

In primary insurance, the modified duration is 5.9 for investments and 6.7 for liabilities. This exposure to falling interest rates derives mainly from the long-term options and guarantees embedded in life insurance business. The extensive hedging programme which we implemented for the first time in 2005 has contributed significantly to reducing these interest-rate risks. The sensitivity of the available financial resources (see following section) to a parallel increase in all interest-rate curves by one basis point (DV01) amounts to approximately –€11.9m. The different exposure in reinsurance and primary insurance thus has a reducing effect on our interest-rate risk at Group level.

Property risks

The market value of our real estate, including buildings on land owned by third parties, amounted to €7.6bn at 31 December 2008. In the year under review, we made write-downs of €248m on our real estate, €131m of which was for depreciation.

Credit risks

Credit risks are determined using a portfolio model, taking into account changes in value owing to rating migrations and defaults of the Munich Re Group's creditors.

The market value of our fixed-interest securities and loans as at 31 December 2008 totalled €150.4bn, representing 85% of the market value of the Munich Re Group's overall investments. These securities thus made up the bulk of the portfolio. A detailed presentation of our fixed-interest securities and loans on a market value basis, including short-term items, can be found in the section on investment performance on page 105. Ratings for these investments are provided in the notes to the consolidated financial statements under (5) Loans, (6) Other securities held to maturity, (7) Other securities available for sale, and (8) Other securities held for trading.

Our sophisticated limit system and our well-established administration systems have served us well overall, also in turbulent market situations like those experienced in 2008, and enable us to manage our investments efficiently and successfully.

Our provisions ceded to reinsurers and retrocessionaires were assignable to the following rating categories at 31 December 2008:

Ceded share of technical provisions according to rating		31.12.2008	Prev. year
%			
AAA		16.1	14.3
AA		53.8	52.1
A		23.4	24.1
BBB and lower		0.9	1.7
No rating		5.8	7.8

Available financial resources

Available financial resources

The economic risk capital – the Munich Re Group's capital requirement – differs from the actually available financial resources, with which higher-than-expected loss event can be covered. These resources are calculated as the sum of the economic equity and the available hybrid capital. The economic equity is based mainly on the Munich Re Group's IFRS equity, supplemented by various economically appropriate adjustments. Thus, for example, in life insurance market-consistent embedded value is regarded as capital available to cushion risks. This is only partially included in IFRS equity, which is why we make an adjustment to include it. On the other hand, capitalised goodwill is included in the Group's IFRS equity. As it must be assumed that this might lose value in the event of a severe loss event, it is deducted.

Available financial resources	€bn	31.12.2008	Prev. year ¹	Change
IFRS equity		21.3	25.4	-4.1
Valuation reserves		0.7	0.7	-
Value adjustments for property-casualty and life and health		2.9	7.8	-4.9
Goodwill and other intangible assets		-4.7	-3.8	-0.9
Tax effects and other		-0.6	-0.7	0.1
Economic equity		19.6	29.4	-9.8
Hybrid capital		5.0	4.9	0.1
Available financial resources		24.6	34.3	-9.7

¹ Adjusted pursuant to IAS 8.

The table shows the Munich Re Group's available financial resources as at 31 December 2008. Compared with the previous year, economic equity fell by around €9.8bn, of which approximately €2.5bn was due to dividends and share buy-backs. Furthermore, particularly the first-time consolidation of Midland, Sterling and BACAV resulted in a rise in goodwill and other intangible assets in our IFRS balance sheet, but we do not recognise this rise in the economic balance sheet. This effect reduced economic equity by around €0.9bn. The net retained profits of €1.5bn and other changes in IFRS equity

(-€3.1bn) are also reflected in the changes in economic equity.¹ Finally, the valuation adjustments for property-casualty and life and health were reduced by around €4.9bn, especially for two reasons: the market-consistent embedded value of the German life insurers declined, because the interest-rate level in the eurozone fell, while at the same time the implicit volatilities of equities and interest rates rose substantially; on the other hand, the overall reduction in the interest-rate level influenced the discounting effect for property-casualty liabilities. As there was virtually no change in the hybrid capital compared with the previous year, all effects together reduced the available financial resources by €9.7bn.

The economic capital buffer shows the amount by which the available financial resources exceed the economic risk capital. The economic solvency ratio is the quotient of the available financial resources (less announced but not yet completed capital measures such as the 2008/09 share buy-back and dividend payment for the financial year 2008) and the economic risk capital. Over the course of the time, the situation has developed as follows:

Economic solvency ratio components		€bn	31.12.2008	Prev. year ¹
(A) Economic equity			19.6	29.4
(B) Available financial resources			24.6	34.3
(C) Available financial resources after dividend and share buy-back			23.5	32.8
(D) Economic risk capital			16.5	16.5
(B) minus (D): Economic capital buffer			8.1	17.8
(C) divided by (D): Economic solvency ratio			142%	199%

¹ Adjusted pursuant to IAS 8.

The economic solvency ratio of 142% reflects Munich Re's capital strength. It is worth pointing out again here that Munich Re's economic risk capital, which produces the above solvency ratio, corresponds to 1.75 times the capital that will probably be necessary under Solvency II.

In calculating RORAC (see definition on page 59), the factor "additional available economic equity" is also relevant. It is the difference between the economic equity and the economic risk capital and totalled €3.1bn (12.9bn) in the year under review.

Regulatory solvency requirements

We report on regulatory solvency requirements in the section "Group solvency" on page 117 of the management report.

¹ The overall change of around -€4.1bn in IFRS equity is made up of the net retained earnings of €1.5bn, the change of -€2.5bn resulting from the dividend payment and share buy-backs, and other changes of -€3.1bn.

Selected risk complexes

Overarching accumulation risks Effects of the financial crisis

A current example of overarching accumulations is the impact of the financial crisis. The starting point for this now global problem was the subprime loan crisis emanating from the US markets that provided mortgage loans to borrowers with low credit ratings. The crisis has had overarching effects because it impacts not only the capital market side but also the underwriting side of our activities.

On the insurance side, current indications are that the Munich Re Group is potentially exposed mainly via the liability classes D&O and professional indemnity (PI). Specifically, there is the prospect of liability arising out of alleged misconduct in the form of inadequate advice, mismanagement or negligence on the part of sales organisations, banks or other financial intermediaries. Even if courts ultimately do not award damages, any defence costs covered under insurance policies could be considerable. Since such lawsuits are typically very prolonged, it will take several years before there is final clarity regarding the extent of the losses. At the turn of the year 2008/2009, we had received isolated provisional notifications from our liability reinsurance clients, which we have taken into account through the establishment of IBNR reserves. A prolonged, deep recession can lead to a marked rise in claims in this area.

The upheavals on the international financial markets resulting from the financial crisis already led to setbacks in the most significant economies in 2008, with the related rise in insolvency rates leading to higher claims costs in credit reinsurance. A further increase is to be expected in the course of 2009, particularly in the case of a prolonged recession. In the renewals at 1 January 2009, we have taken account of this development through adjustments in our underwriting policy and in our terms and conditions.

Munich Re has not written reinsurance of financial guarantee companies in the USA (so-called credit enhancement business) since 2003. In 2008, we were able to significantly reduce the remaining liabilities through negotiations with cedants. The decrease in liabilities has been achieved without adversely affecting our result and is a further step in reducing risk positions. We do not expect any significant losses from the remaining liabilities, which are in the low three-digit million range.

On the investment side, the financial crisis gave rise to major upheavals on the equity and bond markets in 2008. Our exposure in the financial sector – measured at market values – amounted to around €69bn at the end of the financial year. A total of 73% of this is attributable to covered securities (pfandbriefs and securities with state guarantees), with the main emphasis on Germany (56%).

Meanwhile, we have reduced the remaining exposure in subprime-related securities to €244m, which is around 0.1% of our overall investment portfolio at carrying amounts. With the subprime crisis developing into a global financial crisis, other investments of the Munich Re Group were affected by losses. Details can be found in the investment performance section on page 101. As a reaction to the continuing financial crisis, we took various measures in our credit risk management in 2008 to reduce our exposures in particular sectors and markets. Since the start of 2008, for instance, we have consistently reduced

our equity exposure, especially through hedging activities. All in all, it can be said that although our exposure in the acute cases of the crisis has been relatively small, the Munich Re Group has not been able to fully avoid the repercussions of the developments on the global capital markets.

Pandemic

A further example of an overarching accumulation risk is a major pandemic. Like other players in the insurance industry, the Munich Re Group is exposed in this case to risks from a marked increase in mortality and morbidity and from disruptions in the capital markets. We counter this risk by analysing our overall exposure in detail (scenario analysis), defining suitable limits, and optimising our risk structure by transferring risk – e.g. through the launch of the pandemic bond programme “Nathan”.

Risk of change “climate change”

Whilst we are in a position to adequately assess the known risks in our portfolio, the growing complexity and dynamism of the environment in which we operate means that we must also remain vigilant with respect to the detection and representation of new or emerging risks. We follow a multidisciplinary approach, using and combining the experience and expertise of geoscientists, biologists, specialist underwriters, lawyers, economists, sociologists and actuaries. Climate change represents one of the greatest risks of change for the insurance industry. In Munich Re’s Corporate Climate Centre, we analyse and evaluate the related risks for all divisional units and for asset management. But climate change also opens up many business opportunities. Applying the knowledge of this topic we have accumulated over decades, we exploit these opportunities – through new insurance products for innovative energy technologies, for example, or through our Kyoto Multi Risk Policy.

Risk of change “emerging risks”

Within our early-warning system, we also consider “emerging risks”. These are risks that may have unidentified effects on our risk portfolio due to changes in risk factors (e.g. legal, socio-political, scientific and technological), where the degree of uncertainty as regards the extent of damage and occurrence probability is by nature very high. We identify trends and faint signals in many ways: this includes systematic trend research in Group Development, using Munich Re’s knowledge management, and regular structured “emerging risks” surveys. Cooperation with external partners complements our internal early-warning system. One example is our collaboration with the US Rand Institute for Civil Justice on the issue of mass litigation (cf. page 33).

Legal and supervisory risks

In April of 2004, New York State Attorney General Eliot Spitzer started an investigation into the use of Placement or Market Service Agreements (PSAs) in the insurance industry. Several other US state regulators subsequently commenced similar probes into this matter, as have regulators of other countries. We received requests to provide information in connection with these investigations and are cooperating fully with the authorities. Entities of the Munich Re organisation, together with several other insurers and brokers, have been named defendants in various PSA-related class actions by US policyholders. Munich Re denies any wrongdoing and will defend itself against the accusations in the appropriate manner.

After the federal legislative procedure for the US Fairness in Asbestos Injury Resolution Act foundered in February 2006, several US states adopted legislation initiatives (tort reform) which may have a positive effect on the settling of asbestos claims. Following revelations about questionable asbestos-related disease diagnoses and resultant lawsuits, various investigation committees are at work. Similar questionable practices that have come to light in silicosis lawsuits are also relevant for US asbestos claims. These developments indicate that the legal situation in the USA is moving in a positive direction. However, it is too early to say whether and to what extent this will have favourable implications for future loss development in the insurance industry. We are currently still being affected by late-reported claims – in some cases for high amounts – for asbestos-related diseases and similar liability complexes. In addition, the recent elections in the US have led to a Democratic Congressional majority and a Democratic Presidency. Traditionally, the Democratic Party has adopted pro-consumer and pro-plaintiff legislation, which may counterbalance the positive state reforms.

As a result of our global activities, we are subject to a large number of supervisory regulations in different countries. These may give rise to legal and regulatory risks. In late 2004, the US Securities and Exchange Commission (SEC) and the Office of the New York State Attorney General initiated inquiries of Munich Re with respect to "certain loss mitigation insurance products". Subsequently, a number of other authorities in the USA and elsewhere made both formal and informal requests for similar information from Munich Re and some of its subsidiaries. We are fully cooperating with these inquiries.

Since January 2008, the Spanish antitrust authority (Comisión Nacional de la Competencia) has been investigating various primary insurers and reinsurers on the grounds of suspected collusion restricting competition in Spanish decennial liability business – compulsory insurance for guarantee claims in respect of contract works. Munich Re's Spanish branch (Münchener Rückversicherungs-Gesellschaft, Sucursal España y Portugal) is affected by this investigation and is cooperating fully with the antitrust authorities.

Outlook

Back in September 2008, in response to the emerging economic crisis, we conducted a Group-wide project to examine the impact of a recession on insurance business, in order to identify suitable control measures. This analysis included all divisional units and the Munich Re Group's experience during the 1929–33 global economic crisis. The historical analysis showed that Munich Re only suffered a very small decline in profits, because there are countervailing effects in insurance, e.g. in the property-casualty sector. A mild recession in the industrialised nations in 2009 can be expected to result in a short-term reduction in Munich Re's profit but also in opportunities from the new competitive situation that would arise. In a prolonged, deep recession, however, we expect there to be material effects, especially in credit reinsurance and special lines of property-casualty business, as well as in life primary insurance and investments. The reinsurance segment is currently experiencing a heightened interest in major transactions that often contain substantial credit risks, commit liquidity reserves, or exhibit systemic risks in the current market environment. The identification and exact risk assessment of such transactions represent a considerable additional challenge for risk management. Our divisional units have been sensitised by IRM to the significance of underwriting policy and pricing policy in this market phase.

The future regulatory requirements for risk management have become more transparent as a result of the progress made in the European Union's Solvency II project, particularly the publication of the draft Solvency II directive in mid-2007 (updated version in 2008). Munich Re supports these developments, which accord with our internal risk management approaches in all the main elements. Agreement on the directive between the European Council and the European Parliament is still pending.

In 2008, Munich Re adopted a concept for an integrated internal control system (ICS) to systematise and harmonise the Munich Re Group's existing risk management and its risk-control and steering functions. The Group-wide programme set up to implement the ICS is based on existing ICS elements. It takes account of new statutory and supervisory requirements as well as internal rules and principles, with a view to identifying, evaluating, controlling and managing risks even more efficiently and effectively. The ICS thus represents a significant component of our corporate governance. In addition to the ICS, other statutory and supervisory requirements resulting from Section 64 a of the German Insurance Control Act and the German Minimum Requirements for Risk Management are being identified and addressed.

Summary

In accordance with the prescribed process, Munich Re's Board committees explicitly defined the risk appetite for significant risk categories in the year under review and quantified it by means of specific figures. We determined and documented the risk appetite across the Group hierarchy and communicated it throughout Munich Re. Risk exposures were regularly quantified and compared with the risk tolerance. Since risk exposure was always within the risk tolerance, we assess the Munich Re Group's risk situation as manageable and under control.

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Consolidated balance sheet as at 31 December 2008

Assets	Notes	€m	€m	€m	€m	€m	Change %	Opening balance sheet Prev. year ¹
A. Intangible assets								
I. Goodwill	(1)	3,570		3,135	435	13.9	3,229	
II. Other intangible assets	(2)	1,786		1,126	660	58.6	1,044	
		5,356		4,261	1,095	25.7	4,273	
B. Investments								
I. Land and buildings, including buildings on third-party land	(3)	3,732		3,753	-21	-0.6	4,720	
Thereof:								
Investment property held for sale	(16)	16		78	-62	-79.5	1,164	
II. Investments in affiliated companies and associates	(4)	1,198		1,168	30	2.6	1,303	
III. Loans	(5)	40,426		35,502	4,924	13.9	29,528	
IV. Other securities								
1. Held to maturity	(6)	143		200	-57	-28.5	252	
2. Available for sale	(7)	114,844		119,034	-4,190	-3.5	122,915	
3. Held for trading	(8)	3,122		1,299	1,823	140.3	1,362	
		118,109		120,533	-2,424	-2.0	124,529	
V. Deposits retained on assumed reinsurance	(9)	6,646		8,206	-1,560	-19.0	11,931	
VI. Other investments	(10)	1,992		4,833	-2,841	-58.8	3,060	
		172,103		173,995	-1,892	-1.1	175,071	
C. Investments for the benefit of life insurance policyholders who bear the investment risk				2,874	2,178	696	32.0	1,820
D. Ceded share of technical provisions	(11)			5,251	5,623	-372	-6.6	6,585
E. Receivables								
I. Current tax receivables		919		751	168	22.4	710	
II. Other receivables	(12)	8,409		8,636	-227	-2.6	8,115	
		9,328		9,387	-59	-0.6	8,825	
F. Cash at bank, cheques and cash in hand			2,354	2,505	-151	-6.0	2,172	
G. Deferred acquisition costs	(13)							
Gross		8,500		8,388	112	1.3	8,298	
Ceded share		108		86	22	25.6	108	
Net		8,392		8,302	90	1.1	8,190	
H. Deferred tax assets	(14)			5,708	4,658	1,050	22.5	5,395
Thereof:								
Deferred tax assets relating to disposal groups	(16)			-	3	-3	-100.0	16
I. Other assets	(15)		4,051	3,383	668	19.7	3,541	
Total assets			215,417	214,292	1,125	0.5	215,872	

¹ Adjusted pursuant to IAS 8. For details, please see notes on recognition and measurement.

Equity and liabilities	Notes			Prev. year ¹		Change %	Opening balance sheet Prev. year ¹ €m
		€m	€m	€m	€m		
A. Equity	(17)						
I. Issued capital and capital reserve		7,388		7,388	–	–	7,388
II. Retained earnings		10,888		9,753	1,135	11.6	9,372
III. Other reserves		1,187		3,934	–2,747	–69.8	5,629
IV. Consolidated result attributable to Munich Re equity holders		1,503		3,840	–2,337	–60.9	3,425
V. Minority interests		290		501	–211	–42.1	478
		21,256		25,416	–4,160	–16.4	26,292
B. Subordinated liabilities	(18)	4,979	4,877	102	2.1	3,419	
C. Gross technical provisions							
I. Unearned premiums	(19)	6,421		5,719	702	12.3	5,870
II. Provision for future policy benefits	(20)	98,738		94,933	3,805	4.0	94,653
III. Provision for outstanding claims	(21)	45,031		44,560	471	1.1	47,072
IV. Other technical provisions	(22)	9,292		10,536	–1,244	–11.8	10,929
Thereof:							
Provision for deferred premium refunds relating to disposal groups	(16)	–		–172	172	100.0	–169
		159,482		155,748	3,734	2.4	158,524
D. Gross technical provisions for life insurance policies where the investment risk is borne by the policyholders	(23)	2,940	2,308	632	27.4	1,930	
E. Other accrued liabilities	(24)	2,982	2,793	189	6.8	2,821	
F. Liabilities							
I. Bonds and notes issued	(25)	302		341	–39	–11.4	378
II. Deposits retained on ceded business	(26)	2,086		2,231	–145	–6.5	2,241
III. Current tax liabilities	(27)	2,791		2,634	157	6.0	2,254
IV. Other liabilities	(28)	9,771		10,831	–1,060	–9.8	9,859
Thereof:							
Amounts due to banks relating to disposal groups	(16)	19		19	–	–	231
		14,950		16,037	–1,087	–6.8	14,732
G. Deferred tax liabilities	(14)	8,828	7,113	1,715	24.1	8,154	
Thereof:							
Deferred tax liabilities relating to disposal groups	(16)	–	1	–1	–100.0	65	
Total equity and liabilities		215,417	214,292	1,125	0.5	215,872	

¹ Adjusted pursuant to IAS 8.

Consolidated income statement for the financial year 2008

Items	Notes				Prev. year ¹		Change
		€m	€m	€m	€m	€m	
Gross premiums written	(28)	37,829			37,256	573	1.5
1. Earned premiums	(28)						
Gross		37,277			37,181	96	0.3
Ceded		1,553			1,511	42	2.8
Net		35,724			35,670	54	0.2
2. Investment result	(29)						
Investment income		20,064			15,078	4,986	33.1
Investment expenses		14,218			5,825	8,393	144.1
Total		5,846			9,253	-3,407	-36.8
Thereof:							
Income from associates		21			264	-243	-92.0
3. Other income	(30)	4,557			2,376	2,181	91.8
Total income (1-3)		46,127			47,299	-1,172	-2.5
4. Expenses for claim and benefits	(31)						
Gross		29,896			31,314	-1,418	-4.5
Ceded share		1,177			845	332	39.3
Net		28,719			30,469	-1,750	-5.7
5. Operating expenses	(32)						
Gross		9,330			9,271	59	0.6
Ceded share		287			393	-106	-27.0
Net		9,043			8,878	165	1.9
6. Other expenses	(33)	4,936			2,884	2,052	71.2
Total expenses (4-6)		42,698			42,231	467	1.1
7. Result before impairment losses of goodwill		3,429			5,068	-1,639	-32.3
8. Impairment losses of goodwill	(1)		167	11	156		>1,000.0
9. Operating result		3,262			5,057	-1,795	-35.5
10. Finance costs	(34)	361			333	28	8.4
11. Taxes on income	(35)	1,373			801	572	71.4
12. Consolidated result		1,528			3,923	-2,395	-61.1
Thereof:							
Attributable to Munich Re equity holders		1,503			3,840	-2,337	-60.9
Attributable to minority interests	(17)	25			83	-58	-69.9
Notes		€			€	€	%
Earnings per share	(51)	7.48			17.83	-10.35	-58.0

¹ Adjusted pursuant to IAS 8.

Statement of recognised income and expense

	2008 €m	Prev. year ¹ €m
Consolidated result	1,528	3,923
Currency translation		
Gains (losses) recognised in equity	-35	-531
Included in the income statement	-	-
Unrealised gains and losses on investments		
Gains (losses) recognised in equity	-1,397	158
Included in the income statement	-1,323	-1,334
Change resulting from valuation at equity		
Gains (losses) recognised in equity	-15	-8
Included in the income statement	-	-
Change resulting from cash flow hedges		
Gains (losses) recognised in equity	3	-15
Included in the income statement	-	-
Actuarial gains and losses on defined benefit plans		
Change in consolidated group	34	5
Other changes	-307	159
Income and expense recognised directly in equity	-3,093	-1,492
Total recognised income and expense	-1,565	2,431
Thereof:		
Attributable to Munich Re equity holders	-1,411	2,394
Attributable to minority interests	-154	37
Changes pursuant to IAS 8	6	-51

¹ Adjusted pursuant to IAS 8.

Group statement of changes in equity

		Equity attributable to Munich Re equity holders						Minority interests	Total equity	
	Issued capital	Capital reserve	Retained earnings		Other reserves		Consolidated result			
			Retained earnings before deduction of own shares	Own shares held	Unrealised gains and losses	Reserve from currency translation	Valuation result from cash flow hedges			
€m										
Status at 31.12.2006¹	588	6,800	9,824	-460	6,241	-626	14	3,433	478	26,292
Allocation to retained earnings	-	-	2,445	-	-	-	-	-2,445	-	-
Total recognised income and expenses	-	-	249	-	-1,146	-535	-14	3,840	37	2,431
Thereof:										
Adjustments pursuant to IAS 8	-	-	-31	-	-	1	-	-21	-	-51
Dividend	-	-	-	-	-	-	-	-988	-14	-1,002
Share buy-backs	-	-	-	-2,305	-	-	-	-	-	-2,305
Retirement of own shares	-	-	-1,500	1,500	-	-	-	-	-	-
Status at 31.12.2007¹	588	6,800	11,018	-1,265	5,095	-1,161	-	3,840	501	25,416
Allocation to retained earnings	-	-	2,716	-	-	-	-	-2,716	-	-
Total recognised income and expenses	-	-	-167	-	-2,725	-25	3	1,503	-154	-1,565
Thereof:										
Adjustments pursuant to IAS 8	-	-	6	-	-	-	-	-	-	6
Dividend	-	-	-	-	-	-	-	-1,124	-57	-1,181
Share buy-backs	-	-	-	-1,414	-	-	-	-	-	-1,414
Retirement of own shares	-	-	-1,498	1,498	-	-	-	-	-	-
Status at 31.12.2008	588	6,800	12,069	-1,181	2,370	-1,186	3	1,503	290	21,256

¹ Adjusted pursuant to IAS 8.

Consolidated cash flow statement for the financial year 2008

	€m	Prev. year ¹ €m
Consolidated result	1,528	3,923
Net change in technical provisions	1,067	727
Change in deferred acquisition costs	-13	-154
Change in deposits retained and accounts receivable and payable	763	4,491
Change in other receivables and liabilities	152	-458
Gains and losses on the disposal of investments	-2,145	-2,803
Change in securities held for trading	3,411	-602
Change in other balance sheet items	-423	-152
Other income/expenses without impact on cash flow	4,088	1,645
I. Cash flows from operating activities	8,428	6,617
Inflows from the sale of consolidated companies	-	70
Outflows for the acquisition of consolidated companies	1,609	165
Change from the acquisition, sale and maturities of other investments	-3,461	-4,791
Change from the acquisition and sale of investments for unit-linked life insurance	-380	-353
Other	-137	-105
II. Cash flows from investing activities	-5,587	-5,344
Inflows from increases in capital	-	-
Outflows for share buy-backs	1,498	2,305
Dividend payments	1,181	1,002
Change from other financing activities	-303	2,396
III. Cash flows from financing activities	-2,982	-911
Cash flows for the financial year (I + II + III)	-141	362
Effect of exchange rate changes on cash	-10	-29
Cash at the beginning of the financial year	2,505	2,172
Cash at the end of the financial year	2,354	2,505
Additional information		
Income tax paid (net)	-28	263
Dividends received	968	961
Interest received	6,625	6,750
Interest paid	799	784

¹ Adjusted pursuant to IAS 8.

Our reporting on the Group cash flow is based on IAS 7 and the principles of German Accounting Standard No. 2 (DRS 2) issued by the German Standards Board (DSR) for the presentation of cash flow statements. This has been supplemented by the requirements of DRS 2–20, which applies specifically to insurance companies. In accordance with the recommendations of the DSR for insurance companies, we have applied the indirect presentation method. The “cash fund” within the meaning of the German Accounting Standard is limited to cash and cash equivalents shown under balance sheet item F “cash at bank, cheques and cash in hand”. Further information on the consolidated cash flow statement can be found in the management report on page 120.

Segment reporting

Segment assets		Reinsurance			
	€m	31.12.2008	Prev. year ¹	31.12.2008	Prev. year ¹
A. Intangible assets		396	331	1,868	1,231
B. Investments					
I. Land and buildings, including buildings on third-party land		399	452	696	649
Thereof:					
Investment property held for sale		–	–	–	–
II. Investments in affiliated companies and associates		2,207	2,480	3,720	3,427
III. Loans		839	235	1,387	308
IV. Other securities					
1. Held to maturity		–	–	–	–
2. Available for sale		11,457	11,146	44,724	48,009
3. Held for trading		211	123	494	494
		11,668	11,269	45,218	48,503
V. Deposits retained on assumed reinsurance		10,142	11,082	1,271	1,714
VI. Other investments		131	609	231	1,206
		25,386	26,127	52,523	55,807
C. Investments for the benefit of life insurance policyholders who bear the investment risk		–	–	–	–
D. Ceded share of technical provisions		374	761	2,712	3,024
E. Other segment assets		5,965	5,872	9,180	8,394
Thereof:					
Other segment assets relating to disposal groups		–	–	–	–
Total segment assets		32,121	33,091	66,283	68,456

¹ Adjusted pursuant to IAS 8.

The Munich Re Group's segment reporting is based on IAS 14 and the principles of German Accounting Standard No. 3 (DRS 3) issued by the German Standards Board (DSR). This has been supplemented by the requirements of DRS 3–20, which applies specifically to insurance companies.

In accordance with the recommendations of the DSR, we have made the primary segmentation between the fields of reinsurance, primary insurance (each broken down into life and health and property-casualty) and asset management.

The individual fields of business are shown after consolidation of internal transactions within the individual field but before consolidation across segments. This is shown separately in the "consolidation" column.

Goodwill has been allocated to the segment of the respective subsidiary.

		Primary insurance		Asset management		Consolidation		Total	
Life and health		Property-casualty							
31.12.2008	Prev. year	31.12.2008	Prev. year	31.12.2008	Prev. year	31.12.2008	Prev. year	31.12.2008	Prev. year ¹
2,104	1,666	978	1,024	12	11	-2	-2	5,356	4,261
2,487	2,501	90	94	61	58	-1	-1	3,732	3,753
-	42	-	20	16	16	-	-	16	78
509	559	3,883	3,132	61	99	-9,182	-8,529	1,198	1,168
39,293	35,130	2,283	1,720	1	7	-3,377	-1,898	40,426	35,502
138	192	5	8	-	-	-	-	143	200
52,779	53,655	5,841	6,197	44	27	-1	-	114,844	119,034
1,949	380	468	302	-	-	-	-	3,122	1,299
54,866	54,227	6,314	6,507	44	27	-1	-	118,109	120,533
86	278	19	18	-	-	-4,872	-4,886	6,646	8,206
1,157	2,346	415	602	286	455	-228	-385	1,992	4,833
98,398	95,041	13,004	12,073	453	646	-17,661	-15,699	172,103	173,995
2,874	2,178	-	-	-	-	-	-	2,874	2,178
6,844	6,612	1,510	1,489	-	-	-6,189	-6,263	5,251	5,623
12,403	12,011	3,992	4,287	94	118	-1,801	-2,447	29,833	28,235
-	2	-	1	-	-	-	-	-	3
122,623	117,508	19,484	18,873	559	775	-25,653	-24,411	215,417	214,292

Segment reporting

Segment equity and liabilities

	€m	Reinsurance			
		Life and health		Property-casualty	
		31.12.2008	Prev. year ¹	31.12.2008	Prev. year ¹
A. Subordinated liabilities		1,697	1,910	2,846	2,584
B. Gross technical provisions					
I. Unearned premiums		274	186	4,609	4,080
II. Provision for future policy benefits		14,060	14,666	300	748
III. Provision for outstanding claims		3,549	3,649	34,865	34,783
IV. Other technical provisions		818	850	165	274
Thereof:					
Provision for deferred premium refunds relating to disposal groups		–	–	–	–
		18,701	19,351	39,939	39,885
C. Gross technical provisions for life insurance policies where the investment risk is borne by the policyholder		–	–	–	–
D. Other accrued liabilities		290	302	654	477
E. Other segment liabilities		4,821	5,274	8,436	7,999
Thereof:					
Other segment liabilities relating to disposal groups		–	–	–	–
Total segment liabilities		25,509	26,837	51,875	50,945

¹ Adjusted pursuant to IAS 8.

		Primary insurance		Asset management		Consolidation		Total	
Life and health		Property-casualty							
31.12.2008	Prev. year	31.12.2008	Prev. year	31.12.2008	Prev. year	31.12.2008	Prev. year	31.12.2008	Prev. year ¹
99	–	410	393	–	–	–73	–10	4,979	4,877
103	104	1,683	1,613	–	–	–248	–264	6,421	5,719
88,840	83,958	345	310	–	–	–4,807	–4,749	98,738	94,933
2,335	2,186	5,165	4,917	–	–	–883	–975	45,031	44,560
8,409	9,554	132	122	–	–	–232	–264	9,292	10,536
–	–172	–	–	–	–	–	–	–	–172
99,687	95,802	7,325	6,962	–	–	–6,170	–6,252	159,482	155,748
2,940	2,308	–	–	–	–	–	–	2,940	2,308
761	767	1,252	1,287	47	44	–22	–84	2,982	2,793
14,410	14,381	6,002	4,421	354	512	–10,245	–9,437	23,778	23,150
–	1	–	–	19	19	–	–	19	20
117,897	113,258	14,989	13,063	401	556	–16,510	–15,783	194,161	188,876
								Equity	21,256
								Total equity and liabilities	215,417
									214,292

Segment reporting

Segment income statement

			Reinsurance	
			Life and health	Property-casualty
	€m	31.12.2008	Prev. year ¹	31.12.2008
Gross premiums written		7,130	7,293	14,652
Thereof:				
From insurance transactions with other segments		677	704	657
From insurance transactions with external third parties		6,453	6,589	13,995
1. Earned premiums				
Gross		7,038	7,286	14,327
Ceded		263	267	879
Net		6,775	7,019	13,448
2. Investment result				
Investment income		2,833	2,188	9,382
Investment expenses		1,581	675	6,600
Total		1,252	1,513	2,782
Thereof:				
Income from associates		1	3	15
3. Other income		768	383	1,581
Total income (1–3)		8,795	8,915	17,811
4. Expenses for claims and benefits				
Gross		5,458	5,608	10,063
Ceded share		154	180	657
Net		5,304	5,428	9,406
5. Operating expenses				
Gross		1,895	2,019	4,212
Ceded share		74	61	193
Net		1,821	1,958	4,019
6. Other expenses		736	451	1,564
Total expenses (4–6)		7,861	7,837	14,989
7. Result before impairment losses of goodwill		934	1,078	2,822
8. Impairment losses of goodwill		–	3	–
9. Operating result		934	1,075	2,822
10. Finance costs		112	115	222
11. Taxes on income		249	246	845
12. Consolidated result		573	714	1,755
Thereof:				
Attributable to Munich Re equity holders		573	714	1,755
Attributable to minority interests		–	–	–

¹ Adjusted pursuant to IAS 8.

The ERGO Insurance Group has concluded profit-transfer agreements with nearly all of its German insurance companies. In our segment reporting, expenditure incurred as a result of profit transfer is deemed appropriation of net income. The segments are thus adjusted to eliminate these expenses, the elimination being carried out in the "consolidation" column.

Primary insurance				Asset management		Consolidation		Total	
Life and health		Property-casualty							
31.12.2008	Prev. year	31.12.2008	Prev. year	31.12.2008	Prev. year	31.12.2008	Prev. year	31.12.2008	Prev. year ¹
11,495	11,647	5,916	5,639	–	–	–1,364	–1,547	37,829	37,256
3	1	27	18	–	–	–1,364	–1,547	–	–
11,492	11,646	5,889	5,621	–	–	–	–	37,829	37,256
11,489	11,641	5,777	5,484	–	–	–1,354	–1,511	37,277	37,181
829	877	936	1,104	–	–	–1,354	–1,511	1,553	1,511
10,660	10,764	4,841	4,380	–	–	–	–	35,724	35,670
8,370	6,971	852	942	67	136	–1,440	–791	20,064	15,078
5,648	2,139	531	209	23	17	–165	–52	14,218	5,825
2,722	4,832	321	733	44	119	–1,275	–739	5,846	9,253
–22	243	2	–15	25	18	–	–	21	264
2,119	1,325	768	642	289	317	–968	–994	4,557	2,376
15,501	16,921	5,930	5,755	333	436	–2,243	–1,733	46,127	47,299
11,836	13,969	3,553	3,263	–	–	–1,014	–1,144	29,896	31,314
558	566	657	624	–	–	–849	–956	1,177	845
11,278	13,403	2,896	2,639	–	–	–165	–188	28,719	30,469
1,752	1,774	1,808	1,828	–	–	–337	–458	9,330	9,271
165	237	211	308	–	–	–356	–468	287	393
1,587	1,537	1,597	1,520	–	–	19	10	9,043	8,878
2,321	1,402	1,108	921	265	340	–1,058	–1,132	4,936	2,884
15,186	16,342	5,601	5,080	265	340	–1,204	–1,310	42,698	42,231
315	579	329	675	68	96	–1,039	–423	3,429	5,068
167	–	–	1	–	7	–	–	167	11
148	579	329	674	68	89	–1,039	–423	3,262	5,057
1	–	64	23	2	3	–40	–	361	333
140	221	109	25	30	26	–	–2	1,373	801
7	358	156	626	36	60	–999	–421	1,528	3,923
–4	319	145	579	36	59	–1,002	–417	1,503	3,840
11	39	11	47	–	1	3	–4	25	83

Segment reporting

Investments¹

	Reinsurers		Primary insurers		Asset management		Total	
	€m	31.12.2008	Prev. year ²	31.12.2008	Prev. year	31.12.2008	Prev. year	31.12.2008
Europe	36,126	42,821	103,699	99,324	399	559	140,224	142,704
North America	25,535	23,983	3,944	3,349	28	20	29,507	27,352
Asia and Australasia	2,494	2,944	752	1,632	25	30	3,271	4,606
Africa, Near and Middle East	1,099	684	93	40	—	—	1,192	724
Latin America	635	678	148	109	—	—	783	787
Total	65,889	71,110	108,636	104,454	452	609	174,977	176,173

¹ After elimination of intra-Group transactions across segments.

² Adjusted pursuant to IAS 8.

Secondary segmentation is based on the geographical origin of our investments and gross premiums written.

Gross premiums written¹

	Reinsurers		Primary insurers		Total			
	€m	2008	Prev. year ²	2008	Prev. year	2008	Prev. year ²	
Europe								
Germany		1,691	2,541	12,831	13,070	14,522	15,611	
UK		3,819	3,729	281	303	4,100	4,032	
Italy		441	531	505	562	946	1,093	
Spain		527	542	510	484	1,037	1,026	
Belgium		51	77	659	597	710	674	
Others		2,541	2,404	2,266	1,992	4,807	4,396	
	9,070	9,824	17,052	17,008	26,122	26,832		
North America								
USA		5,908	4,668	134	145	6,042	4,813	
Canada		1,279	1,705	12	8	1,291	1,713	
	7,187	6,373	146	153	7,333	6,526		
Asia and Australasia								
Australia		562	548	7	5	569	553	
China		553	331	11	16	564	347	
Japan		344	323	2	5	346	328	
Korea		261	327	108	2	369	329	
Others		495	447	22	31	517	478	
	2,215	1,976	150	59	2,365	2,035		
Africa, Near and Middle East								
South Africa		311	328	1	1	312	329	
Israel		149	143	2	—	151	143	
Others		376	312	21	28	397	340	
	836	783	24	29	860	812		
Latin America		1,140	1,033	9	18	1,149	1,051	
Total		20,448	19,989	17,381	17,267	37,829	37,256	

¹ After elimination of intra-Group reinsurance across segments.

Presentation of the figures in the management report differs from this (cf. note on page 71).

² Adjusted pursuant to IAS 8.

Notes to the consolidated financial statements

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Notes to the consolidated financial statements

Application of International Financial Reporting Standards (IFRSs)

Munich Re's consolidated financial statements have been prepared on the basis of Section 315 a paragraph 1 of the German Commercial Code in conjunction with Article 4 of Regulation (EC) No. 1606/2002 of the European Parliament and of the Council of 19 July 2002 concerning the application of international accounting standards. We have complied with the international accounting standards adopted in accordance with Articles 2, 3 and 6 of the aforementioned Regulation and with the Commercial Code rules designated in Section 315 a para. 1 of the German Commercial Code. The consolidated financial statements thus also meet all the requirements of IFRSs. Our presentation currency is the euro (€). Amounts are rounded to million euros, with figures in brackets referring to previous years.

Since 2002, the standards adopted by the International Accounting Standards Board (IASB) have been referred to as International Financial Reporting Standards (IFRSs); the standards from previous years continue to bear the name International Accounting Standards (IASs). Insofar as we do not explicitly refer to a particular standard, we use the two terms synonymously. In accordance with the rules of IFRS 4, underwriting items are recognised and measured on the basis of US GAAP (United States Generally Accepted Accounting Principles). We have also observed the German accounting standards (DRSs) adopted by the German Standardisation Council (DSR) provided they do not contradict the applicable IFRSs.

Declaration of conformity with the German Corporate Governance Code in accordance with Section 161 of the German Stock Companies Act

In November and December 2008 respectively, the Board of Management and Supervisory Board of Munich Reinsurance Company and the corresponding Boards of ERGO Versicherungsgruppe AG published, in each case, an updated declaration of compliance with the German Corporate Governance Code as per Section 161 of the German Stock Companies Act and made this declaration permanently available to shareholders on the internet.

Figures for previous years

In accordance with IAS 8, changes in recognition and measurement necessitated the retrospective adjustment of the consolidated balance sheet as at 31 December 2007 and the consolidated income statement for the financial year 2007. Details are given in the section "Changes in accounting policies". Otherwise, the previous-year figures have been calculated on the same basis as the figures for the financial year 2008.

Consolidation

Consolidated companies

In accordance with IAS 27, the consolidated financial statements include Munich Reinsurance Company (the parent) and all the entities in which Munich Re owns, directly or indirectly, more than half of the voting power or over which it has the factual ability to exercise control (subsidiaries). This applies analogously to the special funds held by Munich Re and its subsidiaries. The only exceptions are subsidiaries and special funds determined as being not material for assessing the Group's financial position; insurance and reinsurance companies are consolidated regardless of their size.

The following disclosures regarding first-time recognition are provisional, since among other things there may still be changes in the purchase prices.

The Midland Company

On 3 April 2008, through its subsidiary Munich-American Holding Corporation, Wilmington, Delaware, the Munich Re Group acquired 100% of the share capital of US primary insurer The Midland Company (Midland) based in Cincinnati, Ohio, for a total price of €860.9m. The purchase price includes all the incidental acquisition expenses and other charges, such as fees for consulting services and taxes incurred. Via its wholly owned subsidiary American Modern Insurance Group, Midland is a leading US specialty insurer in niche segments such as insurance for manufactured housing, motorcycles, watercraft, snowmobiles and mobile homes and also credit life insurance.

Midland's opening balance sheet at the time of acquisition includes the following IFRS figures (amounts directly prior to the business combination): intangible assets of €267.5m (35.2m), investments of €642.5m (642.5m), a ceded share of technical provisions of €89.3m (89.3m), receivables of €104.4m (104.4m), cash at banks, cheques and cash in hand of €130.8m (130.8m), deferred acquisition costs of €74.2m (74.2m), deferred tax assets of €34.0m (34.0m), other assets of €54.3m (54.3m), subordinated liabilities of €15.4m (15.4m), gross technical provisions of €466.0m (466.0m), other provisions and liabilities of €170.5m (170.5m), and deferred taxes of €138.9m (56.4m).

The income and expenses for the months of April to December have been recognised in the consolidated income statement. In these months, Midland contributed –€19.3m to the consolidated result. In the financial year 2008, Midland posted a result of €26.7m and gross premiums written of €740.7m.

In connection with the acquisition of Midland, goodwill of €254.7m and other intangible assets of €237.5m have been recognised. The goodwill is based mainly on the exploitation of additional future business potential and the use of the sales and insurance know-how and the capital strength of the Munich Re Group. In addition, we expect cost savings from economies of scale.

Bank Austria Creditanstalt Versicherung AG

On 30 September 2008, through its subsidiary ERGO Austria International AG, the Munich Re Group acquired a further 60.54% of the shares in Bank Austria Creditanstalt Versicherung AG for a price of €416.1m, thus increasing its stake to 90%. Bank Austria Creditanstalt Versicherung AG is a specialty life, pension and personal accident insurer. The company is the fifth-largest life insurer (in terms of market share) in the Austrian market.

The opening balance sheet of Bank Austria Creditanstalt Versicherung AG at the time of acquisition includes the following IFRS figures (the figures in brackets are the amounts directly prior to the business combination): intangible assets of €403.7m (0.9m), investments of €3,850.6m (3,850.6m), a ceded share of technical provisions of €306.7m (306.7m), other assets of €255.0m (502.0m), gross technical provisions of €3,920.1m (4,097.5m), and other provisions and liabilities of €559.5m (485.6m). In addition, a contingent liability of €3.8m was assumed for a letter of support.

In connection with the acquisition of the shares in Bank Austria Creditanstalt Versicherung AG, goodwill of €402.8m and other intangible assets of €201.1m have been recognised. The acquisition of shares totalling 29.46% in the past had resulted in goodwill of €25.4m. Altogether, an amount of €226.5m has been recognised for our stake of 90%. The goodwill and other intangible assets are derived from synergies and the growth potential of Bank Austria Creditanstalt Versicherung AG. Particularly through Bank Austria's reputation, brand and existing distribution network, ERGO will significantly expand the banking business and systematically use Austria as a platform for tapping the promising central and eastern European markets. Considerable added value from synergies is scheduled to result from combining operations, transferring know-how and efficient use of resources following the restructuring of all ERGO companies in Austria.

Since the time of acquisition, the provisional figures have been adjusted. The adjustments mainly involve the change of –€98.2m in intangible assets and of €7.1m in goodwill.

In the course of the impairment test, we identified impairment losses of goodwill, leading to a write-down of €165.7m to €60.8m.

The company was consolidated for the first time in our financial statements as at the end of the third quarter 2008. Income and expenses for the months October to December have been recognised in the consolidated income statement. In this period, Bank Austria Creditanstalt Versicherung AG contributed an IFRS result of –€24m to the 2008 consolidated financial result. In the financial year 2008, Bank Austria Creditanstalt Versicherung AG posted total premiums of €543.4m and a result of –€40.1m. These figures are based on local accounting.

Sterling Life Insurance Company and Olympic Health Management Systems, Inc.

On 1 April 2008, through its subsidiary Munich American Holding Corporation, Wilmington, Delaware, the Munich Re Group acquired 100% of the share capital of Sterling Life Insurance Company (Sterling) and Olympic Health Management Systems, Inc. (Olympic) – both based in Bellingham, Washington State – at a total price of €222.6m. The purchase price includes all the incidental acquisition expenses and other charges, such as fees for consulting services and taxes incurred.

Sterling is a leading provider of health insurance benefits for seniors in the USA. The additionally acquired service company Olympic offers administration and management services for insurers. Olympic's operations currently focus on managing Sterling's business operations.

The combined opening balance sheet of Sterling and Olympic at the time of acquisition, after elimination of their reciprocal business, includes the following provisional IFRS figures (the figures in brackets are the amounts directly prior to the business combination): intangible assets of €74.4m (0.6m), investments of €95.9m (95.9m), a ceded share of technical provisions of €2.3m (2.3m), cash at banks, cheques and cash in hand of €92.4m (92.4m), receivables, deferred acquisition costs and other assets of €24.5m (25.4m), gross technical provisions of €71.8m (71.8m), and other provisions, liabilities and deferred taxes of €27.9m (28.2m).

In connection with the acquisition of the two companies, goodwill of €32.8m and other intangible assets of €73.8m have been recognised. The goodwill is based mainly on the exploitation of additional future business potential.

Since the time of acquisition, the provisional figures have been adjusted. The adjustments mainly involve the reduction of the purchase price by €6.9m and the reduction of goodwill by €5.1m. The income and expenses for the months April to December 2008 have been recognised in the consolidated income statement. During this period, Sterling and Olympic contributed €11.8m to the consolidated result for 2008. In the financial year 2008, Sterling and Olympic posted gross premiums written of €700.3m and a result of €9.4m.

ERGO Daum Direct Auto Insurance Co.

As at 28 March 2008, we acquired 65% of the share capital of ERGO Daum Direct Auto Insurance Co., Seoul, for a price of €68.9m. This price, which includes all the incidental acquisition expenses and other charges, such as fees for consulting services and taxes incurred, was paid in part as a capital increase.

ERGO Daum Direct has an exceptional competitive position in the South Korean direct motor insurance market and is the country's second-largest motor insurer.

The opening balance sheet at the time of acquisition includes the following IFRS figures (the figures in brackets are the amounts directly prior to the business combination): intangible assets of €7.6m (1.8m), investments of €112.1m (112.1m), a ceded share of technical provisions of €55.0m (55.0m), other assets of €50.7 (50.7m), gross technical provisions of €121.9m (121.9m), and other liabilities of €53.4m (51.8m).

In connection with the acquisition of the shareholding in ERGO Daum Direct Auto Insurance, goodwill of €33.9m and other intangible assets of €5.8m have been recognised. The goodwill and other intangible assets are based on our expectations regarding the company's profitability and growth potential, deriving in particular from the company's good reputation and brand, experienced management team, and integration in ERGO's international insurance network.

Since the time of acquisition, the provisional figures have been adjusted. The adjustments mainly involve a change of –€18.8m in intangible assets and of €7.6m in goodwill.

The income and expenses for the months of April to December 2008 have been recognised in the consolidated income statement. During this period, ERGO Daum Direct contributed –€8.2m to the consolidated result for 2008. In the financial year 2008, ERGO Daum Direct posted gross premiums written of €150.8m and a result of –€20.4m.

The Roanoke Companies, Inc.

On 30 April 2008, through its subsidiary Munich Re Holding Company (UK) Ltd., the Munich Re Group acquired 100% of the shares in the holding company The Roanoke Companies, Inc. (TRC), Schaumburg/Chicago (Illinois) for a price of €34.0m. The purchase price includes a two-year earn-out agreement with the seller, estimated at €4.5m, as well as incidental acquisition expenses, other costs such as fees for consulting services and taxes incurred. TRC owns Roanoke Trade Services, Inc. and Roanoke Real Estate Holdings, Inc. The TRC Group operates as a major marine insurance underwriting agency and broker in the USA (licensed in 50 states).

The TRC Group's opening balance sheet at the time of acquisition includes the following IFRS figures (the figures in brackets are the amounts directly prior to the business combination): intangible assets of €43.0m (3.2m), other assets of €18.1m (18.1m), other liabilities of €12.4m (12.4m) and deferred taxes of €14.7m (0.2m).

In connection with the acquisition of the shareholding in TRC, other intangible assets of €42.8m and deferred tax liabilities of €14.5m have been recognised.

The income and expenses for the months of May to December 2008 have been recognised in the consolidated income statement. In the financial year 2008, the TRC Group contributed €0.7m to the consolidated result for 2008. In the financial year 2008, the TRC Group posted other income of €12.0m and a result of €1.5m.

No other business combinations as per IFRS 3 are material, either individually or in the aggregate.

An overview of the group of consolidated companies and other important shareholdings is provided on page 275. The list of all our shareholdings is filed with the Company Registry in Munich under registration number HRB 42039.

Number of consolidated subsidiaries¹

	Germany	Other countries	Total
31 Dec. previous year	77	159	236
Additions	7	55	62
Reductions	5	7	12
31 Dec. financial year	79	207	286

¹ In addition, 63 German and 3 non-German special funds were included in the consolidated group.

Number of unconsolidated subsidiaries

	Germany	Other countries	Total
31 Dec. previous year	203	106	309
Additions	18	64	82
Reductions	36	15	51
31 Dec. financial year	185	155	340

Consolidation principles

The balance sheet date of the consolidated companies is generally 31 December. Some of the special funds have other balance sheet dates. These funds are consolidated on the basis of interim accounts as at 31 December.

We generally consolidate subsidiaries and special funds as soon as the Group holds the majority of the voting shares or has the factual ability to exercise control. In the case of affiliated companies in which the Munich Re Group

owns 50% or less of the voting power, the parent-subsidiary relationship is based mainly on the power to cast the majority of votes at meetings of the board of directors or equivalent governing body, in accordance with IAS 27.13 (d). Acquisitions are accounted for by the purchase method. In order to determine the equity capital at the time of acquisition, we measure the assets and liabilities of the subsidiary or special fund at fair value. The acquisition costs of the shares are netted against the equity capital apportionable to the Group at the time of acquisition. Any residual positive amount is capitalised as goodwill. Profits earned by the subsidiaries or special funds after their first consolidation are included in Group equity. Amounts relating to intra-Group transactions (receivables and liabilities, expenses and income between consolidated companies) are eliminated unless they are determined as not being material.

Associates

Pursuant to IAS 28, associates are generally all entities which are not subsidiaries but on whose financial and operating policies the investors can exercise a significant influence.

In the case of shareholdings amounting to between 20% and 50% of the voting power, the entities in question are deemed to be associates. Where we hold less than 20% of the voting power, entities are classified as associates nevertheless if there is existence of significant influence on our part, mainly as a result of representation on the board of directors or equivalent governing body of the investee in accordance with IAS 28.7 (a). Investments in associates are valued at equity unless they are not material for assessing the Group's financial position.

Number of companies valued at equity		
	Germany	Other countries
31 Dec. previous year	27	35
Additions	–	2
Reductions	3	5
31 Dec. financial year	24	32
		56

Number of other associates (not valued at equity)		
	Germany	Other countries
31 Dec. previous year	22	16
Additions	22	2
Reductions	3	4
31 Dec. financial year	41	14
		55

Recognition and measurement

The annual financial statements of the consolidated subsidiaries and special funds are subject to uniform accounting policies. For the annual financial statements of significant associates we have, in accordance with IAS 28.27, made appropriate adjustments to conform the accounting policies to those of the Munich Re Group. Valuations used in the financial statements of associates not classified as significant are maintained. In preparing the consolidated financial statements, we have to use our judgement in applying accounting policies and to make estimates and assumptions that affect the year-end items shown in the consolidated balance sheet, the consolidated income statement and the disclosures on contingent assets and liabilities. Details are provided in recognition and measurement methods for the individual items.

Changes in accounting policies Application of the recognition, measurement and disclosure methods follows the principle of consistency. In the financial year 2008, no new IFRSs had to be applied for the first time.

In October 2008, waiving the usual due process, the IASB adopted amendments to IAS 39, Financial Instruments: Recognition and Measurement, and IFRS 7, Financial Instruments: Disclosures, which became valid retroactively as from 1 July 2008 upon publication. The amendment to IAS 39 allows financial instruments under the categories "held for trading" and "available for sale" to be reclassified under certain circumstances. If such reclassifications are made, the amended IFRS 7 requires separate disclosures to be made in the notes. The Munich Re Group has not availed itself of these new rules.

No other amended IFRSs needed to be observed in the financial year 2008. There was no significant impact on the Munich Re Group's financial statements from the mandatory first-time application of the interpretations IFRIC 11, IFRS 2, Group and Treasury Share Transactions, and IFRIC 14, IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction.

In the financial year 2008, we adjusted previous-year figures retrospectively pursuant to IAS 8 for the following items:

a) As from the financial year 2008, insurance contract guarantees dependent on the capital markets, which we previously recognised and measured as technical provisions on the basis of US GAAP (SOP 03-1), are measured at fair value with impact on profit or loss. If they are embedded in a host contract, they are separated from this. The guarantees are shown as derivatives under investments or "other liabilities" respectively. Currently, this concerns the derivative components of variable annuities. The adjustment results in more relevant and reliable information as regards the recognition and measurement of such contract components in the financial statements.

b) The omitted amortisation of an acquired portfolio has been remedied.

The consolidated balance sheets for financial years 2006 and 2007 are affected by the adjustments pursuant to IAS 8 in the following manner:

Consolidated balance sheet

	31.12.2006 as originally recognised	Changes due to adjustments pursuant to IAS 8 2006	31.12.2006
	€m	a)	b)
Assets			
A. II. Other intangible assets	1,055	–	–11
B. IV. 3. Other securities held for trading	1,343	19	–
D. Ceded share of technical provisions	6,593	–8	–
H. Deferred tax assets	5,368	27	–
Equity and liabilities			
A. II. Retained earnings	9,400	–31	–5
A. IV. Consolidated result attributable to Munich Re equity holders	3,425	10	–2
C. II. Provision for future policy benefits	94,660	–7	–
C. III. Provision for outstanding claims	47,046	–4	–
F. IV. Other liabilities	9,805	54	–
G. Deferred tax liabilities	8,142	16	–4

Consolidated balance sheet

	31.12.2007 as originally recognised	Total changes pursuant to IAS 8 in 2006	Changes due to adjustment pursuant to IAS 8 in 2007	31.12.2007	
	€m		a)	b)	
Assets					
A. II. Other intangible assets	1,142	-11	-5	1,126	
B. IV. 3 Other securities held for trading	1,280	19	-	1,299	
D. Ceded share of technical provisions	5,626	-8	5	5,623	
H. Deferred tax assets	4,619	27	12	4,658	
Equity and liabilities					
A. II. Retained earnings	9,781	-28	-	9,753	
A. IV. Consolidated result attributable to Munich Re equity holders	3,854	-	-11	-3	3,840
C. II. Provision for future policy benefits	94,935	-7	5	-	94,933
C. III. Provision for outstanding claims	44,564	-4	-	-	44,560
F. IV. Other liabilities	10,762	54	15	-	10,831
G. Deferred tax liabilities	7,095	12	8	-2	7,113

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

Consolidated income statement

	2007 as originally recognised	Changes due to adjustments pursuant to IAS 8 2007	2007	
	€m	a)	b)	
Gross premiums written				
1. Earned premiums – gross	37,262	-6	-	37,256
Earned premiums – ceded	37,187	-6	-	37,181
Earned premiums – net	1,512	-1	-	1,511
35,675	-5	-	-	35,670
2. Investment income	15,071	7	-	15,078
Investment expenses	5,799	26	-	5,825
Investment result – total	9,272	-19	-	9,253
Total income (1-3)	47,323	-24	-	47,299
4. Expenses for claims and benefits – gross	31,317	-3	-	31,314
Expenses for claims and benefits – ceded share	843	2	-	845
Expenses for claims and benefits – net	30,474	-5	-	30,469
6. Other expenses	2,882	-3	5	2,884
Total expenses (4-6)	42,234	-8	5	42,231
7. Result before impairment losses of goodwill	5,089	-16	-5	5,068
9. Operating result	5,078	-16	-5	5,057
11. Taxes on income	808	-5	-2	801
12. Consolidated result	3,937	-11	-3	3,923
Thereof:				
Attributable to Munich Re equity holders	3,854	-11	-3	3,840
Earnings per share	€	17.90	-0.05	-0.02
				17.83

The following items were dealt with via an adjustment of retained earnings in the financial year 2008, since retrospective application for prior periods did not appear appropriate on cost-benefit grounds:

- a) In connection with the conversion and introduction of IT systems, a change-over was made to uniform methods for the valuation of assets, receivables and liabilities, and deferred taxes. This resulted in a reduction of retained earnings by €16m.

b) An increase which had been omitted in the interest rate of bonds was subsequently effected in the year under review. This added €20m to retained earnings.

c) Besides this, there were further adjustments whose effects were so small that we have dispensed with a detailed presentation. Altogether, these increased retained earnings by €2m.

The adjustments have the following effects on the consolidated balance sheet for the financial year 2008:

Consolidated balance sheet

	€m	a)	b)	c)	Total
Assets					
A. II. Other intangible assets	-3	-	-	-	-3
B. IV. 2. Other securities available for sale	-2	-	3	1	
D. Ceded share of technical provisions	-	-	-1	-1	
E. II. Other receivables	-15	-	-	-	-15
H. Deferred tax assets	7	-	-	-	7
Equity and liabilities					
A. II. Retained earnings	-16	20	2	6	
A. III. Other reserves	-	-21	-	-21	
C. IV. Other technical provisions	3	-	-	-	3
F. III. Current tax liabilities	3	-	-	-	3
G. Deferred tax liabilities	-3	1	-	-	-2

Standards or changes in standards not yet entered into force

Application of the following amended standards is mandatory for financial years beginning on or after 1 January 2009:

IFRS 2 (rev. 2008), Share-based Payment – Vesting Conditions and Cancellations, provides for clarification regarding exercise conditions and premature termination of plans. The new rules have no repercussions for the Munich Re Group.

IFRS 8, Operating Segments, provides new rules for segment reporting. First-time application will result not only in more extensive information in the notes but also in a more detailed disclosure of the segments and a change in result presentation. Based on the internal management of the Munich Re Group, the previous segment "life and health" will be broken down into two separate segments "life" and "health" in primary insurance. The result presentation for the whole Group will thus be based on the management approach and show an operating result adjusted to eliminate non-operating components. This operating result will be broken down into a technical and a non-technical result.

The main change to IAS 1 (rev. 2007), Presentation of Financial Statements, is that tax effects included in income and expenses recognised directly in equity are disclosed separately in the notes to the consolidated financial statements. In addition, IAS 1 now requires the publication of the opening balance sheet of the earliest comparative period, plus the relevant disclosures in the notes, when an accounting policy is applied retrospectively. Non-owner changes in equity now have to be disclosed in a separate statement of recognised income and expense, with only the total shown in the changes in equity. Furthermore, there is the option to rename individual components of the financial statements or to publish a single statement of income combining the income statement and the statement of recognised income and expense.

The change in IAS 23 (rev. 2007), **Borrowing Costs**, deletes the option under which it has been permissible for borrowing costs directly attributable to the acquisition, construction or production of an asset to be recognised as an expense in the period in which they are incurred. Such borrowing costs must now be capitalised as part of the cost of the asset in every case. As the Munich Re Group has not availed itself of the option, this change will not have any impact.

The change to IAS 32 (rev. 2008), **Financial Instruments: Presentation**, regarding so-called puttable financial instruments and obligations arising on liquidation makes it possible to classify cancellable instruments as equity in future under certain conditions. At the same time, new disclosure requirements have been included in IAS 1 (rev. 2008), **Financial Statements Presentation**, which concern redeemable instruments and obligations in the event of liquidation. The amendments have no practical significance for the Munich Re Group.

As part of its first Annual Improvement Process Project, the IASB published an omnibus standard in May 2008 summarising minor changes – i.e. changes that are not part of one of the IASB's major projects – to a total of 19 standards. Some of these involve amendments that have an impact on accounting, whilst others merely concern changes in terminology or editorial changes that have virtually no effect on recognition or measurement in the financial statements. The changes have no significant implications for the Munich Re Group.

Application of the following amended standards is mandatory for financial years beginning on or after 1 July 2009:

The revision of IFRS 3 (rev. 2008), **Business Combinations**, and IAS 27 (rev. 2008), **Consolidated and Separate Financial Statements**, involves changes in the balance sheet recognition of non-controlling interests, successive acquisition of shares, acquisition-related costs, and contingent consideration payable. Effects of the new rules for the Munich Re Group will, owing to their prospective application, result only for future acquisitions of shareholdings and will be dependent on the conditions of the respective acquisition.

The change in IAS 39 (rev. 2008), **Financial Instruments: Recognition and Measurement**, **Eligible Hedged Items**, provides guidance on designating a portion of cash flows or a risk as a “hedged item” and the extent to which inflation risks may be designated “hedged items”. The new rules will have no impact for the Munich Re Group.

In addition, the interpretations IFRIC 13, **Customer Loyalty Programmes**, IFRIC 15, **Agreements for the Construction of Real Estate**, IFRIC 16, **Hedges of a Net Investment in a Foreign Operation**, and IFRIC 17, **Distributions of Non-cash Assets to Owners**, have not yet entered into force.

Assets

A Intangible assets

In accordance with IFRS 3, **goodwill** from the first-time consolidation of subsidiaries is tested for impairment at least once annually, i.e. the carrying amount of goodwill is compared with the recoverable amount and, if this recoverable amount is lower, a write-down is made for impairment equivalent to the amount of the difference.

Other **intangible assets** mainly comprise purchased and internally generated software and acquired insurance portfolios. The software is carried at cost less straight-line amortisation. The useful life assumed is generally three to five years, in exceptional cases up to ten years. Acquired insurance portfolios are recognised at their present value on acquisition (PVFP – present value of future profits). This is determined as the present value of expected profits from the portfolio acquired, without consideration of new business and tax effects. The items in question are amortised in accordance with the realisation of the profits from the insurance portfolios underlying the PVFP calculation. The other intangible assets are tested for impairment at each balance sheet date and write-downs made if required. Write-downs of software and other intangible assets are distributed in the consolidated income statement between investment expenses, expenses for claims and benefits and operating expenses. If it is not possible to allocate the expenses to these functional areas, they are shown under "other expenses". Write-downs of purchased insurance portfolios are recognised under operating expenses. Write-ups of software and other intangible assets are included in "other income".

B Investments

Land and buildings shown under investments comprise property used by third parties and are carried at cost. Maintenance expenses are recognised as an expense. Structural measures equivalent to 5% or more of the historical cost of a building are generally assessed with regard to whether they have to be capitalised. Buildings are depreciated on a straight-line basis in accordance with the component approach over 40 to 55 years, depending on the weighted useful life for their specific building class. If the recoverable amount of land and buildings falls below their carrying amount, the carrying amount is written down to the recoverable amount. Impairment losses are recognised as investment expense in the consolidated income statement, and reversals of impairment losses as investment income. Land and buildings classified as "held for sale" are recognised at the lower of book value or fair value less sales costs.

Investments in affiliated companies that we do not consolidate because they are not material are carried at fair value insofar as this can be reliably measured. If the investments are quoted on a stock exchange, we use the share prices at the balance sheet date; for other investments, the fair value is measured using the discounted earnings or net asset value method. Changes in the fair value are recognised in "other reserves" under unrealised gains and losses.

Investments in associates are valued by the equity method at the Group's proportionate share of their net assets. The associate's earnings attributable to the Group are included in the investment result. As a rule, the equity and annual result from the most recent individual or consolidated financial statements of the associate are used; exceptional transactions of material importance for a true and fair picture of the associate's financial position are recognised in the same financial year. Investments in associates that are not material for assessing the Group's financial position are accounted for at fair value insofar as this can be reliably measured. To determine the fair value, we use the share prices at the balance sheet date if the investments are quoted on a stock exchange; for other investments, the fair value is measured using the discounted earnings or net asset value method.

Loans are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are carried at cost in accordance with the effective interest method. Write-downs for impairments are made in cases where the repayment of a loan can no longer be expected.

Fixed-interest securities held to maturity are measured at amortised cost.

Fixed-interest or non-fixed-interest securities available for sale that are not held for trading or recognised under loans are accounted for at fair value. If there are no stock market prices available, fair values are based on recognised valuation methods in line with the present value principle. Unrealised gains or losses are calculated taking into account interest accrued and, after deduction of deferred taxes and the amounts apportionable to policyholders by the life and health insurers on realisation (provision for deferred premium refunds), are recognised directly in equity.

Securities held for trading comprise all fixed-interest and non-fixed-interest securities that we have acquired for trading purposes to earn short-term profits from price changes and differences; in addition, they include all derivative financial instruments with positive fair values which we have acquired for hedging purposes but which do not meet the strict requirements of IAS 39 for hedge accounting, and the positive fair values of the derivative components of variable annuities. We also show here structured securities classified as recognised at fair value with impact on profit or loss. Such classification can only be made at the time of acquisition; a reclassification to this category in later periods is not possible.

Securities held for trading are accounted for at fair value at the balance sheet date. If there are no stock market prices available, fair values (particularly with derivatives) are based on recognised valuation methods. The Munich Re Group uses a range of valuation models for this purpose, details of which may be obtained from the following table:

Valuation models			
Derivatives	Pricing method	Parameters	Pricing model
Stock options traded on the stock exchange	Listed price	–	–
OTC stock options	Theoretical price	Listing of underlying shares Effective volatilities Money-market interest rate Dividend yield	Black-Scholes (European) Cox, Ross and Rubinstein (American)
Stock index futures	Listed price	–	–
Equity forwards	Theoretical price	Money-market interest rate Share price Dividend yield	Present-value method
Total return swaps (hedge fund certificates)	Theoretical price	Market values of the funds Interest-rate curve	Present-value method
Swaptions	Theoretical price	At-the-money volatility matrix and skew Swap curve Money-market interest-rate curve	Black-76
Interest-rate swaps	Theoretical price	Swap curve Money-market interest-rate curve	Present-value method
Currency options	Theoretical price	Volatility Currency spot rates Money-market interest-rate curve	Garman-Kohlhagen
Currency forwards	Theoretical price	Currency spot rates Money-market interest-rate curve	Present-value method
Insurance derivatives (without variable annuities)	Theoretical price	Market values of the cat bonds Interest-rate curve	Present-value method
Insurance derivatives (variable annuities)	Theoretical price	Biometric and lapse rates Volatilities Interest-rate curve Currency spot rates	Present-value method
Credit default swaps	Theoretical price	Credit spreads Recovery rates Interest-rate curve	Present-value method

All unrealised gains or losses from such valuation are included in the investment result.

Deposits retained on assumed reinsurance are receivables from our cedants for cash deposits that have been retained under the terms of reinsurance agreements; they are accounted for at face value.

Other investments are measured at amortised cost.

Use of financing instruments

Financial assets in our direct portfolio are generally accounted for at the settlement date. Investments held in special funds are accounted for at the trade date.

Determining fair values

IAS 39 defines the fair value of a financial instrument as the amount for which a financial asset could be exchanged, or a financial liability settled, between knowledgeable, willing parties in an arm's length transaction. Where financial instruments are quoted in an active market, the quoted prices are used to determine the fair values. If this is not the case, we determine the values using recognised valuation methods with observable market data. Only if no such market parameters are available do we use valuation models based on non-observable, company-specific parameters.

Where in individual cases the valuation is based on such company-specific data, we specifically point this out. Insofar as realistic changes in the assumptions underlying such valuation methods would have significant effects on profit or loss or on equity, we would disclose this as well.

Securities lending

Securities that we lend by way of securities lending continue to be recognised in our balance sheet, as the main risks and rewards remain with Munich Re; securities that we have borrowed are accounted for by the lender. Fees from securities lending are shown in the investment result.

Net investment result

The net investment result comprises regular income, income from write-ups, gains and losses on the disposal of investments, other income, write-downs of investments, management expenses, interest charges and other expenses. Regular income and expenses from investments measured at fair value without impact on profit or loss are calculated in accordance with the effective interest method, i.e. any premiums or discounts are deducted from or added to the acquisition costs, with impact on profit or loss, until maturity.

Impairment

Regularly, at each balance sheet date, we assess whether there is any substantial objective evidence of impairment in a financial asset or group of financial assets.

In the case of all fixed-interest securities held to maturity or available for sale, as well as all non-fixed-interest securities, impairments in value – in contrast to temporary diminutions – are recognised as an expense in the income statement. IAS 39.59 contains a list of factors providing substantial objective evidence of impairment of such financial assets. In addition, IAS 39.61 states that for equity investments, a significant or prolonged decline in the fair value of the investment below its acquisition cost is objective evidence of impairment. These rules are given more concrete form by means of internal guidelines. For equities quoted on the stock exchange, we assume a significant decline in fair value if the market value at the review date is at least 20% below the average purchase price or has been lower than this amount for at least six months. In the case of fixed-interest securities and loans, the main basis for establishing evidence of impairment is the rating of the issue, the rating of the issuer or creditor, and the market assessment.

We determine acquisition cost on the basis of the average purchase price. In the case of an impairment, a write-down is made to the fair value at the balance sheet date, i.e. generally the publicly quoted market price. If there is a further fall in the fair value of equity investments that have already been written down once, a further write-down recognised in the income statement is made again immediately, even if the impairment is only temporary. Impairments recognised in profit or loss may not be reversed through profit or loss.

In the impairment test for financial assets (with the exception of equity investments), we generally first assess whether objective evidence of impairment exists for individual items. If this is not the case, and also in the case of individually insignificant items, the impairment test is carried out collectively on the basis of groups of similar financial assets. Assets that are individually assessed for impairment are not included in the collective assessment. The amount of the probable loss is measured as the difference between the amortised cost of the asset or group of assets and the present value of estimated future cash flows. The impairment thus determined is recognised as an expense. We generally deduct impairments directly from the items concerned on the assets side, without using a value adjustment account. If, in a subsequent period, the reasons for the impairment cease to apply, the impairment is reversed, with impact on the income statement. The resultant carrying amount may not exceed the original amortised cost.

C Investments for the benefit of life insurance policyholders who bear the investment risk

These are investments for policyholders under unit-linked life insurances. They are measured at fair value. Unrealised gains or losses from changes in fair value are included in the investment result. These are matched by corresponding changes in the technical provisions (equity and liabilities item D), which are taken into account in the underwriting result. The decision to recognise these investments at fair value, with impact on profit or loss, avoids valuation mismatches that would otherwise occur due to different measurement of the corresponding provisions.

D Ceded share of technical provisions

The share of technical provisions for business ceded by us is determined from the respective technical provisions in accordance with the terms of the reinsurance agreements, cf. the notes on equity and liabilities item C. Appropriate allowance is made for credit risk.

E Receivables

Current tax receivables and other receivables are accounted for at face value. Adjustments of value are made if there is objective evidence of impairment, cf. assets item B – Impairment.

F Cash with banks, cheques and cash in hand

Cash and cheques are accounted for at face value.

G Deferred acquisition costs

Deferred acquisition costs comprise commissions and other variable costs directly connected with acquisition or renewal of insurance contracts. In life business and long-term health primary insurance, acquisition costs are capitalised and amortised over the duration of the contracts, either proportionally to the premium income (FAS 60) or proportionally to the respective contracts' expected gross profit margins calculated for the relevant year of the contract term (FAS 97, 120). The allocation of individual contracts to the FASs concerned is shown in the notes on equity and liabilities item C. In determining the amount of amortisation, we take into account an actuarial interest rate and

changes resulting from the disposal of contracts from the portfolio. In property-casualty business, short-term health primary insurance and health reinsurance, the deferred acquisition costs are amortised on a straight-line basis over the average term of the policies, from one to five years. Deferred acquisition costs are regularly tested for impairment using a liability adequacy test as per IFRS 4; cf. notes on equity and liabilities item C.

H Deferred tax assets

Under IAS 12, deferred tax assets must be recognised in cases where asset items have to be valued lower, or liability items higher, in the consolidated balance sheet than in the tax accounts of the Group company concerned and these differences will be eliminated at a later date with a corresponding effect on taxable income (temporary differences). Also included are tax assets deriving from tax loss carry-forwards. We take into account the tax rates of the countries concerned and the company's respective tax situation; in some cases, for purposes of simplification, we use uniform tax rates for individual circumstances or subsidiaries. Where unrealised losses on securities available for sale are recognised in equity (see notes on asset item B – Other securities available for sale), the resulting deferred tax assets are recorded but not recognised in income. Deferred tax assets are reversed if a realisation of the corresponding receivable is not probable.

I Other assets

Other assets are generally carried at amortised cost. The owner-occupied property recognised here is accounted for as outlined under the notes on asset item B – Land and buildings. Impairment losses and impairment losses reversed in the Group's owner-occupied property are distributed between the underwriting functional areas.

Equity and liabilities

A Equity

The item **issued capital and capital reserve** contains the amounts that the equity holders of the parent have paid in on shares. The capital reserve is reduced by the externally generated costs directly connected with equity capital measures, after taking into account tax effects.

Under **retained earnings**, we show the profits which consolidated companies have earned and retained since becoming part of the Munich Re Group, and income and expenses resulting from changes in the consolidated group. In addition, the adjustment amount resulting from changes in accounting policies for earlier periods not included in the consolidated financial statements is recognised in the opening balance of the retained earnings for the earliest prior period reported.

Own shares held by Munich Re at the balance sheet date have been deducted directly from retained earnings.

Other reserves contain unrealised gains and losses resulting from the recognition of other securities available for sale at fair value and from investments in unconsolidated affiliated companies and in associates that we do not value at equity. These reserves also include unrealised gains and losses from the valuation of associates at equity, differences resulting from the currency translation of foreign subsidiaries' figures, and the valuation result from the hedging of cash flows. Write-ups of equity investments available for sale are also recognised in this equity item.

Minority interests are accounted for as part of equity in the balance sheet. These are the shares of third parties in the equity of subsidiaries that are not wholly owned directly or indirectly by the parent. Direct minority interests in special funds are recognised under "other liabilities". The portion of the result attributable to minority interests is shown in the consolidated result.

B Subordinated liabilities

Subordinated liabilities are liabilities which, in the event of liquidation or insolvency, are only satisfied after the claims of other creditors. They are measured at amortised cost in accordance with the effective interest method.

C Gross technical provisions

The technical provisions are shown gross in our balance sheet, i.e. without deduction of the share apportionable to business ceded by us; cf. the explanatory remarks on assets item D. The ceded share is calculated and accounted for on the basis of the individual reinsurance agreements. Acquisition costs for insurance contracts are capitalised and amortised over the terms of the contracts, cf. notes on assets item G. We base the measurement of technical provisions on the standards FAS 60, FAS 97 and FAS 120. Credit insurance contracts are accounted for in accordance with the rules of IFRS 4.

Unearned premiums are accrued premiums already written for future risk periods. For primary insurance, these premiums are calculated separately for each insurance policy *pro rata temporis*; for reinsurance, nominal percentages are used in some cases where the data for a calculation *pro rata temporis* is not available. The posting of unearned premiums is restricted to short-term underwriting business, i.e. property-casualty business (except long-term accident cover) and parts of health business, in both primary insurance and reinsurance.

The **provision for future policy benefits** in long-term underwriting business is posted for the actuarially calculated value of obligations arising from policy-holders' guaranteed entitlements. As well as life insurance, this concerns portions of health and personal accident insurance, insofar as the business is conducted like life insurance. Measurement is usually based on the prospective method, by determining the difference between the present values of future benefits and future premiums. The actuarial assumptions used for their calculation include, in particular, assumptions relating to mortality, disablement and morbidity, as well as assumptions regarding interest-rate development, lapses and costs. These are estimated on a realistic basis at the time the insurance contracts are concluded and they include adequate provision for adverse deviation to make allowance for the risks of change, error and random fluctuations. The actuarial assumptions are adjusted if this is shown to be necessary by a liability adequacy test in accordance with IFRS 4.

The measurement of the provisions for future policy benefits depends on the type of contract, being based either on FAS 60 (life primary insurance without performance-related participation in surplus, health primary insurance and the bulk of reinsurance), on FAS 97 (life primary insurance with limited premium payment, life primary insurance on the universal life model, unit-linked life insurance and life reinsurance for assumed policies based on FAS 97) or on FAS 120 (life primary insurance with performance-related participation in surplus).

For contracts in accordance with FAS 60, the provision for future policy benefits is calculated from the present value of estimated future policy benefits (including claims adjustment expenses) less the present value of future net level premiums. Net level premium is that part of the gross premium that is needed to finance future policy benefits. Life primary insurance contracts with limited premium payment as per FAS 97 are generally valued in the same way as contracts falling under FAS 60. For all other contracts as per FAS 97, an account is kept to which net level premiums and interest earnings are credited and from which risk premiums and administration expenses are debited, not all credits and debits being contractually fixed at the time the contracts are concluded. The provision for future policy benefits for life primary insurance where policyholders bear the investment risk themselves (unit-linked life insurance) is shown separately under equity and liabilities item D. In the case of contracts as per FAS 120, the provision for future policy benefits comprises the net level premium reserve and liabilities for terminal dividends. The net level premium reserve is calculated from the present value of guaranteed policy benefits (including acquired bonuses but excluding claims adjustment expenses) less the present value of future net level premiums. The net level premium is the net premium less the portion of the premium envisaged for covering claims adjustment expenses. The actuarial assumptions are generally the same as those used for premium calculation. The provision for terminal dividends is built up proportionally with a fixed share of the expected gross profit margins. The same method is used for this as for determining the amortisation of the deferred acquisition costs.

The **provision for outstanding claims** is for payment obligations arising from insurance contracts in primary insurance and reinsurance where the size of the claim or the timing of the payment is still uncertain at the balance sheet date. Part of the provision is for known claims for which individually calculated provisions are posted. Another part is for expenses for claims whose occurrence is not yet known (e.g. because they have not been reported yet or have not yet manifested themselves). A third class of provisions covers claims which are known but whose extent has turned out to be greater than originally foreseen. All these provisions include expenses for internal and external loss adjustment expenses. The provision for outstanding claims is based on estimates: the actual payments may be higher or lower. The amounts posted are the realistically estimated future amounts to be paid; they are calculated on the basis of past experience and assumptions about future developments (e.g. social, economic or technological factors). Future payment obligations are generally not discounted; exceptions are some provisions for occupational disability pensions and annuities in workers' compensation and other lines of property-casualty business, which we discount. For determining the provision for outstanding claims, the Munich Re Group uses a range of actuarial projection methods, including the chain ladder and the Bornhuetter-Ferguson method. In applying the statistical methods, we regard large exposures separately. The standard actuarial methods we use are applied both to the run-off triangles for the payments and to the run-off triangles for the reported claims, so that we obtain a range of estimates for the ultimate loss. Within this range, a realistic estimated value for the ultimate loss is determined.

Other technical provisions mainly include the provision for premium refunds in primary insurance and the provision for profit commission in reinsurance. Provisions for premium refunds are posted in life and health primary insurance for obligations involving policyholder bonuses and rebates that have not yet been irrevocably allocated to individual contracts at the balance sheet date. Where these provisions are posted on the basis of national regulations, a retrospective approach is usually taken based on supervisory or individual contract regulations. Besides this, there are provisions for deferred premium refunds, which are posted for the amounts apportionable to policyholders from the valuation differences between IFRS and local GAAP on the basis of the expected future participation quotas. For unrealised gains and losses on investments available for sale, which are recognised directly in equity (see assets item B), the resultant provision for deferred premium refunds is also posted without impact on profit or loss; otherwise, changes in the provision for deferred premium refunds are recognised in the income statement.

All technical provisions are regularly subjected to a liability adequacy test in accordance with IFRS 4. If current experience shows that the provisions posted on the basis of the original assumptions – less the related deferred acquisition costs and the present value of the related premiums – are inadequate to cover the expected future benefits, we adjust the relevant technical provisions with recognition in profit or loss and disclose this under impairment losses/unscheduled changes in the notes to the consolidated balance sheet; see (13) Deferred acquisition costs and (20) Provision for future policy benefits). The appropriateness of unearned premiums and of the provision for outstanding claims is assessed in relation to the realistically estimated future

amount to be paid. The appropriateness of the provision for future policy benefits is assessed on the basis of realistic estimates of the actuarial assumptions, the proportional investment result and, for contracts with participation in surplus, the future profit sharing.

D Gross technical provisions for life insurance policies where the investment risk is borne by the policyholders

This item encompasses the provision for future policy benefits in life primary insurance where policyholders bear the investment risk themselves (unit-linked life insurance). The value of the provision for future policy benefits essentially corresponds to the market value of the relevant investments shown under assets item C. Besides this, as under the provision for future policy benefits as per FAS 97, they may include additional premium components; cf. the notes on assets item C. Changes in this provision are fully recognised in the underwriting result. Insofar as these changes derive from unrealised gains and losses from alterations in the fair values of the related investments, they are matched by opposite changes of the same amount in the investment result. The decision to recognise these provisions at fair value, with impact on profit or loss, avoids valuation mismatches that would otherwise occur due to different measurement of the corresponding investments.

E Other accrued liabilities

This item includes **provisions for post-employment benefits**. The companies in the Munich Re Group generally give commitments to their staff in the form of defined contribution plans or defined benefit plans. The type and amount of the pension obligations are determined by the conditions of the respective pension plan. In general, they are based on the staff member's length of service and salary. Under defined contribution plans, the companies pay fixed contributions to an insurer or a pension fund. This fully covers the companies' obligations. Under defined benefit plans, the staff member is promised a particular level of retirement benefit either by the companies or by a pension fund. The companies' contributions needed to finance this are not fixed in advance. If pension obligations are covered by assets held by a legally separate entity (e.g. a fund or a contractual trust agreement in the form of a two-way trust) – assets that may only be used to cover the pension commitments given and are not accessible to creditors – the pension obligations are shown less the amount of these plan assets. If the fair value of the plan assets exceeds the related outsourced pension obligations, this repayment claim is shown under "other receivables".

Pension obligations are recognised in accordance with IAS 19, Employee Benefits, using the projected unit credit method and based on actuarial studies. The calculation includes not only the pension entitlements and current pensions known on the balance sheet date but also their expected future development.

The interest rate at which the pension obligations are discounted is based on the yields for long-term high-quality bonds (e.g. commercial or government bonds). Actuarial gains or losses from pension obligations and plan assets result from the deviation of actual risk experience from estimated risk experience. They are recognised directly in equity, without impact on profit or loss.

Other provisions are established in the amount of the probable requirement; such amounts are not discounted if the interest-rate effect is insignificant.

F Liabilities

This item comprises bonds and notes issued, deposits retained on ceded business, current tax liabilities, and other liabilities. Financial liabilities are generally recognised at amortised cost. Derivatives (derivative financial instruments and derivative components of variable annuities) are recognised at fair value.

Current tax liabilities comprise current taxes on income and other taxes of the individual companies, based on their respective national taxation. Current tax liabilities are posted – without discounting – in accordance with the probable tax payments for the year under review or previous years. Deferred tax obligations are shown under equity and liabilities item G “deferred tax liabilities”.

Direct minority interests in special funds are measured at fair value.

G Deferred tax liabilities

Under IAS 12, deferred tax liabilities must be recognised if asset items have to be valued higher, or liabilities items lower, in the consolidated balance sheet than in the tax accounts of the reporting company and these differences will be eliminated at a later date with a corresponding impact on taxable income (temporary differences); cf. notes on assets item H.

Foreign currency translation

Munich Re's presentation currency is the euro (€). The balance sheets of foreign subsidiaries whose national currency is not the euro are translated in accordance with the functional currency principle using the year-end exchange rates, and their income statements using quarterly average exchange rates. Any exchange differences arising in the process are recognised in equity ("other reserves"). Foreign currency transactions are essentially translated into the Group companies' respective national currencies in accordance with IAS 21. In the case of reinsurance, the principle of currency matching also applies. This means that Group companies which write a significant portion of their business in foreign currency generally safeguard themselves against exchange losses by attempting to match assets and liabilities in the same currency. Where exchange gains or losses occur nevertheless in the translation of foreign currency transactions into the national currencies of the consolidated companies, they are accounted for under "other income" and "other expenses" respectively. The following table shows the exchange rates of the most important currencies for our business:

Currency translation rates										
	Balance sheet						Income statement			
	31.12.2008	Prev. year	Q4 2008	Q3 2008	Q2 2008	Q1 2008	Q4 2007	Q3 2007	Q2 2007	Q1 2007
Rate for €1	31.12.2008	Prev. year	Q4 2008	Q3 2008	Q2 2008	Q1 2008	Q4 2007	Q3 2007	Q2 2007	Q1 2007
Australian dollar	1.99375	1.66515	1.96454	1.69554	1.65619	1.65661	1.62891	1.62295	1.62254	1.66693
Canadian dollar	1.71600	1.44300	1.59798	1.56434	1.57810	1.50544	1.42040	1.43712	1.48145	1.53558
Pound sterling	0.96685	0.73445	0.84344	0.79462	0.79268	0.75742	0.70867	0.67997	0.67890	0.67059
Rand	12.85100	9.99215	13.08630	11.68260	12.14370	11.30410	9.80743	9.75928	9.56422	9.48893
Swiss franc	1.47955	1.65525	1.52322	1.61101	1.61184	1.60073	1.66006	1.64788	1.64734	1.61619
US dollar	1.39005	1.46205	1.32036	1.50378	1.56232	1.49863	1.44800	1.37407	1.34828	1.31062
Yen	126.0080	163.3330	126.7410	161.7500	163.4090	157.7030	163.8160	161.9790	162.7890	156.4280

Notes to the consolidated balance sheet – Assets

(1) Goodwill

Development of goodwill	€m	2008	Prev. year
Gross carrying amount at 31 Dec. previous year	3,157	3,240	
Accumulated impairment losses at 31 Dec. previous year	22	11	
Carrying amount at 31 Dec. previous year	3,135	3,229	
Currency translation differences	44	-94	
Additions	558	59	
Reductions	-	48	
Impairment losses	167	11	
Carrying amount at 31 Dec. financial year	3,570	3,135	
Accumulated impairment losses at 31 Dec. financial year	189	22	
Gross carrying amount at 31 Dec. financial year	3,759	3,157	

The goodwill results mainly from the acquisition of Munich Re America in November 1996 and from the acquisition of the additional shares in the ERGO Insurance Group in 2001 and 2002. The additions of €558m are largely due to the acquisition of shares in The Midland Company, Bank Austria Creditanstalt Versicherung AG, Sterling Life Insurance Company, and ERGO Daum Direct Auto Insurance Co., which we describe in detail in our notes on the consolidated companies.

Impairment test

For impairment testing, IFRS 3 in conjunction with IAS 36 requires that the goodwill be allocated to the cash-generating units or groups of cash-generating units expected to derive benefit (in the form of cash flows) from the business combination. To ascertain whether there is any impairment, the carrying amount (including allocated goodwill) of a cash-generating unit or group of cash-generating units is compared with that unit's or group's recoverable amount. The recoverable amount is the higher of

- its fair value less costs to sell and
- its value in use (present value of the future cash flows expected to be derived from a cash-generating unit or group of cash-generating units). The future cash flows used for determining the value in use are based on management's most recent financial plans/forecasts. Beyond the period covered by these financial plans/forecasts, the future cash flows are estimated by extrapolating the prognoses on which the financial plans/forecasts are based, applying a growth rate for the subsequent years.

We regard as "significant" within the meaning of IAS 36.134 amounts of 10% or more of the total Group goodwill. This concerns goodwill resulting from the acquisition of Munich Re America (carrying amount: €992m) and from the acquisition of shares in the ERGO Insurance Group (carrying amount: €1,754m). For the impairment test, these amounts have been allocated to the cash-generating units "reinsurance property-casualty segment" and "ERGO" respectively. The recoverable amount of these units was determined on the basis of the value in use. During the financial year 2008, the impairment test did not give rise to any need for write-downs of goodwill for these cash-generating units.

The goodwill from the acquisition of Bank Austria Creditanstalt Versicherung AG was allocated to the group of cash-generating units "Austria" in the fourth quarter of 2008. This group comprises the Austrian holding company ERGO Austria International, the Austrian companies Bank Austria Creditanstalt Versicherung and Victoria Volksbanken Versicherungsaktiengesellschaft, along with their central and eastern European subsidiaries, given that ERGO is systematically using Austria as a platform for tapping the promising central and eastern European markets. Prior to the impairment test, goodwill of €228m and intangible assets of €395.9m were allocated to this group of cash-generating units.

The recoverable amount of this group was calculated as the fair value less costs to sell. It mainly comprises the appraisal value, which is made up of the embedded value and the value of new business. The calculation of the appraisal value takes into account the financial planning and forecasts of the company's management. The appraisal value used for the impairment test was based on the actuarial assumptions currently available at the time of the test. We made a flat-rate deduction of 1% for costs to sell. No expected synergetic added value was included.

The impairment test identified an impairment of €167m, and the goodwill was written down by this amount. The write-down is recognised in the income statement under the item "impairment losses of goodwill" and is apportionable to the life and health primary insurance segment.

No impairment needed to be recognised for the intangible assets, as these had already been valued with appropriate risk discounts.

Main assumptions for calculating the cash-generating units' value in use

The impairment test for the goodwill from the acquisition of Munich Re America and from the acquisition of ERGO was carried out on the basis of the current cash flow plans at the time of testing in the third quarter.

Underlying assumptions for the cash flow prognoses at the time of the impairment test

Reinsurance property-casualty segment	ERGO
Significant assumptions regarding cash flow planning (at the time of the planning)	In the detailed planning phase, we expect rising premium income with a marginal decrease in claims expenditure and loss ratios compared with 2008. Our general assumption was that there will be moderate upward movement on the equity markets, with interest-rate levels falling slightly in Europe and rising slightly in the USA.
Management approach for determining the values allocated to the main assumptions	The planning assumptions are based on past experience combined with external information on market evolution.
Detailed cash flow planning on the basis of financial plans/forecasts	3 years
Growth rates used for extrapolating beyond the cash flow planning based on financial plans/forecasts ¹	0–1.5% 1.5% as maximum growth factor as per Circular 2108/2003 of the German Insurance Association
Discount rates ¹	10–12% The discount rate has been determined in the form of the weighted average cost of capital, using the Capital Asset Pricing Model (CAPM). The discount rate is calculated from a risk-free basic interest rate plus a risk loading and the market interest rate for borrowing, taking into account the capital structure. To derive the capital cost components (risk loading, capital structure), a peer group of international insurers and reinsurers is used, in accordance with IAS 36. The derivation of the risk-free basic interest rate and the borrowing costs is based on market data. It is a pre-tax calculation. A reconciliation to Munich Re's cost of capital is not possible.

¹ In the impairment test, sensitivity analyses with the stated ranges were performed for these parameters.

As regards the cash-generating units which, in themselves, have not been allocated a significant portion of the goodwill, the key assumptions for determining their recoverable amounts differ materially from one another. There is therefore no requirement for aggregation in accordance with IAS 36.135.

(2) Other intangible assets

Development of other intangible assets		Software	Purchased insurance portfolios	Other	2008	Prev. year ¹
	€m					
Gross carrying amount at 31 Dec. previous year	1,017	1,113	586	2,716	2,385	
Accumulated amortisation and accumulated impairment losses at 31 Dec. previous year	669	592	329	1,590	1,341	
Carrying amount at 31 Dec. previous year	348	521	257	1,126	1,044	
Currency translation differences	5	–	2	7	–7	
Change in consolidated group	49	217	518	784	156	
Additions	44	5	14	63	125	
Disposals	6	1	3	10	13	
Impairment losses reversed	–	–	–	–	–	
Depreciation and impairment losses						
Depreciation	98	20	65	183	177	
Impairment losses	–	1	–	1	2	
Carrying amount at 31 Dec. financial year	342	721	723	1,786	1,126	
Accumulated amortisation and accumulated impairment losses at 31 Dec. financial year	565	613	373	1,551	1,590	
Gross carrying amount at 31 Dec. financial year	907	1,334	1,096	3,337	2,716	

¹ Adjusted pursuant to IAS 8.

The figures shown under acquired insurance portfolios include amortised carrying amounts of €356m resulting from the assumption of CNA Financial Corporation's life reinsurance business and the acquisition of additional shares in the ERGO Insurance Group. The "change in consolidated group" comprises additions resulting from company acquisitions; detailed information on this is provided in the notes on consolidated companies. The impairment losses are distributed between the different Group segments as follows: in primary insurance €1m (1m) is apportionable to life and health and – (€1m) to property-casualty. The remaining other intangible assets include land rights amounting to €1m (1m). Assets pledged as security and other restrictions on title amount to €1m (3m). Commitments to acquire other intangible assets total €2m (1m). Costs of €26m (24m) for research and development incurred in connection with software projects were not capitalised but recognised as expenses.

(3) Land and buildings, including buildings on third-party land

Development of investments in land and buildings, including buildings on third-party land		€m	2008	Prev. year
Gross carrying amount at 31 Dec. previous year			4,398	5,611
Accumulated depreciation and accumulated impairment losses at 31 Dec. previous year			645	891
Carrying amount at 31 Dec. previous year			3,753	4,720
Currency translation differences			–2	1
Change in consolidated group			41	–
Additions			141	45
Disposals			54	936
Impairment losses reversed			10	24
Depreciation and impairment losses				
Depreciation			78	99
Impairment losses			81	75
Reclassification			2	73
Carrying amount at 31 Dec. financial year			3,732	3,753
Accumulated depreciation and accumulated impairment losses at 31 Dec. financial year			748	645
Gross carrying amount at 31 Dec. financial year			4,480	4,398

The impairment losses mainly involve €44m for a complex under construction and are attributable to buildings. They result from a deterioration in the market environment combined with falling rents and rising required returns; they are based on the net realisable value. The best possible information from external sources was used for the valuation, assuming an active market (long-term market rents, market-adjusted management costs, appropriate market interest rates). Some €28m of these impairment losses are apportionable to the reinsurance property-casualty segment and €16m to the reinsurance life and health segment.

The total impairment losses are distributed between the different Group segments as follows: in reinsurance, €18m (2m) is apportionable to life and health and €31m (4m) to property-casualty; in primary insurance, €31m (62m) is apportionable to life and health, €1m (–) to property-casualty, and – (€7m) to asset management.

Of the carrying amount of €3,732m (3,753m) at 31 December in the financial year, €16m (78m) concerns owner-occupied property classified as “held for sale”; cf. (16) Non-current assets and disposal groups held for sale.

Property pledged as security and other restrictions on title amount to €526m (512m). Expenditures recognised in the carrying amount for assets in the course of construction total €125m (109m) at the balance sheet date, and contractual commitments to acquire property amount to €142m (53m). The fair value of investment property at the balance sheet date amounted to €4,977m (5,013m). Of this, €16m (106m) concerns investment property classified as “held for sale.” The valuation is performed for each site individually as at 31 December 2008 except where valuation units are formed. Calculations are carried out mainly by valuers within the Group but in individual cases also by external valuers. Material for the valuation is determining the sustainability of cash inflows and outflows, taking into account the market conditions at the respective property location. The fair value is determined individually per item by discounting the future cash flow to the valuation date. Depending on the type of property, discount rates of 3.0% to 6.5% are used for residential buildings, of 4.0% to 9.5% for office buildings, and of 4.5% to 10.0% for retail.

(4) Investments in affiliated companies and associates

Breakdown of investments in affiliated companies and associates		
	€m	31.12.2008
Affiliated companies recognised at fair value	235	216
Associates valued at equity	949	940
Associates recognised at fair value	14	12
Total	1,198	1,168

The fair value of investments in associates valued at equity amounted to €1,117m (1,277m) at the balance sheet date. In the financial year, shares of losses of associates amounting to €8.2m (0.3m) were not recognised in the balance sheet. Altogether, the losses not recognised in the balance sheet total €8.2m (0.3m). An overview of the most important shareholdings is provided on pages 275 f.

(5) Loans

Breakdown of loans		€m	31.12.2008	Prev. year
Mortgage loans			4,578	4,680
Loans and advance payments on insurance policies			617	609
Other loans			35,231	30,213
Total			40,426	35,502

The other loans mainly comprise government bonds, pfandbriefs and borrowers' note loans of banks.

The fair value of the loans is based on recognised valuation methods in line with the present value principle and taking observed market parameters into account. At the reporting date, it totalled €41,052m (34,179m).

Contractual period to maturity		Carrying amounts	
	€m	31.12.2008	Prev. year
Up to one year		1,618	1,090
Over one year and up to two years		1,070	795
Over two years and up to three years		2,138	1,029
Over three years and up to four years		1,871	2,067
Over four years and up to five years		2,401	1,798
Over five years and up to ten years		14,837	13,979
Over ten years		16,491	14,744
Total		40,426	35,502

Rating of "other loans" according to carrying amounts

	€m	31.12.2008	Prev. year
AAA		17,682	14,714
AA		11,736	9,760
A		4,854	5,077
BBB or lower		448	172
No rating		511	490
Total		35,231	30,213

The rating categories are based on those of the leading international rating agencies. In deviation from the purely economic view, the carrying amount of the loans represents the maximum exposure to credit risk at the balance sheet date, in accordance with IFRS 7. Virtually no credit risk exists in respect of the mortgage loans or the loans and advance payments on insurance policies.

(6) Other securities held to maturity

Breakdown of other receivables

	Carrying amounts		Fair values		
	€m	31.12.2008	Prev. year	31.12.2008	Prev. year
Government bonds		4	7	4	7
Debt securities of banks		139	193	140	193
Total		143	200	144	200

The fair value of the securities is based on recognised valuation methods in line with the present value principle and taking observed market parameters into account.

Contractual period to maturity		Carrying amounts		Fair values	
	€m	31.12.2008	Prev. year	31.12.2008	Prev. year
Up to one year		38	53	38	53
Over one year and up to two years		37	39	38	39
Over two years and up to three years		45	38	45	39
Over three years and up to four years		7	47	8	46
Over four years and up to five years		7	7	7	7
Over five years and up to ten years		9	16	8	16
Total		143	200	144	200

Rating according to carrying amounts		€m	31.12.2008	Prev. year
AAA			4	7
AA			10	23
A			121	157
BBB or lower			–	1
No rating			8	12
Total		143	200	

The rating categories are based on those of the leading international rating agencies. In deviation from the purely economic view, the carrying amount of the securities represents the maximum exposure to credit risk at the balance sheet date, in accordance with IFRS 7.

(7) Other securities available for sale

Breakdown of other securities available for sale						
	€m	31.12.2008	Prev. year	31.12.2008	Prev. year	Amortised cost
Fixed-interest securities						
Government bonds						
Germany	12,826	10,292	324	–103	12,502	10,395
Rest of EU	21,688	18,099	523	–31	21,165	18,130
USA	8,838	9,829	347	199	8,491	9,630
Other	7,435	5,212	315	378	7,120	4,834
Corporate debt securities	45,939	38,657	–267	–412	46,206	39,069
Other	11,182	12,496	168	–34	11,014	12,530
	107,908	94,585	1,410	–3	106,498	94,588
Non-fixed-interest securities						
Shares	4,537	22,071	1,730	6,308	2,807	15,763
Investment funds						
Equity funds	404	823	56	262	348	561
Bond funds	553	413	39	24	514	389
Real estate funds	585	532	–	19	585	513
Other	857	610	–24	70	881	540
	6,936	24,449	1,801	6,683	5,135	17,766
Total	114,844	119,034	3,211	6,680	111,633	112,354

Over half the corporate debt securities are pfandbriefs or issues by development banks and comparable institutions. The remaining portfolio is composed of securities issued by companies outside the banking sector, with each individual risk making up less than 10%, bonds issued by banks and state central savings banks (with state guarantees), and asset-backed securities/mortgage-backed securities that largely have implicit state guarantees or an above-average rating.

Items pledged as security and other restrictions on title amount to €11,378m (11,604m). Some €1,085m (1,467m) of the securities shown are loaned to third parties. These securities are not derecognised, as the main resultant risks and rewards remain with Munich Re. Of the €3,211m (6,680m) in unrealised gains and losses, €2,195m (4,980m) has been posted in equity (other reserves), after deduction of provisions for deferred premium refunds, deferred taxes, minority interests and consolidation effects.

To support Hypo Real Estate (HRE), the German federal government adopted a rescue package in 2008, backed by the Deutsche Bundesbank and also the German financial services industry. As part of this rescue package, the Bundesbank has granted liquidity assistance of €20bn, and a consortium of financial institutions has underwritten an HRE government-guaranteed bearer bond of €15bn with a maximum term up to the end of 2009. Munich Reinsurance Company's share of this amounts to €70.7m. In addition, the consortium has underwritten another bearer bond secured by assets of the HRE Group, also totalling €15bn. Munich Reinsurance Company's share here is €70.7m as well, of which €70.1m was immediately transferred to companies of the ERGO Group. Both bonds are recognised as corporate debt instruments.

Disposal proceeds in the financial year

	€m	2008	Prev. year
Fixed-interest securities		69,360	71,490
Non-fixed-interest securities			
Quoted		22,650	23,297
Unquoted		437	459
Total	92,447	95,246	

Realised gains and losses

	€m	2008	Prev. year
Gains on disposal		3,516	3,736
Fixed-interest securities		842	321
Non-fixed-interest securities		2,674	3,415
Losses on disposal		3,424	1,430
Fixed-interest securities		799	987
Non-fixed-interest securities		2,625	443
Total	92	2,306	

Contractual period to maturity of fixed-interest securities

	Carrying amounts		Amortised cost		
	€m	31.12.2008	Prev. year	31.12.2008	Prev. year
Up to one year		18,775	10,927	18,718	10,943
Over one year and up to two years		10,353	10,595	10,247	10,616
Over two years and up to three years		8,438	8,845	8,411	8,853
Over three years and up to four years		8,260	6,598	8,177	6,631
Over four years and up to five years		8,603	8,438	8,487	8,470
Over five years and up to ten years		31,073	27,271	30,401	27,408
Over ten years		22,406	21,911	22,057	21,667
Total	107,908	94,585	106,498	94,588	

Rating of fixed-interest securities according to fair values		€m	31.12.2008	Prev. year
AAA			75,550	66,763
AA			13,374	14,187
A			13,083	9,832
BBB			4,885	2,767
Lower			606	683
No rating			410	353
Total			107,908	94,585

The rating categories are based on those of the leading international rating agencies. In deviation from the purely economic view, the carrying amount of the securities represents the maximum exposure to credit risk at the balance sheet date, in accordance with IFRS 7.

(8) Other securities held for trading

The securities held for trading include fixed-interest securities totalling €1,177m (722m), non-fixed-interest securities totalling €30m (15m), and derivatives amounting to €1,915m (562m). The fixed-interest securities include €482m (–) classified as recognised at fair value with impact on profit or loss,

Rating of fixed-interest securities according to fair values		€m	31.12.2008	Prev. year
AAA			553	547
AA			378	107
A			211	53
BBB			20	–
Lower			2	–
No rating			13	15
Total			1,177	722

The rating categories are based on those of the leading international rating agencies. In deviation from the purely economic view, the carrying amount of the securities represents the maximum exposure to credit risk at the balance sheet date, in accordance with IFRS 7.

Derivative financial instruments are used by Munich Re to hedge against currency, interest-rate and other market-price risks. This is done at the Group companies within the framework of individual supervisory regulations and additional internal company directives. The risk of default is practically non-existent in the case of products traded on the stock exchange. Over-the-counter products, on the other hand, harbour a theoretical risk in the amount of the replacement costs. Therefore, the Munich Re Group selects only top-quality counterparties for such transactions.

Disclosure of derivatives by balance sheet item

Fair value	Qualifying for hedge accounting	Balance sheet item	31.12.2008	Prev. year ¹
Positive	No	Investments, other securities held for trading	1,915	562
	Yes	Other assets	703	230
Negative	No	Liabilities, other liabilities	–603	–551
	Yes			
Total			2,015	241

¹ Adjusted pursuant to IAS 8.

The following table shows the fair values and the related notional principal amounts of all our open positions, broken down according to risk types. Positive and negative fair values have been netted. At 31 December 2008, the open positions amounted to €2,015m (241m), or 0.9% (0.1%) of the balance sheet total.

Open positions		€m							
Periods to maturity in years		<1	1–2	2–3	3–4	4–5	>5	31.12.2008	Prev. year ¹
Interest-rate risks									
Traded on the stock exchange									
Fair values	–8	–	–	–	–	–	–	–8	–
Notional principal amounts	9,686	–	–	–	–	–	–	9,686	1,021
Over-the-counter									
Fair values	73	104	109	116	48	315	765	24	
Notional principal amounts	2,309	2,671	2,183	2,122	2,120	10,969	22,374	27,148	
Total interest-rate risks									
Fair values	65	104	109	116	48	315	757	24	
Notional principal amounts	11,995	2,671	2,183	2,122	2,120	10,969	32,060	28,169	
Currency risks									
Traded on the stock exchange									
Fair values	–	–	–	–	–	–	–	–	–
Notional principal amounts	2	–	–	–	–	–	–	2	–
Over-the-counter									
Fair values	259	–	–	–5	–	3	257	92	
Notional principal amounts	7,485	–	–	374	–	244	8,103	11,261	
Total currency risks									
Fair values	259	–	–	–5	–	3	257	92	
Notional principal amounts	7,487	–	–	374	–	244	8,105	11,261	
Equity and index risks									
Traded on the stock exchange									
Fair values	522	–	–	–	–	–	522	35	
Notional principal amounts	4,073	–	–	–	–	1	4,074	9,480	
Over-the-counter									
Fair values	570	–	–	–3	–17	17	567	203	
Notional principal amounts	1,379	100	–	140	158	106	1,883	5,402	
Total equity and index risks									
Fair values	1,092	–	–	–3	–17	17	1,089	238	
Notional principal amounts	5,452	100	–	140	158	107	5,957	14,882	
Credit risks									
Over-the-counter									
Fair values	1	7	–	–	–5	–5	–2	–63	
Notional principal amounts	209	12	–	–	297	10	528	122	
Weather risks									
Over-the-counter									
Fair values	3	–1	19	5	5	–	31	–3	
Notional principal amounts	210	85	549	424	77	–	1,345	761	
Commodity risks									
Over-the-counter									
Fair values	11	–	–	–	–	–	11	1	
Notional principal amounts	248	–	–	–	–	–	248	55	
Other risks									
Over-the-counter									
Fair values	–	–	–	–	–	–128	–128	–48	
Notional principal amounts	–	–	–	–	–	2,308	2,308	2,395	
Total of all risks									
Fair values	1,431	110	128	113	31	202	2,015	241	
Notional principal amounts	25,601	2,868	2,732	3,060	2,652	13,638	50,551	57,645	

¹ Adjusted pursuant to IAS 8.

The derivative components of variable annuities are shown under "other risks".

Interest-rate risks in life insurance have been hedged using swaptions. These options to receive a fixed-interest rate are shown in the category "interest-rate risks/over-the-counter." At the reporting date, the fair values of the

swaptions totalled €565m (72m), and the underlying notional principal amounts €17,588m (19,977m). The investment result from derivatives includes a gain of €486m (–95m) from fluctuations in value of these options.

Although the derivatives in the Munich Re Group essentially serve to hedge against risks, only an amount of €702m (95m) meets the requirements of IAS 39 for hedge accounting.

IAS 39 distinguishes between fair value hedges and cash flow hedges.

Fair value hedges

In the case of fair value hedges, the change in the fair value of the hedging instrument and the change in the fair value of the hedged instrument are generally recognised in profit or loss under the items "investment income" and "investment expenses" in the income statement. With Munich Reinsurance Company's hedged subordinated bond, this information is shown under finance costs. In the Munich Re Group, hedging relationships in the form of fair value hedges are used to selectively and efficiently reduce currency risks of parts of the portfolio and to mitigate interest-rate and other market-price risks. The main types of transaction employed for hedging are currency forwards and options. The fair value of the derivatives used for this amounted to €683m (96m) at the balance sheet date. In 2008, the following changes in value were recognised in the consolidated income statement: €1,906m for the hedging instruments and –€1,858m for the relevant underlyings.

Cash flow hedges

Cash flow hedges play a role in countering fluctuations that may be caused, for example, by variable interest payments. In the Munich Re Group, cash flow hedges are used chiefly to hedge against interest-rate risks, with interest-rate swaps the main instruments employed. Changes in the fair value of the hedging instrument are recognised directly in equity for this purpose. Only when the actual cash inflow or outflow takes place, as a result of the hedged circumstance, is the relevant equity item reversed with recognition in profit or loss.

The change in fair value assignable to the ineffective portion of the hedging was negligible at the reporting date.

At the balance sheet date, there is an equity item of €3m (–) from cash flow hedges. The net fair value of the derivatives falling into this category amounted to €20m (–1m) at the balance sheet date.

Periods to maturity and amount of the hedged cash flows at the balance sheet date								31.12.2008	Prev. year
€m	< 1 year	1–2 years	2–3 years	3–4 years	4–5 years	> 5 years			
Notional principal amounts of hedged transactions	135	–	–	–	–	–	250	385	395

(9) Deposits retained on assumed reinsurance

Deposits retained on assumed reinsurance serve directly as collateral for technical provisions covering business assumed from cedants in reinsurance. They do not trigger any cash flows and may not be used by the cedant independently. The credit risk is therefore limited. The amount of and changes in deposits retained on assumed reinsurance in the balance sheet year generally derive from the values for the changes in the related technical provisions for the reinsured business. Deposits retained on assumed reinsurance business thus do not have a fixed maturity date, their release generally being dependent on run-off of the corresponding provisions.

(10) Other investments

This item includes deposits with banks totalling €1,992m (4,833m). In deviation from the purely economic view, the carrying amount of these deposits represents the maximum exposure to credit risk at the balance sheet date, in accordance with IFRS 7.

As the other investments mainly have a period to maturity of less than one year, the fair values largely correspond to the carrying amounts.

(11) Ceded share of technical provisions

Ceded share of technical provisions											
	Reinsurance				Primary insurance				Total		
	Life and health		Property-casualty		Life and health		Property-casualty				
€m ¹	31.12.2008	Prev. year ²	31.12.2008	Prev. year	31.12.2008	Prev. year	31.12.2008	Prev. year	31.12.2008	Prev. year ²	
Unearned premiums	5	3	273	225	–	–	98	87	376	315	
Provision for future policy benefits	168	550	–	–	1,631	1,450	–	–	1,799	2,000	
Provision for outstanding claims	177	179	2,434	2,741	19	10	412	289	3,042	3,219	
Other technical provisions	24	26	5	58	–	–	5	5	34	89	
Total	374	758	2,712	3,024	1,650	1,460	515	381	5,251	5,623	

¹ After elimination of intra-Group transactions across segments.

² Adjusted pursuant to IAS 8.

Details of the ceded share of technical provisions are shown in (19) Unearned premiums, (20) Provisions for future policy benefits, (21) Provisions for outstanding claims, (22) Other technical provisions and (38) Credit risks from ceded reinsurance business.

(12) Other receivables

Breakdown of other receivables		€m	31.12.2008	Prev. year
Amounts receivable on primary insurance business		1,310	1,331	
Accounts receivable on reinsurance business		3,308	3,260	
Interest and rent		2,796	2,457	
Miscellaneous receivables		995	1,588	
Total		8,409	8,636	

€608m (601m) of the amounts receivable on primary insurance business is apportionable to receivables from insurance agents. The miscellaneous receivables contain receivables of €258m (244m) resulting from reinsurance contracts without significant risk transfer, which do not fall within the scope of IFRS 4. In deviation from the purely economic view, the carrying amount of the receivables represents the maximum exposure to credit risk at the balance sheet date, in accordance with IFRS 7.

Contractual period to maturity		Carrying amounts	
	€m	31.12.2008	Prev. year
Up to one year	8,077	8,340	
Over one year and up to two years	51	51	
Over two years and up to three years	188	28	
Over three years and up to four years	8	26	
Over four years and up to five years	21	29	
Over five years and up to ten years	40	141	
Over ten years	24	21	
Total	8,409	8,636	

As the other receivables mainly have a period to maturity of less than one year, the fair values largely correspond to the carrying amounts.

As at 31 December 2008, our accounts receivable on ceded business were split between the following ratings (based on those of Standard & Poor's):

Rating of amounts receivable		€m	31.12.2008	Prev. year
AAA		9.7	35.3	
AA		121.2	153.0	
A		166.3	68.6	
BBB and lower		22.7	6.9	
No external rating		125.2	80.1	

€288.8m (249.1m) of all our receivables on underwriting business at the balance sheet date was outstanding for more than 90 days. The average defaults of the last three years amount to €136.3m (150.1m).

(13) Deferred acquisition costs

Deferred acquisition costs										
Reinsurance					Primary insurance					Total
Life and health					Property-casualty					
€m ¹	31.12.2008	Prev. year	31.12.2008	Prev. year	31.12.2008	Prev. year	31.12.2008	Prev. year	31.12.2008	Prev. year
Gross	1,570	1,749	1,002	887	5,381	5,219	547	533	8,500	8,388
Ceded share	5	23	74	60	14	-13	15	16	108	86
Net	1,565	1,726	928	827	5,367	5,232	532	517	8,392	8,302

¹ After elimination of intra-Group transactions across segments.

Development of gross deferred acquisition costs

Development of gross deferred acquisition costs										
Reinsurance					Primary insurance					Total
Life and health					Property-casualty					
€m ¹	2008	Prev. year	2008	Prev. year	2008	Prev. year	2008	Prev. year	2008	Prev. year
Status at 31 Dec. previous year	1,749	1,811	887	916	5,219	5,071	533	500	8,388	8,298
Currency translation differences	-198	-61	-26	-46	-8	1	-32	1	-264	-105
Change in consolidated group/										
Other	-	-	97	-	-	-21	-	-	97	-21
New deferred acquisition costs	350	321	928	873	670	608	254	239	2,202	2,041
Changes										
Amortisation	-327	-322	-880	-856	-443	-456	-208	-210	-1,858	-1,844
Impairment losses	-4	-	-4	-	-57	16	-	3	-65	19
Status at 31 Dec. financial year	1,570	1,749	1,002	887	5,381	5,219	547	533	8,392	8,302

¹ After elimination of intra-Group transactions across segments.

Amortisation includes accrued interest as well as write-downs. The impairment losses comprise write-ups and write-downs stemming from changes in the assumptions underlying the calculations, which require an adjustment in the measurement.

(14) Deferred tax

Deferred tax					
	€m	Assets	Liabilities	Assets	Liabilities
Losses carried forward and tax credits		595	-	753	-
Intangible assets		32	377	8	203
Investment property		58	131	54	137
Investments (other than investment property)		2,033	2,945	1,189	1,740
Technical provisions		1,887	1,450	1,947	1,278
Pension provisions		282	7	234	1
Claims equalisation provisions		-	2,968	-	2,879
Other		821	950	473	875
Total		5,708	8,828	4,658	7,113

¹ Adjusted pursuant to IAS 8.

Of the carrying amount of deferred tax assets totalling €5,708m (4,658m) at 31 December in the financial year, – (€3m) concerns disposal groups held for sale. Of the carrying amount of deferred tax liabilities totalling €8,828m (7,113m), – (€1m) relates to such disposal groups; cf. (16) Non-current assets and disposal groups held for sale.

(15) Other assets

These mainly comprise owner-occupied property totalling €2,313m (2,238m), plant and equipment and inventories totalling €314m (282m), deferred expenses from the conclusion of insurance contracts amounting to €16m (37m), and other deferred items of €126m (93m).

Development of owner-occupied property		€m	31.12.2008	Prev. year
Gross carrying amount at 31 Dec. previous year		2,959	3,284	
Accumulated depreciation and accumulated impairment losses at 31 Dec. previous year		721	750	
Carrying amount at 31 Dec. previous year		2,238	2,534	
Currency translation differences		1	-11	
Change in consolidated group		34	8	
Additions		144	65	
Disposals		21	188	
Impairment losses reversed		9	4	
Depreciation and impairment losses				
Depreciation		53	50	
Impairment losses		36	48	
Reclassification		-3	-76	
Carrying amount at 31 Dec. financial year		2,313	2,238	
Accumulated amortisation and accumulated impairment losses at 31 Dec. financial year		794	721	
Gross carrying amount at 31 Dec. financial year		3,107	2,959	

The impairment losses mainly involve €27m for a complex under construction and comprise €13m for land and €14m for buildings. They are induced by special factors related to own use and are based on the net realisable value. The best possible information from external sources was used for the valuation, assuming an active market (long-term market rents, market-adjusted management costs, appropriate market interest rates).

Some €18m of these impairment losses are apportionable to the reinsurance property-casualty segment and €9m to the reinsurance life and health segment.

The total impairment losses are distributed between the different Group segments as follows: in reinsurance, €11m (3m) is apportionable to life and health and €22m (5m) to property-casualty; in primary insurance, the impairment losses amount to €3m (19m) in life and health and – (€21m) in property-casualty.

The fair value of the property at the balance sheet date amounted to €2.574m (2.534m). The expenditures recognised in the carrying amount for assets in the course of construction totalled €52m (15m) for property and €18m (13m) for plant and equipment at the balance sheet date. Commitments to acquire property totalled €78m (24m) at the balance sheet date and commitments to acquire plant and equipment €12m (6m).

(16) Non-current assets and disposal groups held for sale

Ownership of the minority holding in the US company Health Dialog Corporation classified as "held for sale" in the fourth quarter of 2007 was transferred in the first quarter of 2008. This holding, with a carrying amount of €34m, is therefore no longer recognised at the reporting date.

At the beginning of the first quarter of 2008, the Munich Re Group decided to sell a portfolio of six items of foreign investment property (land and buildings) from an iii-investments special fund. Subsequent valuation of the disposal group resulted in an impairment of €19m. Ownership of the disposal group was transferred in April 2008. The property, with a carrying amount of €49m, is therefore no longer recognised at the reporting date.

Besides this, ownership of German property first classified as "held for sale" in the first quarter of 2007 was transferred in the second quarter of 2008. This disposal group, with a carrying amount of €6m, is therefore no longer recognised either.

In the third quarter of 2007, we had adopted a plan to sell five hotels. However, the subprime mortgage crisis in the USA led to a significant alteration in the investment behaviour of potentially interested parties, so that in the second quarter of 2008 a sale of the hotels was considered no longer attractive under the given conditions. At the time the sales activities were terminated, expenditure of €1.2m had accrued from continuing operations.

We decided in the fourth quarter of 2007 to sell our stake in MPE Hotel I L.L.C., New York. Owing to the changed market environment, this sale did not take place in 2008 either, being classified as no longer attractive in the third quarter of 2008. At the time the sales activities were terminated, no expenditure from continuing operations had accrued.

The carrying amount of the property portfolio of HGE Haus- und Grundbesitzgesellschaft Elsterwerda mbH, first classified in a disposal group in the second quarter of 2007, remains unchanged at the balance sheet date. We are adhering to our plans to sell the portfolio, but owing to the global financial crisis, this undertaking has been postponed to 2009.

Balance sheet items relating to disposal groups at the reporting date		€m	31.12.2008	Prev. year ¹
Assets				
B. Investments				
I. Land and buildings, including buildings on third-party land		3,732	3,753	
Thereof: Investment property held for sale		16	78	
H. Deferred tax assets		5,708	4,658	
Thereof: Deferred tax assets relating to disposal groups		–	3	
Total assets relating to disposal groups		16	81	
Equity and liabilities				
C. Gross technical provisions				
IV. Other technical provisions		9,292	10,536	
Thereof: Provision for deferred premium refunds relating to disposal groups		–	–172	
F. Liabilities				
IV. Other liabilities		9,771	10,831	
Thereof: Amounts due to banks relating to disposal groups		19	19	
G. Deferred tax liabilities		8,828	7,113	
Thereof: Deferred tax liabilities relating to disposal groups		–	1	
Total liabilities relating to disposal groups		19	–152	

¹Adjusted pursuant to IAS 8.

The allocation of the disposal groups between the segments life and health, property-casualty and asset management is disclosed in the segment reporting.

Notes to the consolidated balance sheet – Equity and liabilities

(17) Equity

The total share capital of €587,725,396.48 at 31 December 2008 is divided into 206,403,804 registered no-par-value shares, each fully paid up and entitled to one vote. By resolution of the Annual General Meeting on 26 April 2007, Munich Re was authorised to buy back shares amounting to a maximum of 10% of the share capital up to 25 October 2008. The Annual General Meeting on 17 April 2008 renewed this resolution, thereby authorising the Board of Management to buy back shares amounting to a maximum of 10% of the share capital up to 16 October 2009. The number of shares in circulation developed as follows:

Development of shares in circulation		Number of shares	2008	Prev. year
Status at 31 Dec. previous year		207,824,071	225,616,173	
Additions				
Issue of employee shares		61,890	14,340	
Reductions				
Acquisition of shares for retirement (share buy-back programme) including exercise of put options		11,840,105	17,734,943	
Acquisition of shares to issue to employees		61,921	14,564	
Acquisition of shares to safeguard stock appreciation rights under long-term incentive plans		328,584	56,935	
Status at 31 Dec. financial year		195,655,351	207,824,071	

On 31 December 2008, a total of 10,748,453 Munich Re shares with a calculated nominal value of around €30.6m were held by Group companies. This represents 5.21% of the share capital.

On 4 May 2007 and 29 January 2008, Munich Re's Board of Management decided on a share buy-back programme, thus availing itself of the authorisation granted by the Annual General Meeting on 26 April 2007, in accordance with Section 71 para. 1 item 8 of the German Stock Companies Act. In the period from 10 May 2007 to 23 January 2008, 15,135,611 Munich Re shares were acquired via the stock exchange. The shares were then retired – 3,650,745 as at 26 June 2007 and 11,484,866 as at 9 April 2008 – in a simplified process, without reducing the share capital, by adjusting the proportion of the Company's share capital represented by each of the remaining no-par-value shares. On 6 May 2008, Munich Re's Board of Management decided on a further share buy-back programme, thus availing itself of the authorisation granted by the Annual General Meeting on 17 April 2008, in accordance with Section 71 para. 1 item 8 of the German Stock Companies Act. The share buy-back was restricted to a total purchase price (excluding incidental expenses) of €1bn. There was also the possibility, within the framework of the authorisations granted by the Annual General Meeting on 26 April 2007 and 17 April 2008, to buy back shares using derivatives. In the period from 8 May 2008 to 31 December 2008, including the exercise of put options (= 1,310,000 shares), a total of 8,434,680 shares were acquired at an average price of €111.74. The share buy-back will probably be concluded by the end of March 2009. Altogether, 11,840,105 shares were acquired in 2008 at an average price of €117.10.

In addition, to the 224 shares remaining from the 2007 employee share programme, a total of 58,905 shares were purchased at an average price of €121.01 for the gratis shares granted by Munich Reinsurance Company to employees in 2008. After subscription of 58,846 shares by employees in 2008 and taking into account a subsequent issuing of 28 shares from the previous year's programme, a total of 255 shares remain.

For the employee share programme set up in 2008 by Europäische Reiseversicherung AG, 600 shares were acquired at an average price of €106.74. Some 401 of these were purchased by employees at an average price of €79.66 and 199 sold at an average price of €109.75. No shares remain in the portfolio.

For the employee share programme set up in 2008 by Mercur Assistance Deutschland GmbH, 170 shares were acquired at an average price of €106.28. 165 of these were purchased by employees at an average price of €79.66 and five sold at an average price of €114.65. No shares remain in the portfolio.

For the employee share programme set up in 2008 by MEAG MUNICH ERGO AssetManagement GmbH, 2,246 shares were purchased at an average price of €94.77, which staff acquired at a price of €79.20 each. No shares remain in the portfolio.

In addition, one subsidiary holds 1,893,855 shares to safeguard stock appreciation rights granted to the Board of Management and top Munich Re executives since 1999. In 2008, a total of 420,000 shares were acquired for these programmes at an average price of €113.19, and 82,503 shares were sold at an average price of €115.66.

In the financial year 2008, companies of the ERGO Insurance Group acquired 8,412 shares at an average price of €108.20 each to cover future commitments from the long-term incentive plans launched since 2002 and sold 30,378 shares at a price of €107.14 each. Together with the remaining Munich Re shares acquired to safeguard the stock appreciation rights granted in 2002–2008, the ERGO Insurance Group had a total portfolio of 300,590 shares at 31 December 2008.

Europäische Reiseversicherung AG and Mercur Assistance Deutschland GmbH acquired no further Munich Re shares in 2008 to safeguard their long-term incentive plans. At 31 December 2008, there were no shares remaining in the portfolio.

MEAG MUNICH ERGO AssetManagement GmbH acquired 16,364 shares at €120.80 each and sold 3,311 shares at an average price of €102.13 in the financial year 2008 to safeguard obligations from its long-term incentive plan and thus has a portfolio of 119,073 Munich Re shares.

The acquisition costs of all Munich Re shares in the possession of Group companies at the end of the financial year totalled €1,180,742,532.89.

Composition of the capital authorised for capital increases

	€m	31.12.2008
Authorised Capital Increase 2004 (until 25 May 2009)		280
Authorised Capital Increase 2006 (until 18 April 2011)		5
Total		285

Composition of contingent capital

	€m	31.12.2008
To safeguard subscription rights from exercise of warrants (Contingent Capital Increase 2003 I)		35
To safeguard conversion rights or subscription rights from convertible bonds or bonds with warrants (Contingent Capital Increase 2005)		100
Total		135

Composition of equity		€m	31.12.2008	Prev. year ¹
Issued capital			588	588
Capital reserve			6,800	6,800
Retained earnings			10,888	9,753
Other reserves			1,187	3,934
Consolidated result attributable to Munich Re equity holders			1,503	3,840
Minority interests			290	501
Total equity			21,256	25,416

¹ Adjusted pursuant to IAS 8.

The equity capital contains equalisation reserves of €6,167m (6,118m).

Retained earnings were increased by €6m due to adjustments under IAS 8. Details are given in the section "Changes in accounting policies." In the course of acquiring further shares in KarstadtQuelle Versicherungen, ERGOISVIÇRE SIGORTA A.S. and ERGO Previdenza S.p.A. for a purchase price of €365.3m, the amount of €126.5m exceeding the book value of minority interests in these companies was offset against retained earnings.

The "other reserves" include –€1,186m (–1,161m) from currency translation and €3m (–) resulting from valuation of cash flow hedges. In addition, "other reserves" contains unrealised gains and losses distributed between the different items as follows:

Unrealised gains and losses		€m	31.12.2008	Prev. year
Unconsolidated affiliated companies and associates not valued at equity			151	67
Associates valued at equity			39	57
Other securities available for sale				
Fixed-interest			1,410	–3
Non-fixed-interest			1,801	6,683
Less				
Provision for deferred premium refunds recognised in equity			771	1,362
Deferred taxes recognised in equity			317	324
Minority interests			18	28
Consolidation and currency translation effects			–75	–5
Total			2,370	5,095

Minority interests		€m	31.12.2008	Prev. year ¹
Unrealised gains and losses			18	28
Consolidated result			18	77
Other equity			254	396
Total			290	501

¹ Adjusted pursuant to IAS 8.

These are mainly minority interests in the ERGO Insurance Group. We disclose direct minority interests in special funds under "other liabilities." Information on capital management is provided in the management report on page 111 f.

(18) Subordinated liabilities

Breakdown of subordinated liabilities		€m	31.12.2008	Prev. year
Munich Reinsurance Company, Munich, 6.75%, until 2013, thereafter floating, €3,000m, Bonds 2003/2023		2,981		2,980
Munich Reinsurance Company, Munich, 7.625%, until 2018, thereafter floating, £300m, Bonds 2003/2028		308		405
Munich Reinsurance Company, Munich, 5.767%, until 2017, thereafter floating, €1,498m ¹ , Bonds 2007/perpetual		1,613		1,492
The Midland Company, Cincinnati, LIBOR +350 BP, US\$ 24m, Bonds 2004/2034		17		–
Bank Austria Creditanstalt Versicherung AG, Vienna, 4.95%, €50m, Registered bonds 2004/2014		45		–
Bank Austria Creditanstalt Versicherung AG, Vienna, 6%, until 2010, thereafter floating, €12m ² , Registered bonds 2001/perpetual		7		–
Bank Austria Creditanstalt Versicherung AG, Vienna, secondary market yield on federal government bonds (Austria) +70 BP, €13m ² , Registered bonds 1998/perpetual		8		–
Total		4,979		4,877

¹ Bank Austria Creditanstalt Versicherung AG, consolidated in the financial statements, holds bonds with a nominal value of €2m; the volume outstanding has been reduced accordingly.
² ERGO International AG holds bonds with a nominal value of €3m; the volume outstanding has been reduced accordingly.
³ ERGO AG holds bonds with a nominal value of €3m; the volume outstanding has been reduced accordingly.

In the case of the Munich Re bonds, annual outflows of liquidity occur for the interest payments of €203m, £23m and €86m respectively until the first possible call dates in 2013, 2018 and 2017. Thereafter these payments will vary, depending on the respective interest-rate level. In the case of the Bank Austria Creditanstalt Versicherung AG registered bonds from 2004, the annual outflow of liquidity is €2m. For its registered bonds from 2001, the annual outflow for the first ten years amounts to €1m. Thereafter the payments for these bonds and the registered bonds from 1998 will, like those for the Midland bonds, be variable, depending on the respective interest-rate levels.

To optimise our capital structure and with it our cost of capital, we placed a subordinated bond with a total volume of €1.5bn in June 2007. It is a perpetual bond and callable by Munich Reinsurance Company from ten years after the date of issue. Up to then, it will have a fixed coupon rate of 5.767% and thereafter a floating rate. The fair value of the subordinated bond is hedged in respect of the risk-free interest rate by means of an interest-rate swap. The changes in value of the subordinated liability and of the interest-rate swap are shown in the finance costs with impact on profit or loss in each case.

The fair value of the subordinated liabilities at the balance sheet date amounted to €4,017m (5,034m). For the Munich Re bonds, we take the stock market prices as fair values. For the other subordinated liabilities, we determine the fair values using net present value methods with observable market data.

(19) Unearned premiums

Unearned premiums											
Reinsurance											
Life and health						Property-casualty					
€m ¹	31.12.2008	Prev. year	31.12.2008	Prev. year	31.12.2008	Prev. year	31.12.2008	Prev. year	31.12.2008	Prev. year	Total
Gross	273	183	4,366	3,820	103	104	1,679	1,612	6,421	5,719	
Ceded share	5	3	273	225	–	–	98	87	376	315	
Net	268	180	4,093	3,595	103	104	1,581	1,525	6,045	5,404	

¹ After elimination of intra-Group transactions across segments.

Development of gross unearned premiums

Development of gross unearned premiums											
Reinsurance											
Life and health						Property-casualty					
€m ¹	2008	Prev. year ²	2008	Prev. year	2008	Prev. year	2008	Prev. year	2008	Prev. year	Total
Status at 31 Dec. previous year	183	188	3,820	4,123	104	92	1,612	1,467	5,719	5,870	
Currency translation effects	–4	–15	–76	–214	–7	7	–78	–12	–165	–234	
Change in consolidated group	–	–	315	8	–	–	–	–	315	8	
Gross premiums written	6,453	6,589	13,995	13,400	11,492	11,646	5,889	5,621	37,829	37,256	
Earned premiums	6,359	6,579	13,688	13,497	11,486	11,641	5,744	5,464	37,277	37,181	
Status at 31 Dec. financial year	273	183	4,366	3,820	103	104	1,679	1,612	6,421	5,719	

¹ After elimination of intra-Group transactions across segments.

² Adjusted pursuant to IAS 8.

(20) Provision for future policy benefits

Provision for future policy benefits											
Reinsurance											
Life and health						Property-casualty					
€m ¹	31.12.2008	Prev. year ²	31.12.2008	Prev. year	31.12.2008	Prev. year	31.12.2008	Prev. year	31.12.2008	Prev. year	Total
Gross	9,343	9,998	299	748	88,798	83,921	298	266	98,738	94,933	
Ceded share	168	550	–	–	1,631	1,450	–	–	1,799	2,000	
Net	9,175	9,448	299	748	87,167	82,471	298	266	96,939	92,933	

¹ After elimination of intra-Group transactions across segments.

² Adjusted pursuant to IAS 8.

Gross provision for future policy benefits according to type of insurance cover

	€m	31.12.2008	Prev. year ¹
Life		77,638	74,882
Reinsurance		9,338	9,993
Primary insurance		68,300	64,889
Term life insurance		2,529	2,397
Other life insurance		40,772	40,544
Annuity insurance		23,956	21,026
Disability insurance		1,037	918
Contracts with combination of more than one risk		6	4
Health		20,503	19,037
Reinsurance		5	5
Primary insurance		20,498	19,032
Property-casualty		597	1,014
Reinsurance		299	748
Primary insurance		298	266
Total		98,738	94,933

¹ Adjusted pursuant to IAS 8.

The provision for future policy benefits in life reinsurance largely involves contracts where the mortality or morbidity risk predominates. In reinsurance, annuity contracts have a significantly lower weight than in primary insurance.

In reinsurance, measurement is carried out partly individually for each risk and partly collectively for reinsured portfolios, using biometric actuarial assumptions based on the tables of the national actuarial associations. These are adjusted for the respective reinsured portfolio, in line with the probabilities observed for the occurrence of an insured event. A discount rate is chosen that is based on a conservative capital-market scenario.

In primary insurance, measurement is generally carried out individually for each risk. For German life and health primary insurance, to which approximately 87% of the provisions for future policy benefits are apportionable, biometric actuarial assumptions based on the tables of the German Association of Actuaries are used. We also largely use the tables of the national actuarial associations for the rest of the primary insurance business. The actuarial interest rate employed for discounting is limited by the respective maximum actuarial interest rate prescribed by the supervisory authorities.

Essentially the same actuarial assumptions have been used as in the previous year for measuring the provisions for future policy benefits for business in force.

Further information on the underwriting risks and discount rates can be found under (36) Risks from insurance contracts in the life and health segment and (37) Risks from insurance contracts in the property-casualty segment.

Development of gross provision for future policy benefits		€m	2008	Prev. year ¹
Status at 31 Dec. previous year			94,933	94,660
Currency translation differences			-125	-222
Change in consolidated group/Other			2,782	-1,794
Changes				
Scheduled			1,148	2,287
Unscheduled			-	2
Status at 31 Dec. financial year			98,738	94,933

¹ Adjusted pursuant to IAS 8.

The changes in the consolidate group mainly concern the acquisition of Bank Austria Creditanstalt Versicherung AG. The item "Change/Other" concerns portfolio entries and withdrawals of -€1.248m (-2,437m). Scheduled changes in the provision for future policy benefits contain the changes deriving from prospective calculation as a result of premium payments, benefit cases and the unwinding of discount in the year under review. Unscheduled changes stem from alterations in the assumptions underlying the calculations, which required an adjustment in the measurement.

(21) Provision for outstanding claims

Provision for outstanding claims

	Reinsurance										Primary insurance				Total
	Life and health				Property-casualty				Life and health				Property-casualty		
	€m ¹	31.12.2008	Prev. year ²	31.12.2008	Prev. year	31.12.2008	Prev. year	31.12.2008	Prev. year	31.12.2008	Prev. year	31.12.2008	Prev. year		
Gross		3,411	3,514	34,123	33,944	2,335	2,187	5,162	4,915	45,031	44,560				
Ceded share		177	179	2,434	2,741	19	10	412	289	3,042	3,219				
Net		3,234	3,335	31,689	31,203	2,316	2,177	4,750	4,626	41,989	41,341				

¹ After elimination of intra-Group transactions across segments.

² Adjusted pursuant to IAS 8.

Gross provision by type

	€m ¹	Reinsurance		Primary insurance		Total	
		31.12.2008	Prev. year ²	31.12.2008	Prev. year	31.12.2008	Prev. year ²
Life and health segment							
Disability claims provisions	1,470	1,537	897	860	2,367	2,397	
Provision for other benefit cases	1,941	1,977	1,438	1,327	3,379	3,304	
Property-casualty segment (claims reserve)							
Case reserve	17,668	17,602	3,908	3,801	21,576	21,403	
IBNR reserve	16,455	16,342	1,254	1,114	17,709	17,456	
Total	37,534	37,458	7,497	7,102	45,031	44,560	

¹ After elimination of intra-Group transactions across segments.² Adjusted pursuant to IAS 8.

In the life and health segment, the provision for outstanding claims consists of a provision for disability cases and a provision for other benefit cases. The disability claims provision involves periodic payments and is usually due long term. It is calculated as the present value of the expected future payments. Discount rates are disclosed in (36) Risks from insurance contracts in the life and health segment. The biometric actuarial assumptions are selected using appropriate actuarial principles. The provision for other benefit cases is largely measured at face value and is usually due short term. This provision includes an IBNR reserve, whose amounts are estimated using actuarial methods.

In the property-casualty segment, the claims reserve consists of the case reserve and the IBNR reserve. The case reserve reflects the amount which is expected to be needed to settle claims which are known and have already been reported at the balance sheet date. The major part of this provision is measured at face value. A smaller part refers to provisions for annuities in personal accident, liability and workers' compensation insurance. For this, the present value of the expected future payments is calculated. The respective discount rates are disclosed in (37) Risks from insurance contracts in the property-casualty segment. The underlying biometric actuarial assumptions are selected using appropriate actuarial principles. The IBNR reserve is calculated using actuarial methods on the basis of historical claims development data and taking into account foreseeable future trends.

Expected payments from the provisions for outstanding claims (property-casualty)

	% ¹	Reinsurance		Primary insurance	
		31.12.2008	Prev. year	31.12.2008	Prev. year
Up to one year		31.6	30.4	39.8	40.1
Over one year and up to five years		41.9	40.6	38.7	36.7
Over five years and up to ten years		15.4	16.6	12.8	13.4
Over ten years and up to fifteen years		5.1	6.5	4.6	5.4
Over fifteen years		6.0	5.9	4.1	4.4

¹ After elimination of intra-Group transactions across segments.

It should be borne in mind that the expected timing of payments from the provisions for outstanding claims naturally involves considerable uncertainty.

Development of the claims reserve in the property-casualty segment

	2008			Prev. year		
€m ¹	Gross	Ceded share	Net	Gross	Ceded share	Net
Status at 31 Dec. previous year	38,859	3,030	35,829	40,462	3,906	36,556
Currency translation differences	-454	38	-492	-2,083	-395	-1,688
Change in consolidated group	144	36	108	7	-	7
Claims expenses						
For the year under review	12,972	692	12,280	12,041	591	11,450
For previous years	-52	223	-275	210	197	13
Total	12,920	915	12,005	12,251	788	11,463
Unwinding of discount	92	8	84	83	6	77
Less payments						
For the year under review	4,562	258	4,304	4,264	182	4,082
For previous years	7,714	923	6,791	7,597	1,093	6,504
Total	12,276	1,181	11,095	11,861	1,275	10,586
Status at 31 Dec. financial year	39,285	2,846	36,439	38,859	3,030	35,829

¹ After elimination of intra-Group transactions across segments.

Changes in the consolidated group result mainly from the acquisition of Midland.

The claims expenses for the year under review show both payments made for the year under review and expenses for posting the claims reserve in that year. The provisions set up for claims from previous years are regularly updated using best estimates based on claims information and past claims experience. The respective change is shown under claims expenses for previous years.

The level of long-tail claims from US workers' compensation business remained at a high level in the year under review. Therefore, the loss reserves for this portfolio were strengthened, especially for accident years far back in the past. Allocation to Munich Re America's provisions for asbestos-related claims also continued in the financial year. In contrast to this, the post-2001 accident years show a trend towards improvement across all lines of business, which was maintained in the year under review.

Net run-off results in property-casualty business

The values in the following run-off triangles cover more than 99% of our Group's portfolio of property-casualty business.

Claims payments for the individual accident years (per calendar year, net)

Calendar year	€m	Accident year												Total
		≤ 1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008		
1998		7,161												
1999		4,557	3,406											
2000		2,628	2,983	3,395										
2001		1,696	1,290	2,529	3,393									
2002		1,512	881	1,166	2,872	3,799								
2003		937	483	708	1,491	2,771	3,938							
2004		1,259	417	507	829	1,192	2,097	3,730						
2005		569	302	477	582	637	844	2,717	3,450					
2006		622	154	289	435	362	381	854	3,375	3,348				
2007		633	243	109	428	239	369	374	1,516	2,311	4,126			
2008		779	140	190	341	288	291	403	481	1,252	2,602	4,167	10,934	

Claims reserve for the individual accident years at the respective reporting dates (net)

Date	€m	Accident year												Total
		≤ 1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008		
31.12.1998		17,184												
31.12.1999		12,420	6,174											
31.12.2000		8,901	3,905	5,881										
31.12.2001		7,315	2,837	4,156	7,478									
31.12.2002		7,133	2,269	3,207	5,708	9,011								
31.12.2003		6,294	1,971	2,862	4,752	5,717	7,713							
31.12.2004		5,491	1,612	2,407	3,822	4,753	5,307	7,171						
31.12.2005		6,422	1,532	2,260	3,456	2,887	3,742	4,510	8,515					
31.12.2006		6,191	1,411	1,925	3,077	2,449	3,242	3,651	4,999	7,139				
31.12.2007		6,208	1,169	1,977	2,591	2,209	2,577	3,137	3,601	4,585	7,215			
31.12.2008		5,738	1,143	1,715	2,313	1,929	2,141	2,396	2,853	3,215	4,868	8,094	36,405	

Ultimate loss for the individual accident years at the respective reporting dates (net)

Date	€m	Accident year												Total
		≤ 1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008		
31.12.1998		24,345												
31.12.1999		24,138	9,580											
31.12.2000		23,247	10,294	9,276										
31.12.2001		23,357	10,516	10,080	10,871									
31.12.2002		24,687	10,829	10,297	11,974	12,810								
31.12.2003		24,785	11,014	10,660	12,508	12,287	11,651							
31.12.2004		25,241	11,072	10,712	12,407	12,516	11,343	10,901						
31.12.2005		26,741	11,295	11,042	12,624	11,286	10,621	10,957	11,965					
31.12.2006		27,131	11,328	10,996	12,679	11,210	10,503	10,951	11,824	10,487				
31.12.2007		27,781	11,328	11,158	12,621	11,209	10,207	10,811	11,942	10,245	11,342			
31.12.2008		28,090	11,443	11,086	12,685	11,218	10,061	10,473	11,675	10,126	11,596	12,261	140,714	
Net run-off result		-3,745	-1,863	-1,810	-1,814	1,592	1,590	428	290	361	-254	n/a	-5,225	
Change 2007 to 2008		-309	-115	72	-64	-9	146	338	267	119	-254	n/a	191	

The ultimate loss of an accident year comprises all payments made for that accident year up to the reporting date, plus the claims reserve at the reporting date. Given complete information regarding all losses incurred up to the balance sheet date, the ultimate loss status for each accident-year period would remain the same. In practice, however, it may be assumed that the ultimate loss status (based on estimates) is exposed to fluctuations that reflect the growth in knowledge about the claims cases. Changes in the consolidated group, especially new acquisitions, can also have an influence on the ultimate loss status.

The run-off triangles are prepared on a currency-adjusted basis. To this end, all figures are translated from the respective local currency into the Group currency (euro), consistently using the exchange rates applicable at the end of the year under review (i.e. at 31 December 2008). This ensures that neutral net run-off results in the original currency (i.e. where the ultimate loss originally estimated for an accident year and current loss estimate are identical) do not lead to currency-related run-off effects when expressed in the Group currency.

(22) Other technical provisions

Breakdown of other technical provisions

€m ¹	Reinsurance		Primary insurance		Total	
	31.12.2008	Prev. year	31.12.2008	Prev. year	31.12.2008	Prev. year
Provision for premium refunds based on national regulations	–	–	4,442	4,925	4,442	4,925
Provision for deferred premium refunds	–	–	4,068	4,714	4,068	4,714
Thereof resulting from unrealised gains and losses on investments (recognised directly in equity)	–	–	791	1,360	791	1,360
Thereof resulting from other revaluations (recognised in profit or loss)	–	–	3,277	3,354	3,277	3,354
Provision for profit commission	674	748	–	–	674	748
Other	11	67	97	82	108	149
Total (gross)	685	815	8,607	9,721	9,292	10,536

¹After elimination of intra-Group transactions across segments.

Of the provision for premium refunds based on national regulations, €57m (55m) is apportionable to property-casualty insurance. The provision for deferred premium refunds is established solely for life and health insurance.

The ceded share of “other technical provisions” amounts to €34m (89m), of which €2m (3m) is apportionable to the ceded share of the provision for premium refunds based on national regulations.

Development of provision for premium refunds based on national regulations

	€m	2008	Prev. year
Status at 31 Dec. previous year		4,925	4,313
Change in consolidated group		–	–
Allocations/Withdrawals		–483	612
Status at 31 Dec. financial year	4,442	4,925	

The provision for premium refunds based on national regulations relates only to German primary insurance business. Where the provision for premium refunds is posted, a retrospective approach is usually taken, based on supervisory or individual contract regulations. For life insurance companies and pension funds subject to supervision by the German Federal Financial Supervisory Authority, the supervisory rules in accordance with the German

Insurance Control Act and with the Statutory Order on Minimum Allocation have to be observed.

Development of provision for deferred premium refunds		
	€m	2008
		Prev. year
Status at 31 Dec. previous year	4,714	5,485
Change in consolidated group	–	–
Change resulting from unrealised gains and losses on investments (recognised directly in equity)	–569	–1,371
Change resulting from other revaluations (recognised in profit or loss)	–77	600
Status at 31 Dec. financial year	4,068	4,714

The provision for deferred premium refunds has to be established if the future participation of policyholders in realised gains is provided for in the case of valuation differences between local GAAP and IFRS basis. The above change resulting from unrealised gains and losses on investments reflects the proportional allocation to expected future policyholders' bonuses of the change in fair values that has occurred in the past year. Changes in the provision for deferred premium refunds are only recognised in the income statement to the extent that they result from valuation differences recognised in profit or loss. To determine the portion of the valuation differences allocable to the provision for deferred premium refunds, rates of between 85.0% and 92.5% after tax were generally used.

For Hamburg-Mannheimer Versicherungs-AG and Victoria Lebensversicherung AG, a change in the management rule for the participation of policyholders in surplus led to this portion being adjusted in the past financial year. The revaluation of the provision for deferred premium refunds resulting from the application of these amended rates was recognised either in equity or in profit or loss, depending on their origin.

Of the carrying amount of the gross provision for deferred premium refunds totalling €4,068m (4,714m) at 31 December 2008, – (–€172m) concerns disposal groups held for sale; cf. (16) Non-current assets and disposal groups held for sale.

(23) Gross technical provisions for life insurance policies where the investment risk is borne by the policyholders

Development of gross provision		
	€m	2008
		Prev. year
Status at 31 Dec. previous year	2,308	1,930
Change in consolidated group and other influences	822	6
Savings premiums	563	466
Unrealised gains/losses on fund assets	–591	38
Withdrawal for expenses and risk	–20	–26
Withdrawal for benefits	–142	–106
Status at 31 Dec. financial year	2,940	2,308

These provisions are valued retrospectively. The withdrawal for underwriting risks from the premiums and provision for future policy benefits is made on the basis of prudent assumptions regarding expected mortality and morbidity. Here, as with the provision for future policy benefits for non-unit-linked life insurance, the underlying calculation is based on best estimates with appropriate provisions for adverse deviation.

The provisions are directly covered by the investments for the benefit of life insurance policyholders who bear the investment risk. Small differences in relation to these investments arise as a result of including unearned revenue liability in these provisions.

(24) Other accrued liabilities

Breakdown of other accrued liabilities		€m	31.12.2008	Prev. year
Provisions for post-employment benefits			1,335	1,224
Other provisions			1,647	1,569
Total			2,982	2,793

Provisions for post-employment benefits

The companies in the Munich Re Group generally give pension commitments to their employees in the form of defined contribution plans or defined benefit plans. The type and amount of the pension obligations are determined by the conditions of the respective pension plan.

Expenses for defined contribution plans in the year under review totalled €47m (45m).

In the case of defined benefit plans, the amount of the defined benefits is largely dependent on salary and length of service. These benefits may be partially or fully financed through plan assets.

Change in the present value of obligations under defined benefit plans		
	€m	2008
Status at 31 Dec. previous year		2,185
Currency translation differences		-26
Change in consolidated group		58
Current service cost		82
Interest cost		119
Actuarial gains/losses		-33
Payments		-77
Past service cost		15
Other		-4
Status at 31 Dec. financial year		2,319
		2,185

Defined benefit obligations include medical-care benefits. The present value of defined benefit obligations for these items amounted to €140m (132m) at the balance sheet date.

In 2003, Munich Reinsurance Company established a contractual trust agreement in the form of a two-way trust for its unfunded company pension obligations. To finance these obligations, it is necessary for the trust assets to correspond to the present value of pension obligations. In the process, however, account has to be taken of the difference between the actuarial interest rate relevant for measuring the obligations and the return attainable on the investments. Therefore, the present value of the pension obligations was calculated using an actuarial interest rate equivalent to the expected investment return, which increased the present value of defined benefit obligations at 31 December 2008 by €133m (69m).

Change in the plan assets for defined benefit plans

	€m	2008	Prev. year
Status at 31 Dec. previous year	965	971	
Currency translation differences	-24	-30	
Change in consolidated group	48	7	
Expected return	55	2	
Actuarial gains/losses	-114	-11	
Capital transfer to plan assets	83	41	
Payments	-20	-15	
Other	-4	-	
Status at 31 Dec. financial year	989	965	

Change in the reimbursement rights for defined benefit plans

	€m	2008	Prev. year
Status at 31 Dec. previous year	91	82	
Expected return	3	3	
Actuarial gains/losses	-	-4	
Capital transfer	11	13	
Payments	-2	-3	
Status at 31 Dec. financial year	103	91	

The reimbursement rights derive from insurance concluded to cover the benefit obligations.

Funded status of the defined benefit plans

	€m	31.12.2008	Prev. year
Unfunded obligations			
Present value	1,097	1,087	
Past service cost not yet recognised	-1	-1	
Net balance sheet liability	1,096	1,086	
Wholly/partly funded obligations			
Present value	1,222	1,098	
Plan assets	-989	-965	
Past service cost not yet recognised	-	3	
Other receivables	5	-	
Other	1	2	
Net balance sheet liability	239	138	
Total net balance sheet liability	1,335	1,224	

Change in the provision for defined benefit plans

	€m	2008	Prev. year
Status at 31 Dec. previous year	1,224	1,298	
Currency translation differences	-3	-23	
Change in consolidated group	12	-	
Expenses	156	195	
Payments	-55	-51	
Capital transfer to plan assets	-83	-41	
Transfer to other receivables	3	-7	
Actuarial gains/losses recognised in equity	84	-149	
Other	-3	2	
Status at 31 Dec. financial year	1,335	1,224	

Breakdown of expenses booked in the business year		€m	2008	Prev. year
Current service cost		82	93	
Interest cost		119	100	
Less				
Expected return on plan assets		-55	-2	
Expected return on reimbursements		-3	-3	
Past service cost		13	7	
Total		156	195	

The actual return on plan assets amounts to -€59m (-9m), and the actual return on reimbursements to €3m (-1m).

The expenses are shown mainly under "operating expenses" and "expenses for claims and benefits" in the consolidated income statement.

Included in the recognised income and expenses are actuarial losses amounting to €81m (actuarial gain: €157m) in the financial year and €387m (306m) cumulative actuarial losses, taking currency fluctuations into account.

Breakdown of plan assets to cover pension obligations		%	31.12.2008	Prev. year
Non-fixed-interest securities		20.6	17.3	
Fixed-interest securities and loans		77.7	81.9	
Real estate		0.2	0.2	
Other		1.5	0.6	
Status at 31 Dec. financial year		100.0	100.0	

The fair value of the plan assets includes own shares with a fair value of - (€23m).

The consolidated companies used the following actuarial assumptions (weighted average values) for calculating their pension obligations:

Actuarial assumptions		%	2008	Prev. year
Discount rate		5.5	5.5	
Expected rate of return on fund assets		5.3	0.6	
Expected rate of return on reimbursements		5.0	4.9	
Future increases in entitlement/salary		3.4	3.7	
Future pension increases		1.5	1.7	
Medical cost trend rate		6.1	5.3	

The expected rate of return on plan assets is determined on the basis of anticipated long-term capital yields.

For the financial year 2009, capital transfers of €64m (44m) to plan assets are expected.

A change in the medical cost trend rate by one percentage point would have the following effects on the present value of defined benefit obligations and pension expenses:

Effects of change in the medical cost trend rate		Increase by one percentage point	Reduction by one percentage point
	€m		
Present value of defined benefit obligations		26	-21
Pension expenses	3		-2

Other figures for the current financial year and the previous years

	€m	2008	2007	2006
Present value of defined benefit obligations (excluding medical-care benefits)		2,178	2,053	2,123
Plan assets		-989	-965	-971
Not covered by plan assets		1,189	1,088	1,152
Experience adjustments arising on the plan liabilities		7	-24	101
Experience adjustments arising on the plan assets		-100	-7	-

Other provisions

	€m	Prev. year	Additions	Withdrawals	Reversal	Other changes	31.12.2008
Early retirement benefits/semi-retirement	239	52	64	16	8		219
Earned commission	181	113	120	1	-4		169
Outstanding invoices	104	127	100	22	-3		106
Anniversary benefits	73	102	72	4	11		110
Holiday and overtime pay	66	47	30	2	-1		80
Bonuses	61	5	7	2	1		58
Miscellaneous	845	714	414	230	-10		905
Total	1,569	1,160	807	277	2		1,647

The miscellaneous other provisions comprise a large number of different items, including €86m (74m) for long-term incentive plans, €77m (69m) for salary obligations, €44m (50m) for other remuneration for desk and sales staff, €155m (33m) for reconciliation of interests, €29m (26m) for competitions for sales staff, €11m (9m) for litigation risks, and €3m (3m) for insurance tax on outstanding premiums.

The provisions for early-retirement benefits/semi-retirement, anniversary benefits and long-term incentive plans are mainly long term, whereas the provisions for earned commission, outstanding invoices, bonuses, holiday and overtime pay, and miscellaneous are essentially short term.

(25) Bonds and notes issued

Breakdown of bonds and notes issued		€m	31.12.2008	Prev. year
Munich Re America Corporation, Princeton, 7.45%, US\$ 421m, Senior Notes 1996/2026 ^{1,2}		302	341	
Total		302	341	

¹ Outflows of liquidity occur annually in the amount of the interest payments of US\$ 35m until the notes mature.
² In August 2008, the issuer bought back bonds with a nominal value of US\$ 79m.

We calculate the fair value of the notes issued by Munich Re America Corporation using recognised valuation methods with observable market data. The fair value at the reporting date amounts to €317m (368m).

The ratings of the bonds and notes are given on page 119.

(26) Deposits retained on ceded business

Deposits retained on ceded business are collateral for technical provisions covering business ceded to reinsurers and retrocessionaires, and to that extent do not trigger any cash flows. As a rule, the changes in deposits retained on ceded business derive from the changes in the relevant technical provisions covering ceded business. Deposits retained on ceded business thus do not have a fixed maturity date, their release generally being dependent on run-off of the corresponding provisions.

(27) Other liabilities

Breakdown of other liabilities		€m	31.12.2008	Prev. year ¹
Amounts payable on primary insurance business		4,005	4,002	
Accounts payable on reinsurance business		1,678	2,116	
Amounts due to banks		1,650	1,823	
Miscellaneous liabilities		2,438	2,890	
Total		9,771	10,831	

¹ Adjusted pursuant to IAS 8.

The accounts payable on primary insurance business mainly contain liabilities towards policyholders resulting from accumulated participation in surplus, premium deposits and insurance contracts without significant risk transfer. Of the amounts due to banks totalling €1,650m (1,823m) at 31 December 2008, €19m (19m) concerns disposal groups held for sale, cf. (16) Non-current assets and disposal groups held for sale. In addition, €456m (–) of the amounts due to banks is apportionable to cash collateral held by the banks.

The miscellaneous liabilities contain liabilities of €168m (172m) resulting from reinsurance contracts without significant risk transfer and €603m (550m) from derivative financial instruments and derivative components of variable annuities with a negative fair value. Besides this, €11m (9m) of the other liabilities is apportionable to liabilities for social security, and €200m (211m) to liabilities for interest and rent.

The following table provides information on the remaining contractual maturities of the items shown under “other liabilities”. Since the amounts payable on primary insurance business are directly linked to the underlying insurance business, the liquidity risk arising from these is analysed together with the corresponding insurance contracts. This currently also applies to the derivatives embedded in variable annuity business. For further information on this, see (36) Risks from insurance contracts in the life and health segment and (37) Risks from insurance contracts in the property-casualty segment. The derivatives listed below are recognised at market value.

Remaining terms of the other liabilities according to carrying amounts
(excluding amounts payable on primary insurance business and excluding liabilities from derivative components embedded in variable annuities)

	Carrying amounts	
	€m	31.12.2008
		Prev. year
Up to one year		4.562
Over one year and up to two years		82
Over two years and up to three years		76
Over three years and up to four years		58
Over four years and up to five years		59
Over five years and up to ten years		364
Over ten years		393
Total	5.594	6.760

The major portion of the liabilities up to one year involve interest-free items, where the carrying amounts and the undiscounted cash flows are identical. €1,107m (1,091m) of the amounts owed to banks and €119m (274m) of the liabilities from derivatives are due within one year. Any deviations in the liabilities with remaining terms of over one year from the undiscounted cash flows are not material for the presentation and significance of the financial liabilities for our financial position and performance.

Notes to the consolidated income statement

(28) Premiums

Premiums

€m ¹	Reinsurance				Primary insurance				Total	
	Life and health		Property-casualty		Life and health		Property-casualty			
	2008	Prev. year ²	2008	Prev. year	2008	Prev. year	2008	Prev. year	2008	Prev. year ²
Total gross premiums	6,453	6,589	13,995	13,400	12,624	12,630	5,889	5,621	38,961	38,240
Gross premiums written	6,453	6,589	13,995	13,400	11,492	11,646	5,889	5,621	37,829	37,256
Change in unearned premiums										
Gross	94	10	307	-97	6	5	145	157	552	75
Gross earned premiums	6,359	6,579	13,688	13,497	11,486	11,641	5,744	5,464	37,277	37,181
Ceded premiums written	262	265	888	675	152	158	264	305	1,566	1,403
Change in unearned premiums										
Ceded share	1	-1	8	-100	-	-	4	-7	13	-108
Earned premiums										
Ceded	261	266	880	775	152	158	260	312	1,553	1,511
Net earned premiums	6,098	6,313	12,808	12,722	11,334	11,483	5,484	5,152	35,724	35,670

¹ After elimination of intra-Group transactions across segments.

² Adjusted pursuant to IAS 8.

The total gross premiums include not only the gross premiums written but also savings premiums from unit-linked life insurances. Premiums from long-term insurance business, especially in the segments life and health, are recognised in full as earned premiums and income when they become due. Under gross premiums written, only those parts of the premium from unit-linked life business are included that are used to cover the risks and associated costs.

Of the gross premiums written from short-term insurance business, the portions attributable to periods after the balance sheet date are posted as unearned premiums, cf. (19) Unearned premiums. Unearned premiums are reversed in accordance with the reduction in risk, over the duration of the contracts.

(29) Investment result

Investment result by type of investment and segment												
Reinsurance				Primary insurance				Asset management		Total		
Life and health		Property-casualty		Life and health		Property-casualty						
€m ¹	2008	Prev. year ²	2008	Prev. year	2008	Prev. year	2008	Prev. year	2008	Prev. year	2008	Prev. year ²
Land and buildings, including buildings on third-party land	5	62	26	260	159	500	7	34	5	-3	202	853
Investments in affiliated companies	-6	-14	1	-56	-10	-3	-	-11	-6	17	-21	-67
Investments in associates	1	3	15	15	-22	243	2	-15	25	18	21	264
Loans	4	3	16	10	1,473	1,202	83	51	-	-	1,576	1,266
Other securities held to maturity	-	-	-	-	8	11	1	1	-	-	9	12
Other securities available for sale												
Fixed-interest	640	653	1,039	1,115	1,902	1,733	221	189	5	3	3,807	3,693
Non-fixed-interest	-311	379	-1,312	1,605	-2,124	1,393	-140	177	-	-	-3,887	3,554
Other securities held for trading												
Fixed-interest	1	-	39	18	-2	1	24	19	-	-	62	38
Non-fixed-interest	-	-	-1	1	11	-	-	-	-	-	10	1
Derivatives	460	-51	2,335	-291	2,061	-75	110	2	-	-	4,966	-415
Deposits retained on assumed reinsurance, and other investments	168	348	27	57	-31	-32	28	9	13	74	205	456
Investments for the benefit of life insurance policyholders who bear the investment risk	-	-	-	-	-562	2	-	-	-	-	-562	2
Expenses for the management of investments, other expenses	53	33	241	137	219	206	29	28	-	-	542	404
Total	909	1,350	1,944	2,597	2,644	4,769	307	428	42	109	5,846	9,253

¹ After elimination of intra-Group transactions across segments.

² Adjusted pursuant to IAS 8.

The result for land and buildings includes rental income of €316m (344m). The expenses for the management of investments include running costs and expenses for repair and maintenance of property totalling €62m (65m). We earned interest income of €1,731m (1,441m) on loans, €9m (12m) on other securities held to maturity, and €5,179m (5,278m) on securities available for sale.

Investment income by segment

			Reinsurance		Primary insurance			Asset management		Total	
			Life and health	Property-casualty	Life and health	Property-casualty					
€m ¹	2008	Prev. year ²	2008	Prev. year	2008	Prev. year	2008	Prev. year	2008	Prev. year ²	
Regular income	1,013	1,215	1,861	2,030	4,498	4,379	412	374	54	112	7,838
Income from write-ups	485	195	2,032	814	1,780	206	52	16	—	—	4,349
Gains on the disposal of investments	982	603	4,645	2,586	1,797	2,237	365	243	6	2	7,795
Other income	—	—	—	—	76	52	1	1	5	13	82
Total	2,480	2,013	8,538	5,430	8,151	6,874	830	634	65	127	20,064
											15,078

¹ After elimination of intra-Group transactions across segments.

² Adjusted pursuant to IAS 8.

Investment expenses by segment

			Reinsurance		Primary insurance			Asset management		Total	
			Life and health	Property-casualty	Life and health	Property-casualty					
€m ¹	2008	Prev. year ²	2008	Prev. year	2008	Prev. year	2008	Prev. year	2008	Prev. year ²	
Write-downs of investments	872	258	3,243	1,193	2,760	723	307	81	9	8	7,191
Losses on the disposal of investments	633	352	3,053	1,419	1,767	997	185	94	12	6	5,650
Management expenses, interest charges and other expenses	66	53	298	221	980	385	31	31	2	4	1,377
Total	1,571	663	6,594	2,833	5,507	2,105	523	206	23	18	14,218
											5,825

¹ After elimination of intra-Group transactions across segments.

² Adjusted pursuant to IAS 8.

Write-downs of investments

	€m	2008	Prev. year ¹
Land and buildings, including buildings on third-party land		159	174
Investments in affiliated companies		18	3
Investments in associates		16	—
Loans		153	15
Other securities available for sale		5,413	611
Other securities held for trading		1,432	1,460
Total		7,191	2,263

¹ Adjusted pursuant to IAS 8.

(30) Other income

In addition to foreign currency exchange gains of €3,688m (1,520m), the other income mainly includes income from services rendered of €331m (346m), interest and similar income of €115m (121m), income from the release/reduction of miscellaneous provisions and adjustments of values for receivables of €203m (138m), and income of €39m (114m) from owner-occupied property that is sometimes leased out.

(31) Net expenses for claims and benefits

Net expenses for claims and benefits											
	Reinsurance					Primary insurance				Total	
	Life and health		Property-casualty		Life and health		Property-casualty				
	€m ¹	2008	Prev. year ²	2008	Prev. year	2008	Prev. year	2008	Prev. year		
Gross											
Claims and benefits paid	4,229	5,446	9,132	8,875	10,392	10,057	3,144	2,986	26,897	27,364	
Change in technical provisions											
Provision for future policy benefits	518	412	19	23	640	1,771	27	38	1,204	2,244	
Provision for outstanding claims	54	-934	478	223	128	-66	352	202	1,012	-575	
Provision for deferred premium refunds	-	-	6	-	551	2,047	15	21	572	2,068	
Other technical result	17	1	28	10	129	188	37	14	211	213	
Gross expenses for claims and benefits	4,818	4,925	9,663	9,131	11,840	13,997	3,575	3,261	29,896	31,314	
Ceded share											
Claims and benefits paid	182	333	1,019	1,008	81	69	162	267	1,444	1,677	
Change in technical provisions											
Provision for future policy benefits	-15	-8	-	-1	59	95	-	-	44	86	
Provision for outstanding claims	-21	-128	-357	-579	3	3	107	-136	-268	-840	
Provision for deferred premium refunds	-	-	-	-	-	-	1	1	1	1	
Other technical result	8	-17	-4	2	-49	-66	1	2	-44	-79	
Expenses for claims and benefits – Ceded share	154	180	658	430	94	101	271	134	1,177	845	
Net											
Claims and benefits paid	4,047	5,113	8,113	7,867	10,311	9,988	2,982	2,719	25,453	25,687	
Change in technical provisions											
Provision for future policy benefits	533	420	19	24	581	1,676	27	38	1,160	2,158	
Provision for outstanding claims	75	-806	835	802	125	-69	245	338	1,280	265	
Provision for deferred premium refunds	-	-	6	-	551	2,047	14	20	571	2,067	
Other technical result	9	18	32	8	178	254	36	12	255	292	
Net expenses for claims and benefits	4,664	4,745	9,005	8,701	11,746	13,896	3,304	3,127	28,719	30,469	

¹ After elimination of intra-Group transactions across segments.² Adjusted pursuant to IAS 8.

The change in the provision for future policy benefits (net) contains -€591m (38m) in unrealised gains/losses from unit-linked life insurance. Expenses for claims and benefits include expenses for policyholders' bonuses. Of this, €439m (1,259m) is for the allocation to the provision for premium refunds on the basis of national regulations, -€111m (600m) for the change in the provision for deferred premium refunds recognised in the income statement, and €290m (391m) for direct crediting. The "other technical result" for life primary insurance mainly includes interest on policyholders' accumulated credit.

Expenses for profit commission in reinsurance are shown under operating expenses, not under expenses for claims and benefits.

(32) Operating expenses

Operating expenses										
Reinsurance					Primary insurance					
Life and health					Property-casualty					
€m ¹	2008	Prev. year	2008	Prev. year	2008	Prev. year	2008	Prev. year	2008	Prev. year
Acquisition costs	-15	1	212	-33	1,303	1,320	1,184	1,153	2,684	2,441
Administration expenses	319	250	852	835	421	424	624	668	2,216	2,177
Amortisation of acquired insurance portfolios	6	5	-	-	25	22	-	-	31	27
Reinsurance commission and profit commission	1,405	1,556	2,948	3,045	7	16	39	9	4,399	4,626
Gross operating expenses	1,715	1,812	4,012	3,847	1,756	1,782	1,847	1,830	9,330	9,271
Ceded share of acquisition costs	18	9	15	15	-33	-1	-2	4	-2	27
Commission received on ceded business	55	52	179	240	21	21	34	53	289	366
Operating expenses – Ceded share	73	61	194	255	-12	20	32	57	287	393
Net operating expenses	1,642	1,751	3,818	3,592	1,768	1,762	1,815	1,773	9,043	8,878

¹ After elimination of intra-Group transactions across segments.

(33) Other expenses

In addition to foreign currency exchange losses of €3,654m (1,839m), the other expenses mainly include expenses for services rendered of €250m (310m), interest and similar expenses of €157m (161m), other write-downs of €139m (87m), and other tax of €18m (20m). They also contain expenses of €53m (76m) for owner-occupied property, some of which is also leased out.

(34) Finance costs

By finance costs we understand all interest and other expenses directly attributable to strategic debt. Debt has a strategic character for us if it does not have an original, direct link with our operative business.

Finance costs by financing instrument		
	€m	2008
		Prev. year
Subordinated bonds of Munich Reinsurance Company, Munich		321
Senior notes of Munich Re America Corporation, Princeton		27
Bank borrowing of Munich Re America Corporation, Princeton		11
Other		2
Total	361	333

The increase in finance costs compared with the previous year is mainly due to the fact that the subordinated bonds issued by Munich Reinsurance Company in June 2007 are recognised here in full in 2008, rather than pro rata temporis as in 2007.

Information on the Group's strategic debt can be found in the management report on page 116 f. and under (18) Subordinated liabilities and (25) Bonds and notes issued.

(35) Taxes on income

This item shows the corporation tax and municipal trade earnings tax paid by the German consolidated companies (including solidarity surcharge) and the comparable taxes on earnings paid by the foreign consolidated companies in the Group. In accordance with IAS 12, the determination of taxes on income includes the calculation of deferred taxes.

Recognised tax expenses/income broken down according to Germany and other countries		
	€m	2008
		Prev. year ¹
Current tax		823
Germany		630
Other countries		193
Deferred tax		550
Germany		360
Other countries		190
Taxes on income	1,373	801

¹ Adjusted pursuant to IAS 8.

Main components of tax expenses/income

	€m	2008	Prev. year ¹
Current tax for financial year		942	1,168
Current tax for other periods		-119	-25
Deferred tax resulting from the occurrence or reversal of temporary differences		294	-119
Deferred tax resulting from the occurrence or reversal of loss carry-forwards		172	277
Write-downs of deferred taxes/loss carry-forwards		79	-36
Effects of changes in tax rates on deferred tax		5	-464
Taxes on income	1,373	801	

¹ Adjusted pursuant to IAS 8.

The current tax is derived from the tax results of the financial year, to which the local tax rates of the respective subsidiaries are applied. Deferred tax is also calculated using the local tax rates. Sometimes for simplicity's sake we use uniform tax rates for individual circumstances or subsidiaries. Changes in tax rates and tax legislation that have already been adopted by the government at the balance sheet date are generally taken into account.

Deferred tax assets are recognised for unused loss carry-forwards to the extent that, on the basis of tax result planning, it is sufficiently probable that they will be utilised.

A total of €160m in current and deferred taxes was debited directly to equity.

The following table shows the reconciliation between the expected taxes on income and the tax on income actually shown. The expected tax expenses are calculated by multiplying the operating result before taxes on income (after "other tax") by the Group tax rate. The applicable Group tax rate has reduced from 40% in the previous year to 33%. This takes into account corporation tax including solidarity surcharge, and a mixed trade-tax rate.

Reconciliation to effective tax expenses		€m	2008	Prev. year ¹
Result before taxes on income (after "other tax")		2,901	4,724	
Group tax rate in %		33.0	40.0	
Derived taxes on income		957	1,890	
Tax effect of:				
Tax rate differences		-186	-155	
Tax-free income		-334	-824	
Non-deductible expenses		662	193	
Valuation allowances for deferred taxes/loss carry-forwards		79	-36	
Change in tax rates and tax legislation		5	-442	
Tax for prior years		-96	-20	
Municipal trade earnings tax		97	128	
Other		189	67	
Taxes on income shown		1,373	801	

¹ Adjusted pursuant to IAS 8.

The effective tax burden is the ratio between the taxes on income recognised and the result before taxes on income (after "other tax"). In the year under review, there was a tax burden of 47% (previous year: 17%). "Tax-free income" is made up of tax-free gains on the sales of shareholdings in joint-stock companies, tax-free dividend income and other tax-free income.

The Group effective tax rate in 2008 was significantly increased by the negative developments in the capital markets, since impairments/losses on equities are not deductible under German tax law.

For the same reason, write-downs were made on securities in the USA, with no deferred tax assets being recognised for the resulting tax losses. This also increased the Group effective tax rate.

Tax reserves set up in previous years were released in 2008 after the reason for posting them no longer applied.

The item "municipal trade earnings tax" includes the differences between the trade-tax rate applied by the respective Group companies and the Group mixed trade-tax rate.

Disclosures on type and extent of risks from insurance contracts and financial instruments

(36) Risks from insurance contracts in the life and health segment

Of primary importance in this segment are biometric risks, interest-rate risks and lapse risks. The measurement of technical provisions and deferred acquisition costs is based on biometric calculation tables, i.e. on assumptions with regard to mortality, disablement and morbidity, and on the respective contract- or plan-specific discount rates and actuarial interest rates. Besides this, measurement includes assumptions regarding the lapse rate and profit sharing. In addition, other market risks from unit-linked contracts and risks from embedded derivatives, as well as the liquidity risk, have to be taken into account.

Biometric risks

Our portfolios' degree of exposure to biometric risks depends on the type of insurance contracts:

Biometric risks		
Product category	Characteristics	Important risks
Life primary insurance		
Endowment and term life insurance	<ul style="list-style-type: none"> – Long-term contracts with a death benefit – In most cases, a lump-sum payment on termination – Actuarial assumptions fixed when contract is concluded; premium adjustments not possible 	Mortality (short term): <ul style="list-style-type: none"> – Increase in claims expenditure due to exceptional, one-off circumstances (e.g. pandemics) Mortality (long term): <ul style="list-style-type: none"> – Increase in claims expenditure due to sustained rise in mortality in the portfolio
Annuity insurance	<ul style="list-style-type: none"> – In most cases, guaranteed lifetime annuity payment – Actuarial assumptions mainly fixed when contract is concluded 	Longevity: <ul style="list-style-type: none"> – Increase in expected expenditure for annuities due to sustained rise in life expectancy in the portfolio
Disability insurance	<ul style="list-style-type: none"> – Long-term contracts with a guaranteed limited annuity in the event of disablement – Actuarial assumptions fixed when contract is concluded 	Disablement: <ul style="list-style-type: none"> – Increased expenditure due to rise in the number of cases of disablement in the portfolio or a reduction in the average age at which the insured event occurs Longevity: <ul style="list-style-type: none"> – Increased expenditure due to rise in the average duration of annuity period
Life reinsurance		
	<ul style="list-style-type: none"> – Largely long-term contracts under which mainly mortality and morbidity risks are assumed from cedants 	Mortality (short term): <ul style="list-style-type: none"> – Increase in claims expenditure due to exceptional, one-off circumstances (e.g. pandemics) Mortality (long term): <ul style="list-style-type: none"> – Increase in claims expenditure due to sustained rise in mortality in cedants' portfolios Disablement: <ul style="list-style-type: none"> – Increased expenditure for disability insurances in cedants' portfolios
Health primary insurance		
	<ul style="list-style-type: none"> – Largely long-term contracts guaranteeing assumption of costs for medical treatment; provisions are established for covering increased costs on ageing – Variable actuarial assumptions; premium adjustment possible if there are sustained changes in the cost structure 	Morbidity: <ul style="list-style-type: none"> – Increase in medical costs that cannot be absorbed through premium adjustments – Increase in claims expenditure due to exceptional, one-off events (e.g. pandemics)
Health reinsurance		
	<ul style="list-style-type: none"> – In most cases, short-term contracts under which morbidity risks are assumed from cedants 	Morbidity (short term): <ul style="list-style-type: none"> – Increase in costs of medical treatment within the risk period – Increase in claims expenditure due to exceptional, one-off events (e.g. pandemics)

The quantitative structure of our business is shown in the notes under (20) Provision for future policy benefits.

The biometric assumptions used for measuring insurance contracts in our portfolios are regularly reviewed on the basis of updated portfolio information. Especially in primary insurance, this includes considering country-specific reviews by supervisory authorities. We also take account of market standards when checking the adequacy of biometric actuarial assumptions and the trend assumptions included in them. This may result in a change in the provision for adverse deviation allowed for in the actuarial assumptions. The amount of the technical provisions or the deferred acquisition costs is not directly affected as long as there is provision for adverse deviation. In the view of the actuaries responsible, the biometric actuarial assumptions used by us are deemed sufficient. However, in long-term health insurance, we are proceeding on the assumption that there will be further advances in medical treatment, potentially giving rise to higher costs. For this business, it is generally possible to modify the actuarial assumptions by means of a premium adjustment to reflect the changes.

For short-term health insurance business, on the other hand, the main risk is a sudden increase in expenses due to exceptional one-off events.

Interventions by legislators or courts in the distribution of risks and rewards underlying the contracts concluded between the parties to insurance may mask or aggravate the biometric risks described, making it necessary to adjust the provision.

We measure sensitivity to changes in biometric assumptions in life insurance and for long-term contracts in health insurance using an embedded value analysis; cf. page 258 f.

Interest-rate risks

A distinction must be made between risks of changes in interest rates on the one hand and interest-rate guarantee risks on the other. Risks of changes in interest rates would result from the discounting of the provision for future policy benefits and of parts of the provision for outstanding claims. In accordance with accounting valuation rules, the discount rate is fixed at contract commencement and will generally not be adjusted during the term of the contract. To this extent, the accounting valuation of these technical provisions is not directly dependent on the level of the market interest rates.

Economically, however, an interest-rate risk derives in principle from the need to earn a return on the investments covering the provisions that is commensurate with the discount rate used in measuring the provision.

In reinsurance, we use the following discount rates for the provision for future policy benefits and the provision for outstanding claims:

Discount rates used for provisions – Reinsurance (gross)	€m ¹	31.12.2008	Prev. year ²
Without discount rate		2,157	1,947
Discount rate ≤ 2.5%		1	1
2.5% < discount rate ≤ 3.5%		534	610
3.5% < discount rate ≤ 4.5%		486	474
4.5% < discount rate ≤ 5.5%		2,679	2,532
5.5% < discount rate ≤ 6.5%		1,288	1,314
6.5% < discount rate ≤ 7.5%		310	356
Discount rate > 7.5%		93	108
Covered by deposits retained on assumed reinsurance		5,206	6,170
Total		12,754	13,512

¹ After elimination of intra-Group transactions across segments.

² Adjusted pursuant to IAS 8.

If provisions are covered by deposits retained on assumed reinsurance, the interest is directly secured by an inflow of investment income guaranteed by the ceding company. For this part of the portfolio, there is no interest-rate risk. For the remaining portfolio, application of the liability adequacy test as per IFRS 4 *inter alia* ensures that the expected income from the investments covering the technical provisions is sufficient to meet future obligations as a whole.

In life primary insurance, an implicit or explicit interest-rate guarantee is granted for the majority of contracts over their whole duration, based on a fixed interest rate applying at the time the contract is concluded. The discount rate used to calculate the provision for future policy benefits is identical with this interest rate for the majority of contracts in our portfolios. An appropriate minimum return needs to be earned in the long term from the investment result (possibly also with assistance from the underwriting result) for the contractually guaranteed benefits. In health primary insurance, a discount rate is also used for calculating the provision for future policy benefits, but for long-term business this rate can generally be altered by way of premium adjustment; for short-term business, there is no direct interest-rate risk.

The discount rates relevant for the portfolio in calculating the provision for future policy benefits and the provision for outstanding claims are as follows:

Discount rates used for provisions – Primary insurance (gross)	€m ¹	Life 31.12.2008	Health 31.12.2008	Total 31.12.2008	Total Previous year
Without discount rate		4,764	1,070	5,834	5,659
Discount rate ≤ 2.5%		3,566	6	3,572	2,120
2.5% < discount rate ≤ 3.0%		20,049	40	20,089	19,313
3.0% < discount rate ≤ 3.5%		26,096	477	26,573	26,193
3.5% < discount rate ≤ 4.0%		14,964	928	15,892	14,488
4.0% < discount rate ≤ 4.5%		31	2,336	2,367	2,512
4.5% < discount rate ≤ 5.0%		16	16,554	16,570	15,558
Discount rate > 5.0%		131	105	236	265
Total		69,617	21,516	91,133	86,108

¹ After elimination of intra-Group transactions across segments.

Provisions in reinsurance and primary insurance that are not covered by deposits retained are covered by investments. In the case of a discrepancy between the durations of these investments and the liabilities ("duration mismatch"), the main risk lies in the fact that if interest rates fall markedly over the remaining settlement period of the liabilities, the return on the reinvested assets may be lower than the discount rates and thus necessitate further expenses. But a

complete duration matching of liabilities with fixed-interest investments of identical maturities would not be expedient, because if interest rates rise, policyholders might make increasing use of their surrender rights, resulting in a liquidity requirement for premature payouts.

We measure sensitivity to this interest-rate risk using an embedded value analysis; cf. page 258 f.

Other market risks and embedded derivatives

In reinsurance, other market risks are generally ruled out through suitable treaty design. Some reinsurance contracts contain derivative components of variable annuities. These are measured separately and their changes in value are recognised in the investment result. The valuation of these embedded derivatives is sensitive to share prices and interest rates. In those cases where such derivatives are directly matched by financial derivatives for hedging purposes, these sensitivities are nearly fully compensated for. A change in share prices of plus/minus 10% results in a gain/loss of €7m, and a change in share prices of plus/minus 30% in a gain/loss of €22m. A change in interest rates of plus/minus 100 basis points produces a gain/loss of €19m, and a change in interest rates of plus/minus 200 basis points a gain/loss of €37m. The risk inherent in these interest sensitivities is largely eliminated through the consideration of these embedded derivatives in the economic replication portfolio used in the context of our asset-liability management.

In primary insurance, the risks to be considered in this context – besides the interest-rate guarantee, which we analyse in the modelling of the interest-rate risk – are particularly risks from unit-linked life insurance and the lump-sum option in the case of deferred annuity policies. Other embedded derivatives are financially insignificant.

For the unit-linked insurance contracts in our portfolios, the investments are held for the benefit of life insurance policyholders who bear the investment risk, meaning that there is no direct market risk. Appropriate product design ensures that the necessary premium portions for payment of a guaranteed minimum benefit on occurrence of death are based on the current fund assets.

The lump-sum option in the case of deferred annuity policies gives policyholders the option of having their annuity paid out in a single payment at a fixed date. With this embedded derivative, there is a potential risk if an unexpectedly large number of policyholders exercise their option at an interest-rate level markedly higher than the discount rate used for the annuity calculation. But there is no direct interest-rate sensitivity or market sensitivity, since the exercise of the option by the policyholder is determined to a crucial extent by individual factors and relates to the insurance components. This option is specifically taken into account when applying the liability adequacy test prescribed by IFRS 4 to underwriting liabilities.

Lapse risks

In reinsurance, a lapse risk derives primarily from the indirect transfer of lapse risks from cedants. As a rule, both this risk and the financial risk from extraordinary termination of reinsurance contracts are largely ruled out through appropriate contract design.

In life primary insurance, the reported technical provision in the case of contracts with a surrender option is generally at least as high as the relevant surrender value. Expected surrenders are taken into account in the amortisation of deferred acquisition costs in life primary insurance and reinsurance and in the calculation of provisions in health primary insurance. The underlying assumptions are regularly checked. The policyholder's right in some contracts to maintain the contract with a waiver of premium and an adjustment of the guaranteed benefits constitutes a partial lapse and is taken into account in the calculations analogously.

We measure sensitivity to changes in the lapse rate in life insurance and for long-term contracts in health insurance using an embedded value analysis; cf. page 258 f.

Liquidity risks

For the Munich Re Group, there could be a liquidity risk if the cash outflow for insurance claims payments and the costs related to the business were to exceed the cash inflow from premiums and investments. For our mainly long-term business, we therefore analyse the expected future balance from cash inflows due to premium payments and outflows for payment of insurance claims and benefits plus costs.

For the business at the balance sheet date, this results in the future expected technical payment balances (including variable annuities) shown in the table according to duration bands. As only the technical payment flows are considered, inflows from investments – i.e. investment income and investments that become free – are not included in the quantifications. Taking into account the inflows from investments, whose cash flows are largely aligned with those of the liabilities through our asset-liability management, items in the future expectations are positive throughout, so that the liquidity risk from this segment is minimised accordingly.

Expected future technical cash flow (gross) ¹		€m ²	31.12.2008
Up to one year			-1,805
Over one year and up to five years			-8,955
Over five years and up to ten years			-18,778
Over ten years and up to twenty years			-40,331
Over twenty years			-100,515

¹Premiums less benefits guaranteed at the balance sheet date and costs (excluding unit-linked products).

²After elimination of intra-Group transactions across segments.

With these numerical estimates, it should be borne in mind that these forward-looking data may involve considerable uncertainty.

Further information on the liquidity risk is provided in the risk report on page 160 f.

Risk minimisation measures

In reinsurance, the assumption of biometric risks is controlled by means of a risk-adequate underwriting policy. Risks are restricted through appropriate treaty design, specifically by limiting the coverage in the case of non-proportional business. In particular, the underwriting of longevity risks from re-insured portfolios is strictly limited. Interest-rate and other market risks are frequently ruled out by depositing the provisions with the cedant, with a guaranteed rate of interest from the deposit. In individual cases, these risks are also hedged by means of suitable capital market instruments.

In primary insurance, there is substantial risk minimisation through product design. For the most part, prudent actuarial assumptions are used in fixing the guaranteed benefits, in addition to which policyholders are granted a performance-related participation in surplus. More than 99% (99%) of the amounts shown under (20), Provision for future policy benefits, is apportionable to such contracts. Given the relevant margins in the actuarial assumptions, it is also possible to fulfil the future guaranteed obligations without adjusting the provisions in the case of moderate changes in assumptions. Of great significance for risk-balancing in the case of adverse developments are parts of the provision for premium refunds based on national regulations, parts of the provision for deferred premium refunds resulting from other revaluations, and unrealised gains and losses on investments taken as a basis for posting the provision for deferred premium refunds. Reference is made to (22) Other technical provisions.

In health primary insurance, there is the additional possibility of adjusting premiums for most long-term contracts. If it is foreseeable that the assumptions behind the calculation are permanently inadequate to cover expenses for claims, premiums can be raised accordingly, thus closely limiting the financial and balance sheet effects of cost increases in healthcare and permanent changes in morbidity.

For information on our risk management processes, reference is made to the risk report, pages 155–157 and page 159.

Impact on equity and the consolidated income statement

In the liability adequacy test pursuant to IFRS 4, the technical provisions and deferred acquisition costs are regularly tested to ensure they are appropriate. An adjustment is made if such tests show that, as a whole, the amounts calculated using the previous assumptions for biometric actuarial rates, for discounting provisions and for lapses are no longer sufficient. Particularly in primary insurance, the possibilities of adjusting participation in surplus are taken into account.

If an adjustment is required, we recognise any deficit as an expense in the consolidated income statement.

Quantitative impacts of changes in assumptions on long-term insurance business

Munich Re measures the sensitivity of its long-term insurance business in the segments life and health using an economic valuation in the context of the embedded value calculation; cf. page 55 f. This covers 100% (100%) of the long-term business in reinsurance and more than 90% (90%) of the long-term business in primary insurance.

The sensitivities given below measure the impact of changes in the calculation bases on the calculated economic value of our business. They take account of our risk minimisation measures and tax effects.

Specifically for year-end 2008, it should be borne in mind for the following sensitivities that Munich Re adhered to the strict rules of market-consistent evaluation as at the reporting date 31 December 2008. The extraordinary situation on the capital markets at this date and the capital market parameters derived from it result in distortions for 2008, especially for primary insurance (and there particularly in the determination of the time value of options and guarantees). This leads to figures on the valuation date that may not correspond to the values of the options and guarantees to be expected long term. Further explanations are provided on page 93 f. of the management report.

Embedded value sensitivities		Reinsurance		Primary insurance	
	€m	2008	Prev. year	2008	Prev. year
Embedded value at the balance sheet date		6,116	6,662	3,509	5,406
Change in the event of a sustained increase in interest rates of 100 BP		-397	-443	968	746
Change in the event of a sustained decrease in interest rates of 100 BP		443	515	-1,564	-895
Change in the event of a 10% decrease in the value of equities and real estate		-8	-3	-25	-192
Change in the event of an increase in mortality by 5% in the case of contracts mainly covering the mortality risk		-1,065	-708	-14	-13
Change in the event of a decrease in mortality by 5% in the case of contracts mainly covering the longevity risk		-20	-27	-38	-30
Change in the event of an increase in morbidity by 5%		-149	-130	-12	-10
Change in the event of an increase in the lapse rate by 10%		-78	-190	-3	-87

(37) Risks from insurance contracts in the property-casualty segment

Of particular importance in this segment is the estimation risk with regard to the amount of the expected claims expenditure for future claims from current insurance contracts (premium risk) and for claims already incurred (reserve risk). In estimating claims expenditure, we also take cost increases into account. There is an interest-rate risk for parts of the portfolio. Besides this, the liquidity risk has to be taken into account.

The basis for measuring the risk assumed is an estimate of the claims frequency to be expected for a contract or a portfolio of contracts. In addition, an estimation of the claims amount is necessary, from which a mathematical distribution of the expected losses is derived. The result of these two steps is an estimation of the expected overall claims in a portfolio. A third element comprises the expected cash flows to settle claims incurred, a process which frequently extends over several years.

As the proportion of business ceded is very small, the following analysis of underwriting risks largely adopts a gross approach.

Premium risks

The degree of exposure to estimation risks differs according to class of business and also between primary insurance and reinsurance. On the basis of the loss ratios and combined ratios of recent years, conclusions can be drawn about the historical volatilities in the different classes of business and about possible interdependencies. The differences in volatility are due equally to fluctuations in claims burdens and fluctuations in the respective market price level for the covers granted.

Premiums, loss ratios and combined ratios by class of business

	2008	2007	2006	2005	2004
Gross premiums written in €m					
Reinsurance					
Liability	2,118	2,227	2,394	2,561	2,606
Accident	497	547	713	1,052	1,080
Motor	2,441	2,643	2,913	2,671	2,890
Marine, aviation, space	1,755	1,730	1,751	1,654	1,609
Fire	3,998	3,932	3,763	3,701	3,775
Engineering	1,457	1,286	1,239	1,299	1,281
Credit and bonding	825	710	688	695	645
Other classes of business	1,561	1,149	1,090	914	971
Primary insurance	5,916	5,639	5,147	5,242	5,202
Loss ratio in %					
Reinsurance					
Liability	80.0	80.4	81.7	96.6	96.4
Accident	108.6	118.6	134.0	83.4	82.2
Motor	86.6	80.9	84.9	71.5	87.6
Marine, aviation, space	69.9	63.5	67.7	80.8	66.1
Fire	57.1	52.6	32.2	107.8	54.2
Engineering	58.5	53.9	56.4	40.0	57.4
Credit and bonding	59.4	43.3	42.4	54.3	30.0
Other classes of business	63.3	76.8	56.8	70.8	61.0
Primary insurance	58.2	58.6	55.8	58.4	58.1
Combined ratio in %					
Reinsurance					
Liability	114.2	111.0	110.7	124.8	124.2
Accident	148.7	160.2	167.7	111.0	115.8
Motor	111.6	104.6	109.7	94.6	112.7
Marine, aviation, space	97.2	93.3	91.5	106.6	89.6
Fire	84.6	78.0	58.8	135.8	81.8
Engineering	89.7	87.3	87.8	75.3	89.5
Credit and bonding	98.3	85.6	78.6	93.6	61.8
Other classes of business	94.3	100.4	86.7	101.7	86.6
Primary insurance	91.2	93.4	90.8	93.1	93.0

The estimation of technological, social and demographic parameters plays an important part in assessing and pricing risks assumed in all classes of business. Beyond this, in liability insurance, workers' compensation insurance and sections of motor insurance, the development of economic and legal parameters can be significant, whereas especially in the lines of business fire and marine, and also in sections of engineering business and primary insurance, there is a high degree of sensitivity regarding the underlying assumptions about natural catastrophes. In the latter area, we include expected trends in our considerations when assessing the risks, with special importance given to a precise analysis of climate-related changes in the risk profile. The following table shows the combined ratios of the Munich Re Group with and without inclusion of natural catastrophes:

Combined ratio for the last ten years

%	2008	2007	2006	2005	2004	2003	2002	2001	2000	1999
Including natural catastrophes	99.5	96.4	92.6	111.7	98.9	96.5	123.7 ²	136.9 ¹	116.2	119.7
Excluding natural catastrophes³	93.3	91.7	91.6	92.5	93.9	94.8	120.3 ²	135.4 ¹	112.7	108.6

¹ Thereof World Trade Center and reserve strengthening at Munich Re America: 24.3%.

² Thereof World Trade Center and reserve strengthening at Munich Re America: 17.1%.

³ Previous years adjusted owing to a change in methodology.

Large and very large losses are of particular relevance for property-casualty business in the reinsurance segment. The analysis below shows that the volatility of the individual years in this loss category is mainly attributable to the respective intensity of natural catastrophe losses, whilst the other accumulation risks exhibit a distinctly less volatile pattern.

Large and very large losses in reinsurance according to individual calendar years (net)

	€m ¹	2008	2007	2006	2005	2004
Large and very large losses		1,507	1,126	585	3,134	1,084
Thereof losses from natural catastrophes		832	634	139	2,603	713
Thereof other accumulation and individual losses		675	492	446	531	371

¹ Previous years adjusted owing to a change in methodology.

Further information on risks from large and accumulation losses can be found in the risk report on page 164 f.

Reserve risks

The provision for outstanding claims is subject to the risk that actual claims settlement may be less than or exceed the amount reserved (reserve risk). Particular attention is given to those situations where the funds dedicated to future claim payments may be inadequate.

The measurement of the provision for outstanding claims is based on an analysis of the historical loss development data for the different classes of business. We use a range of well-established actuarial methods for this purpose, which embed various pricing, coverage and benefit/inflation levels. In so doing, we draw on the specialist knowledge present in our claims and underwriting departments and take all foreseeable future trends into account. As part of our regular results monitoring process, we keep a close eye on trends to ensure that the assumptions underlying the measurement of the provisions always reflect the latest developments. Consequently, in the course of reserve run-off, it may be necessary to revise the original estimates of the claims expenditure required and to adjust the provisions accordingly.

The development of our claims reserves and the corresponding run-off results are shown under (21) Provision for outstanding claims.

A particular sensitivity exists in the case of contracts with long run-off periods. This characteristic applies especially to casualty insurance, where liabilities may manifest themselves with a considerable time lag. In addition, changes in court verdicts, class actions, medical inflation and modifications in general life expectancy can alter the valuation of reserves. The following section discusses the areas in the current reserve portfolio where, within the framework of an appropriate reserve estimate, the uncertainty is the greatest.

Asbestos insurance liabilities currently emanating predominantly from the USA and some European countries are an area of concern for the entire insurance and reinsurance industry. Since the mid-eighties industrial insurers writing business worldwide have found themselves being confronted with losses from policies taken out decades before. This also applies to the Munich Re Group. In our case, the policies mainly cover claims which manifest themselves after a latency period of as long as 30 to 50 years. In response, we have posted provisions for claims under long-cancelled general liability policies which provided coverage according to the then-applicable legal environment.

Time lags in claims settlement may assume significant dimensions, especially in reinsurance. Loss notification often involves a long "chain": exposure to the loss, manifestation of an injury, possible filing of a lawsuit against a defendant and adjudication of the suit, reporting and payment of an insurance recovery and then, finally, notification to the reinsurer. Therefore, besides monitoring these developments on a claim-by-claim level, we also monitor the development from an industry perspective, as this may be considered an important early indicator.

Provisions for asbestos and environmental claims

	31.12.2008		Prev. year		
	€m ¹	Gross	Net	Gross	Net
Asbestos		1,842	1,480	1,852	1,518
Environmental		357	306	378	324

¹ The previous year's figures have been adjusted to eliminate currency translation effects.

In addition, there are loss scenarios which are highly influenced by the continuously evolving practice of jurisprudence under tort law, but also by a growing number of class actions. The main lines of business affected are product liability and professional liability in the USA. Besides this, we see increased uncertainties in the assessment of liability scenarios for pure financial losses as a result of the massive change in economic parameters. The subprime loan crisis and the ensuing global financial crisis has led to a wave of lawsuits from aggrieved investors and shareholders, particularly against the managements of financial institutions. We will continue to carefully monitor trends and to respond to the emergence of new information as appropriate.

In the area of bodily injury losses, the Group carries a significant amount of reserves for individual claims where the claimant is severely injured and is in need of a high degree of individual, specialised medical treatment and care. US workers' compensation business and motor liability business in some European countries are particularly affected by such claims. In both cases, coverage is provided for permanent disability cases where the claimant is expected to live for a considerable length of time and requires significant medical attention. Accordingly, the loss provisions are highly sensitive especially to inflation of medical care costs and to the trend with regard to general life expectancy. Owing to unexpectedly high price inflation, we have repeatedly had to increase these provisions in the past. Actual claims reported are compared with projected amounts to check whether the loss development patterns used are still appropriate for projecting future claims payments.

Risk minimisation measures

With our underwriting policy geared to systematic diversification, i.e. the greatest possible mix and spread of individual risks, we substantially reduce the volatility for our insurance portfolio as a whole.

Another important measure for controlling underwriting risks is the cession of a portion of our risks to other carriers via external reinsurance and retrocession; cf. (11) Ceded share of technical provisions and (28) Premiums. All our companies have intra-Group and external reinsurance and retrocession cover. Particularly important in this context is an accumulation excess-of-loss cover, which provides protection against property damage losses from natural catastrophes. The dimensions of this cover are based on analyses of our accumulation budgets in those parts of the world exposed to natural catastrophes. The protection afforded by retrocession comes into play if we are hit by an extremely large loss.

We further diversify our risk management instruments by issuing catastrophe bonds.

Reference is made to the risk report for information on our risk management processes; cf. page 155–158.

Interest-rate risks

Economically, an interest-rate risk derives in principle from the need to earn a return on the investments covering the provision that is commensurate with the discount rate used in measuring the provision. In balance sheet terms, the interest-rate risk affects only those parts of the technical provisions that are discounted and for which a guaranteed inflow of investment income from deposits retained is not secured from the cedant in at least the same amount.

Discounted technical provisions according to discount rates (gross)

	€m ¹	Reinsurance		Primary insurance		Total	
		31.12.2008	Prev. year	31.12.2008	Prev. year	31.12.2008	Prev. year
Discount rate ≤ 2.5 %	47	–	–	56	37	103	37
2.5% < discount rate ≤ 3.5%	122	71	–	460	427	582	498
3.5% < discount rate ≤ 4.5%	2,011	2,405	–	81	87	2,092	2,492
Discount rate > 4.5%	–	–	–	–	–	–	–
Total	2,180	2,476		597	551	2,777	3,027

¹ After elimination of intra-Group transactions across segments.

The major part of the discounted provisions in reinsurance are for US workers' compensation business, for which the discount rates are governed by supervisory law and are determined prospectively per accident year. We currently do not expect any changes in the US regulatory authorities' approval procedure. A sustained reduction in market interest rates is taken into account through conservative discount rate assumptions for future provisions for outstanding claims. If the discount rate were subsequently lowered by 100 BP, this would necessitate additional reserving of €229m (216m), which would have to be recognised as an expense in the income statement.

The discounting of the provisions in primary insurance is also largely governed by supervisory law. An interest-rate risk arises for us here primarily for annuity insurance claims. However, as only around 10.9% (10.6%) of the actuarial and claims reserves to be considered in this connection in our property-casualty primary insurance segment are discounted, this risk can be assessed as small. If the investment income failed to cover the expenses arising from the discounting, this would result in losses not included in the calculations. In such a case, a reserve adjustment might be necessary. Conversely, if the investment income were higher, this would result in unforeseen gains.

Liquidity risks

Such risks could result for the Munich Re Group if the cash outflow for insurance claims payments and the costs related to the business were to exceed the cash inflow from premiums and regular investments. In property-casualty insurance, a distinction must be made between payments for claims for which reserves were posted in previous years and immediate payments, i.e. payments for claims incurred in the current financial year. If claims reserves are posted, the liquidity risk can be minimised through our asset-liability management, in which investments are geared to the character of the liabilities. The proportion of immediate claims payments constitutes only a fraction of the total payments to be made and is temporally stable according to our experience. Consequently, the liquidity risks in respect of these payments can also be minimised by means of asset-liability management.

The following table shows that in the past calendar years the liquidity situation has always been positive. Not explicitly considered in the quantification – but important – is the fact that owing to our far-reaching asset-liability management for payments of claims incurred in prior years, even extremely large losses (from natural-catastrophe and non-natural-catastrophe scenarios) are covered by our liquidity position. In addition, we regularly simulate the impact of major shock scenarios on our liquidity situation and take appropriate account of this in our liquidity planning. The losses simulated in this connection exceed the demands of very large claims burdens sustained in the past (e.g. World Trade Center or hurricanes like Katrina) in terms of both absolute amount and speed of settlement.

Payment flows and liquid funds in the individual calendar years (gross)

	€m	2008	2007	2006	2005	2004
Premiums received		19,884	19,021	18,917	18,918	19,166
Claims payments for financial year		4,562	4,264	3,493	3,734	3,935
Claims payments for previous years		7,714	7,597	7,722	7,713	8,132
Costs		5,896	5,717	5,455	5,477	5,469
Liquid funds		1,712	1,443	2,247	1,994	1,630

Further information on the liquidity risk is provided in the risk report on page 160 f.

Impact of changes in underwriting assumptions on equity and the consolidated income statement

As part of the monitoring of our portfolio, we check whether original assumptions need to be adjusted. By means of the IFRS 4 liability adequacy test, we review expected claims expenditure in the light of updated assumptions, taking into account our risk minimisation measures. If this test shows that an adjustment to technical provisions is required, the amount is recognised in the consolidated income statement.

(38) Credit risks from ceded reinsurance business

In connection with the business we cede, the credit risk is also of relevance. For our externally placed reinsurance and retrocessions, we choose only business partners that have been approved by our Retro Security Committee,

The credit ratings of our retrocessionaires and reinsurers for the externally ceded share of our provisions are given on page 167 of the risk report, which also includes further information on credit risks on page 159 f.

40% (40%) of the ceded share of provisions is directly collateralised through deposits, so the credit risk can be ignored for this portion.

Apart from this, there are credit risks from the underwriting of credit reinsurance contracts. Information on these can be found under (37) Risks from insurance contracts in the property-casualty segment. We do not conduct any active credit insurance business in our primary insurance.

(39) Market risks from financing instruments – Sensitivity analysis

The sensitivity analysis shows the effect of capital market events on the value of investments and the corresponding impact on the income statement. Sensitivities of investments to share prices, interest rates and exchange rates are analysed independently of one another, i.e. *ceteris paribus*, with the change in market value being determined under selected capital market scenarios as follows:

The analysis of equities and equity derivatives is based on a change in market value of $\pm 10\%$, $\pm 30\%$ of the delta-weighted exposure. For interest-rate-sensitive instruments, on the other hand, the change in market value resulting from a global change in interest rates of ± 100 BP und ± 200 BP is determined using duration and convexity. The reaction of interest-rate derivatives to the change in market value of the underlying investment is taken into account using the delta of the derivative. By contrast, changes in exchange rates affect both interest-rate-sensitive and share-price-sensitive instruments. The sensitivity of instruments in foreign currency is determined by multiplying the euro market value by the assumed change of $\pm 10\%$ in the exchange rates. Alternative investments (private equity, hedge funds and commodities) are analysed together with the equities.

The effects of the capital market events listed in the following table do not take account of tax or the provision for premium refunds (gross disclosure), i.e. the analysis does not take into account the effects resulting from policyholders' participation in surplus in insurances of the person. The impact on the results and equity shown below would be substantially reduced if these effects were considered. It is also assumed that changes in the capital markets occur instantaneously, preventing our limit systems and active counter-measures from taking effect. The analysis considers around 92% of the Munich Re Group's investments.

Market risk – Share prices

Change in market risk – Share prices						
Change in share prices			31.12.2008			Previous year
	€bn	Impact on profit or loss ¹	Impact on equity ¹	Total change in market value	Impact on profit or loss ¹	Impact on equity ¹
Increase of 30%		-0.686	1.266	0.895	-1.095	5.940
Increase of 10%		-0.230	0.422	0.297	-0.454	2.040
Decrease of 10%		-0.201	0.009	-0.297	-0.379	-1.208
Decrease of 30%		-0.371	-0.206	-0.893	-1.588	-3.219
Market values				7.005		23.838

¹ Gross before tax and policyholder participation in surplus.

The significant reduction in our equity portfolio compared with the previous year results in a marked reduction of the sensitivities to stock market movements.

Derivative hedging measures reduce the sensitivity to share prices further. A change in share prices by 10% only has an impact of 4.2% on the stock market value. The recognition of these hedging transactions in profit or loss has the effect that in the case of rising share prices, the overall impact on the income statement is nevertheless negative. The non-linear effects of the hedging measures, e.g. through puts or other asymmetrical strategies, are not taken into account in this presentation owing to the delta-weighted approach selected.

Market risk – Interest rates

Change in market value of investments sensitive to interest rates						
Change in interest rates			31.12.2008			Previous year
	€bn	Impact on profit or loss ¹	Impact on equity ¹	Total change in market value	Impact on profit or loss ¹	Impact on equity ¹
Increase of 200 BP		-0.652	-7.937	-11.993	-0.280	-7.903
Increase of 100 BP		-0.491	-4.217	-6.915	-0.199	-4.169
Decrease of 100 BP		0.822	4.714	8.752	0.312	4.609
Decrease of 200 BP		1.975	9.924	19.342	0.744	9.650
Market values				141.702		122.331

¹ Gross before tax and policyholder participation in surplus.

In terms of market value, the Munich Re Group's fixed-interest investments respond to changes in interest rates in a similar way to an interest-bearing bond with a period of around six years to maturity. As a portion of the investments are recognised at amortised cost, however, the effects shown deviate from this.

The impact on the income statement is small compared with the impact on equity, as most of the changes in the value of fixed-interest investments are accounted for in equity, with no effect on profit or loss. Also, nearly a third of the investments considered in this analysis are measured at amortised cost, so that changes in market value have no effect on the financial statements.

Economically speaking, the impact of the fixed-interest investments on equity is paralleled by a change in the economic value of the liabilities. Therefore our asset-liability management steers the investments in such a way that the effects of interest-rate changes on the value of the investments and on the economic value of the liabilities cancel each other out. This offsetting does not have an impact on the balance sheet, however, since significant portions of the liabilities are not valued on the basis of the current interest-rate curves.

Market risk – Exchange rates

In the case of an increase of 10% in exchange rates on 31 December 2008, this would have led to a change in market value of €3.583bn (3.616bn) in the investments sensitive to changes in exchange rates totalling €40.554bn (43.772bn). Conversely, a decline of 10% in exchange rates on 31 December 2008 would have resulted in market-value changes of -€3.583bn (-3.620bn) in the investments sensitive to exchange rates. Such an increase or decline in exchange rates for the financial year 2008 would have had a small effect on equity (€0.127 and -€0.127 respectively) compared with the impact on the income statement. For 2007, the changes in value had mainly affected the income statement.

Our asset-liability management gears the currency structure of our assets to that of our liabilities. As a substantial portion of our non-euro liabilities is in US dollars, around 63% of the investments' sensitivity to exchange rates shown above stems from the US dollar. The British pound and the Canadian dollar contribute a further 24%. In this analysis, an increase of 10% in the exchange rate means that the foreign currency appreciates by 10% against the euro.

Other information

(40) Parent

The parent of the Munich Re Group is Münchener Rückversicherungs-Gesellschaft Aktiengesellschaft in München (Munich Reinsurance Company Joint-Stock Company in Munich), Königinstrasse 107, 80802 München. Its registered seat is Munich, Germany. In addition to its function as a reinsurer, the parent also fulfils the function of holding company for the Group.

(41) Related parties

Information on the remuneration of Board members and transactions with these persons can be found in the remuneration report, starting on page 134, and under (44) Remuneration report. Transactions between Munich Re and subsidiaries that are to be deemed related parties have been eliminated in consolidation and are not disclosed in the notes. Business relations with unconsolidated subsidiaries are of subordinate importance as a whole; this also applies to business relations with associates.

(42) Personnel expenses

The following personnel expenses are included in the operating expenses, in the expenses for claims and benefits (for claims adjustment) and in the investment result:

Breakdown of personnel expenses	€m	2008	Prev. year
Wages and salaries	2,150	2,016	
Social security contributions and employee assistance	379	358	
Expenses for employees' pensions	174	170	
Total	2,703	2,544	

(43) Long-term incentive plans

Every year since 1 July 1999, Munich Reinsurance Company has set up long-term incentive plans, each with a term of seven years. Entitled to participate in these share-price-related remuneration plans are members of the Board of Management, senior management in Munich, and top executives in Munich Re's international organisation. Participants receive a certain number of stock appreciation rights.

The relevant initial share price for the stock appreciation rights is calculated from the average of closing prices for Munich Re shares in Frankfurt Xetra trading over the last three months prior to plan commencement. The initial price for the 2008 long-term incentive plan is €121.84 (134.07). As a result of Munich Reinsurance Company's capital increase in the financial year 2003, the initial share prices for the stock appreciation rights issued up to then and the number of stock appreciation rights already granted were adjusted in accordance with the conditions. In the year under review, a total of 448,117 (347,860) stock appreciation rights were granted, 143,101 (91,919) of these to Board of Management members. The future obligations arising from the long-term incentive plans are covered by Munich Re shares.

The personnel expenses and income incurred for the stock appreciation rights are determined on the basis of the change in the fair value of the underlying options. The fair value recognises not only the intrinsic value (difference between current share price and initial share price of the stock appreciation rights) but also the possibility of growth in value up to the date of forfeiture or

expiry of the rights and is determined on the basis of recognised valuation models, taking into account the exercise conditions. At each balance sheet date, the fair value is calculated and reserved; this amount is recognised in full. In the year under review, provisions of €63.3m (55.8m) had to be posted for the reinsurers in the Munich Re Group. The personnel expenses/income recognised in the income statement correspond(s) to the change in the provision in the year under review, taking into consideration any rights exercised. In 2008, this resulted in expenses of €10.6m (3.9m). The weighted average share price for the stock appreciation rights exercised in 2008 was €118.43 for plan year 2003, €113.98 for plan year 2004, and €117.91 for plan year 2005. The intrinsic value of the exercisable stock appreciation rights amounted to €17.7m at the balance sheet date.

Incentive plans 2000–2008 of the Munich Re Group's reinsurers

	Incentive Plan 2001	Incentive Plan 2002	Incentive Plan 2003	Incentive Plan 2004	Incentive Plan 2005	Incentive Plan 2006	Incentive Plan 2007	Incentive Plan 2008
Plan commencement	1.7.2001	1.7.2002	1.7.2003	1.7.2004	1.7.2005	1.7.2006	1.7.2007	1.7.2008
Plan end	30.6.2008	30.6.2009	30.6.2010	30.6.2011	30.6.2012	30.6.2013	30.6.2014	30.6.2015
Old initial share price	€320.47	€260.37	€86.24	–	–	–	–	–
New initial share price after 2003 capital increase	€304.80	€247.64	€82.02	€88.65	€88.10	€108.87	€134.07	€121.84
Intrinsic value 2008 for one right	–	–	€29.98	€23.35	€23.90	€3.13	–	–
Fair value 2008 for one right	–	€0.12	€33.87	€34.14	€37.07	€33.02	€29.84	€33.80
Number of rights on 31 Dec. 2001	109,474	–	–	–	–	–	–	–
Additions	270	132,466	–	–	–	–	–	–
Forfeited	443	–	–	–	–	–	–	–
Number of rights on 31 Dec. 2002	109,301	132,466	–	–	–	–	–	–
Additions	5,319	6,696	439,581	–	–	–	–	–
Forfeited	7,192	3,962	–	–	–	–	–	–
Number of rights on 31 Dec. 2003	107,428	135,200	439,581	–	–	–	–	–
Additions	–	–	–	456,336	–	–	–	–
Forfeited	600	748	2,354	–	–	–	–	–
Number of rights on 31 Dec. 2004	106,828	134,452	437,227	456,336	–	–	–	–
Additions	–	–	320	1,697	485,527	–	–	–
Exercised	–	–	177,748	–	–	–	–	–
Forfeited	542	680	121	2,005	–	–	–	–
Number of rights on 31 Dec. 2005	106,286	133,772	259,678	456,028	485,527	–	–	–
Additions	–	–	–	–	–	443,609	–	–
Exercised	–	–	63,942	119,363	–	–	–	–
Forfeited	–	–	–	–	–	1,019	–	–
Number of rights on 31 Dec. 2006	106,286	133,772	195,736	336,665	485,527	442,590	–	–
Additions	–	–	–	–	–	6,123	341,737	–
Exercised	–	–	70,690	85,652	84,329	–	–	–
Forfeited	541	985	–	–	3,892	8,514	503	–
Number of rights on 31 Dec. 2007	105,745	132,787	125,046	251,013	397,306	440,199	341,234	–
Additions	–	–	–	–	–	–	4,013	444,104
Exercised	–	–	40,045	31,582	31,716	–	–	–
Forfeited	105,745	–	–	1,069	–	5,388	5,848	3,063
Number of rights on 31 Dec. 2008	–	132,787	85,001	218,362	365,590	434,811	339,399	441,041
Exercisable at year-end	–	132,787	85,001	218,362	365,590	434,811	–	–

Since 1 July 2002, ERGO Versicherungsgruppe AG and some of its subsidiaries, as well as Europäische Reiseversicherung AG and MEAG MUNICH ERGO AssetManagement GmbH, have also set up long-term incentive plans at yearly intervals and with terms of seven years each. The persons entitled to participate – Board of Management members, managing directors and, in individual cases, also top executives – are granted a defined number of stock appreciation rights in respect of Munich Re shares. The design of the plans is identical to that of Munich Re's long-term incentive plans and they are accounted for in the same way. In the year under review, a total of 173,153 (121,821) stock appreciation rights were granted, 132,383 (93,988) of these to Board of Management members. The future obligations arising from the long-term incentive plans are covered by Munich Re shares or options on Munich Re shares. In the year under review, provisions of €21.4m (18.1m) had to be posted for the primary insurers and asset managers in the Munich Re Group. The personnel expenses/income recognised in the income statement correspond(s) to the change in the provision in the year under review, taking into consideration any rights exercised. In 2008, this resulted in expenses of €4.4m (–0.8m). The weighted average share price for the stock appreciation rights exercised in 2008 was €126.48 for plan year 2003, €120.94 for plan year 2004, and €121.20 for plan year 2005. The intrinsic value of the exercisable stock appreciation rights amounted to €5.2m at the balance sheet date.

Incentive plans 2002–2008 of the Munich Re Group's primary insurers and asset managers

	Incentive Plan 2002	Incentive Plan 2003	Incentive Plan 2004	Incentive Plan 2005	Incentive Plan 2006	Incentive Plan 2007	Incentive Plan 2008
Plan commencement	1.7.2002	1.7.2003	1.7.2004	1.7.2005	1.7.2006	1.7.2007	1.7.2008
Plan end	30.6.2009	30.6.2010	30.6.2011	30.6.2012	30.6.2013	30.6.2014	30.6.2015
Old initial share price	€260.37	€86.24	–	–	–	–	–
New initial share price after 2003 capital increase	€247.64	€82.02	€88.65	€88.10	€108.87	€134.07	€121.84
Intrinsic value 2008 for one right	–	€29.98	€23.35	€23.90	€3.13	–	–
Fair value 2008 for one right	€0.12	€33.87	€34.14	€37.07	€33.02	€29.84	€33.80
Number of rights on 31 Dec. 2002	45,476	–	–	–	–	–	–
Additions	12,898	168,681	–	–	–	–	–
Forfeited	529	–	–	–	–	–	–
Number of rights on 31 Dec. 2003	57,845	168,681	–	–	–	–	–
Additions	–	1,650	154,189	–	–	–	–
Forfeited	3,050	13,414	–	–	–	–	–
Number of rights on 31 Dec. 2004	54,795	156,917	154,189	–	–	–	–
Additions	–	87	–	211,941	–	–	–
Exercised	–	90,398	–	–	–	–	–
Forfeited	11,903	7,498	32,130	24,411	–	–	–
Number of rights on 31 Dec. 2005	42,892	59,108	122,059	187,530	–	–	–
Additions	–	–	–	–	173,682	–	–
Exercised	–	31,027	31,390	–	–	–	–
Forfeited	–	–	–	3,072	–	–	–
Number of rights on 31 Dec. 2006	42,892	28,081	90,669	184,458	173,682	–	–
Additions	–	–	–	–	–	121,821	–
Exercised	–	4,258	30,372	34,879	–	–	–
Forfeited	–	–	–	–	7,483	10,422	–
Number of rights on 31 Dec. 2007	42,892	23,823	60,297	149,579	166,199	111,399	–
Additions	–	–	–	–	–	–	173,153
Exercised	–	6,812	10,304	24,219	–	–	–
Forfeited ¹	800	–	–	–	3,966	1,597	601
Number of rights on 31 Dec. 2008	42,092	17,011	49,993	125,360	162,233	109,802	172,552
Exercisable at year-end	42,092	17,011	49,993	125,360	162,233	–	–

¹ Owing to retirement from the Board of Management, payments in the amount of the grant value were made in lieu of the stock appreciation rights and rights already granted under the conditions reduced pro rata temporis.

Each stock appreciation right entitles the holder to draw in cash the difference between the Munich Re share price at the time when the right is exercised and the initial share price. The stock appreciation rights may only be exercised after a two-year vesting period and then only if the share price is at least 20% higher than the initial price. In addition, Munich Re shares must have outperformed the EURO STOXX 50 twice at the end of a three-month period during the term of the plan. The gross amount that may be obtained from the exercising of the stock appreciation rights is limited to an increase of 150% of the initial share price.

When the stock appreciation rights are exercised, the cash payment is made (in the respective national currency) by the company that granted the rights. Stock appreciation rights not exercised on the last trading day of the plan term are exercised on the participant's behalf insofar as the prerequisites for this are met. If the prerequisites are not met, the stock appreciation rights are forfeited. If another company acquires control of Munich Re or the company's group of shareholders changes significantly due to a merger or comparable transaction or intended business combination ("change of control"), all plan participants from the Munich Re Group may exercise their stock appreciation rights within 60 days after the change of control becomes effective, even if the prerequisites for exercising the rights are not yet met at that juncture.

(44) Remuneration report

The total remuneration of Munich Reinsurance Company's Board of Management amounted to €18.5m (12.8m) and that of the Supervisory Board to €1.5m (2.0m).

Payments to retired members of the Board of Management or their surviving dependants totalled €5.5m (6.0m).

Personnel expenses of €0k (0k) were incurred for retired members of the Board of Management. As at 31 December 2008, the pension provisions and provisions for comparable benefits for the retired members of the Board of Management or their surviving dependants amounted to €0m (0m) after deduction of plan assets held by a separate entity (under a contractual trust agreement).

There are no pension commitments for former members of the Supervisory Board or their surviving dependants.

The members of the Supervisory Board and Board of Management did not receive any cash advances or loans in the year under review. Nor were there any notifiable transactions between Board members and the Munich Re Group. Furthermore, no payments were made or advantages extended to members of the Supervisory Board for services provided internally within the meaning of item 5.4.7 para. 3 of the German Corporate Governance Code.

All other disclosures on the remuneration of Board members, on share trading and shares held by the members of the Board of Management and the Supervisory Board, and on the structure of the Board of Management's remuneration system can be found in the remuneration report on page 134 f.

(45) Employee share-ownership programmes

In 2008, the Board of Management decided to pay Munich Reinsurance Company staff a bonus in the form of gratis shares, with the number of shares per staff member being calculated in relation to individual basic annual salary. The share price at the grant date amounted to €123.40. Altogether, 3,054 staff took advantage of the offer and acquired 58,846 shares. The relevant personnel expenses totalled €12.9m.

Staff of MEAG MUNICH ERGO AssetManagement GmbH or one of its subsidiaries, and staff of Europäische Reiseversicherung AG and Mercur Assistance Deutschland GmbH, had the opportunity to acquire up to five employee shares at preferential conditions. The purchase price per share was €79.20 at MEAG and €79.66 at Europäische Reiseversicherung and Mercur, resulting in a benefit of €27.00 per share based on the share price applicable at the time the programme was granted. Altogether, 456 MEAG staff took advantage of the offer and acquired 2,246 shares; personnel expenses totalled €35k. In the case of Europäische Reiseversicherung, 81 staff acquired a total of 401 shares; personnel expenses amounted to €11k. At Mercur, 35 staff acquired a total of 165 shares, and personnel expenses amounted to €4k. The programmes were carried out using own shares acquired in the financial year 2008 and, to a small extent, residual holdings of own shares acquired prior to the financial year. Differences between the cost of own shares and the personnel expenses have been recognised in retained earnings.

(46) Number of staff

The number of staff employed by the Group at year-end totalled 25,437 (25,565) in Germany and 18,772 (13,069) in other countries.

Breakdown of number of staff		31.12.2008	Prev. year
Reinsurance companies		10,534	7,372
Primary insurance companies		32,867	30,460
Asset management		808	802
Total		44,209	38,634

The increase is mainly due to international acquisitions.

(47) Auditor's fees

For services rendered to the parent and consolidated subsidiaries by the Group auditor (KPMG Bayerische Treuhandgesellschaft AG Wirtschaftsprüfungsgesellschaft, Munich, and its affiliated companies within the meaning of Section 271 para. 2 of the German Commercial Code), the following fees have been recognised as an expense in the financial year:

Breakdown of auditor's fees		€'000	2008	Prev. year
Audits of financial statements		7,358	6,802	
Other assurance and appraisal services		1,554	1,228	
Tax consultancy services		1,502	1,324	
Other services		1,886	1,889	
Total		12,300	11,243	

With effect from 1 October 2008, KPMG Spain and, with retroactive effect from 1 October 2007, KPMG Switzerland became part of KPMG Europe LLP. This makes KPMG Spain and KPMG Switzerland, along with KPMG LLP (UK) affiliated companies of KPMG Germany within the meaning of Section 271 para. 2 of the German Commercial Code. Consequently, these units been included in the auditor's fees to be disclosed.

The "other services" mainly involve support for a Group company in developing and implementing a data base as the foundation for a management information system and assistance in analysing various aspects in the development of a hedging platform.

(48) Contingent liabilities, other financial commitments

The Munich Re Group enters into contingent liabilities in connection with its normal business operations. Commitments under rental, work and service contracts amounted to €111m (143m). Investment obligations total €1,291m (613m). These figures represent undiscounted nominal amounts. On the basis of an agreement concluded on 22 December 2008, Munich Re is acquiring the Hartford Steam Boiler Group (HSB) from US insurer American International Group (AIG). The HSB Group is one of the world's leading providers of specialist insurances and inspections of engineering risks. The agreed purchase price for the 100% stake is US\$ 742m (€531m) – plus or minus any changes in HSB's equity occurring between 30 September 2008 and the ultimate completion date – and will be fully financed from our own resources. The transaction is expected to be concluded at the end of the first quarter of 2009, once the requisite approvals have been obtained from the competent authorities. Beyond this, there are other financial commitments of €54m (82m) and obligations from guarantees totalling €183m (184m). There are letters of support for €8m (14m). In connection with a sale of shares, a liability towards the purchaser totalling a maximum of £2m has been assumed. There are contingent liabilities of €88m (72m) from a lease transaction with property.

Following amendments to the German Insurance Control Act (VAG) at the end of 2004, all German life and health insurers of our Group are obliged to be members of a protection fund. For life insurers, the protection fund can levy special contributions of up to one per mille of total net technical provisions, in addition to a regular contribution of 0.2 per mille of total net technical provisions. For the health insurers, there is no pre-financing, but the fund may levy special contributions of up to two per mille of net technical provisions to fulfil its functions. This could give rise to a potential payment obligation of €156m (160m) at Group level. The functions and powers of the statutory protection fund for life insurance were transferred by the German Federal Ministry of Finance to Protektor Lebensversicherungs-AG in a statutory order of 11 May 2006, and those of the statutory protection fund for health insurance were entrusted to Medicator AG in another statutory order of the same date.

To support Hypo Real Estate (HRE), the German federal government adopted a rescue package in 2008, backed by the Deutsche Bundesbank and also the German financial services industry. In this rescue package, the financial institutions were obliged to participate through a reguarantee in covering a possible claim on the federal government under the guarantee for the Bundesbank's liquidity support and the government-guaranteed bond; cf. (7) Other securities available for sale. Of the total amount of €8.5bn for this reguarantee, liability for €111m is apportionable to companies of the Munich Re Group.

All information on risks arising from legal disputes can be found in the risk report.

There are no other financial commitments of significance for the assessment of the Group's financial position. No contingent liabilities have been entered into for the benefit of Board members.

(49) Leasing

The Munich Re Group as lessee

At the balance sheet date, future minimum lease payments under non-cancellable operating leases totalled €356m (362m):

Due dates	€m	31.12.2008	Prev. year
Not later than one year	75	104	
Later than one year and not later than five years	196	175	
Later than five years	85	83	
Total	356	362	

Payments from operating leases concern in particular rents for offices and business premises of the Group. At €3m (3m), the amount of minimum lease payments under finance leases at the balance sheet date was insignificant.

The Munich Re Group as lessor

Operating leases mainly involve leased property. The total of future minimum lease payments under non-cancellable leases at the balance sheet date was €633m (592m).

Due dates	€m	31.12.2008	Prev. year
Not later than one year	131	112	
Later than one year and not later than five years	298	278	
Later than five years	204	202	
Total	633	592	

At €1m (3m), the amount of minimum lease payments under finance leases at the balance sheet date was insignificant.

(50) Events after the balance sheet date

Under the share buy-back programme decided on by the Munich Re Board of Management in the second quarter of 2008, we repurchased a further 450,000 Munich Re shares with a volume of €46.3m after the balance sheet date up to 2 March 2009.

In January 2009, our Swiss subsidiary New Re announced that it would be moving its head office from Geneva to Zurich; the related costs will probably be in the two-digit million range.

(51) Earnings per share

Diluting effects to be disclosed for the calculation of earnings per share were not present either on the balance sheet date or in the previous year. Earnings per share can be potentially diluted in future through the issue of shares or subscription rights from amounts authorised for increasing the share capital and from contingent capital.

Earnings per share		2008	Prev. year ¹
Consolidated result attributable to Munich Re equity holders	€m	1,503	3,840
Number of shares at 1 Jan. financial year		207,824,071	225,616,173
Addition of own shares		12,168,720	17,792,102
Weighted average number of shares		200,883,490	215,328,152
Earnings per share	€	7.48	17.83

¹ Adjusted pursuant to IAS 8.

The first-time application of standards did not have any impact on earnings per share in the financial year 2008. The changes in accounting policies described on page 196 reduced earnings per share for the previous year by €0.07 per share.

(52) Proposal for appropriation of profit

Munich Reinsurance Company's net retained profits for 2008 according to its financial statements prepared on the basis of the German Commercial Code amount to €1,567,417,505.92. The Board of Management will propose to shareholders at the Annual General Meeting that these net retained profits be used for payment of a dividend of €5.50 on each share entitled to dividend and an allocation of €432,196,583.92 to retained earnings, with the amount apportionable to own shares held or already retired at the time of the Annual General Meeting being carried forward to new account.

Drawn up and released for publication, Munich, 3 March 2009.

The Board of Management

Important affiliated companies, participating interests and other shareholdings¹

Company	% share of capital	Equity in €'000 ²	Result for the year in €'000 ²
Reinsurance, consolidated subsidiaries			
American Alternative Insurance Corporation, Wilmington, Delaware	100.00%	48,248	13,520
American Modern Insurance Group, Inc., Amelia, Ohio	100.00%	43,558	8,591
B&C International Insurance, Hamilton, Bermuda	100.00%	2,188	-96
Great Lakes Reinsurance (UK) Plc., London	100.00%	299,216	52,668
MedNet Holding GmbH, Munich	100.00%	15,818	4,225
MSP Underwriting Ltd., London	100.00%	17,284	-47
Munich American Holding Corporation, Wilmington, Delaware	100.00%	7,175,219	50,155
Munich American Reassurance Company, Atlanta, Georgia	100.00%	1,124,642	50,583
Munich Holdings of Australasia Pty. Ltd., Sydney	100.00%	33,146	11,978
Munich Mauritius Reinsurance Co. Ltd., Port Louis	100.00%	17,827	-977
Munich Re America Corporation, Wilmington, Delaware	100.00%	3,307,529	22,446
Munich Re of Malta Holding Limited, Floriana	100.00%	36,498	-2
Munich Reinsurance Company of Africa Ltd, Johannesburg	100.00%	73,403	12,638
Munich Reinsurance Company of Australasia Ltd, Sydney	100.00%	74,177	15,808
Munich Reinsurance Company of Canada, Toronto	100.00%	165,956	28,147
New Reinsurance Company, Geneva	100.00%	908,581	184,447
Sterling Life Insurance Company, Bellingham, Washington	100.00%	138,501	10,963
Temple Insurance Company, Toronto	100.00%	81,683	17,936
The Midland Company, Cincinnati, Ohio	100.00%	91,759	42,090
The Princeton Excess and Surplus Lines Insurance Company, Wilmington, Delaware	100.00%	25,967	7,752
The Roanoke Companies Inc., Schaumburg, Illinois	100.00%	10,673	592
Primary insurance, consolidated subsidiaries			
ERGO Versicherungsgruppe AG, Düsseldorf	94.69%	1,909,798	78,249
VICTORIA General Insurance Company S.A., Athens	94.69%	19,647	3,626
VICTORIA Krankenversicherung Aktiengesellschaft, Düsseldorf ³	94.69%	72,025	0
VICTORIA Lebensversicherung Aktiengesellschaft, Düsseldorf ³	94.69%	739,007	0
VICTORIA Life Insurance Company S.A., Thessaloniki	94.69%	5,630	123
VICTORIA Pensionskasse AG, Düsseldorf ³	94.69%	47,204	-5,897
VICTORIA Versicherung Aktiengesellschaft, Düsseldorf ³	94.69%	528,424	0
VICTORIA-Seguros de Vida, S.A., Lisbon	94.69%	26,805	3,644
VICTORIA-Seguros S.A., Lisbon	94.69%	21,988	3,803
VICTORIA-VOLKSBANKEN Poist'ovna, a.s., Bratislava	64.89%	10,367	198
VICTORIA-VOLKSBANKEN pojišt'ovna, a.s., Prague	64.79%	10,397	32
VICTORIA-VOLKSBANKEN Versicherungsaktiengesellschaft, Vienna	70.66%	46,028	3,687
Vorsorge Lebensversicherung Aktiengesellschaft, Düsseldorf	94.69%	29,530	3,570
Vorsorge Luxemburg Lebensversicherung S.A., Munsbach	94.69%	12,585	1,866
Hamburg-Mannheimer Pensionskasse AG, Hamburg	94.69%	31,177	-4,315
Hamburg-Mannheimer Rechtsschutzversicherungs-Aktiengesellschaft, Hamburg ³	94.69%	13,307	0
Hamburg-Mannheimer Sachversicherungs-Aktiengesellschaft, Hamburg ³	94.69%	202,598	0
Hamburg-Mannheimer Versicherungs-Aktiengesellschaft, Hamburg ³	94.69%	403,536	0
DKV BELGIUM S.A., Brussels	94.69%	57,129	14,267
DKV Deutsche Krankenversicherung Aktiengesellschaft, Cologne ³	94.69%	466,550	0
DKV Luxembourg S.A., Luxembourg	71.01%	19,097	1,501
DKV Seguros y Reaseguros, Sociedad Anónima Española, Saragossa	94.69%	106,348	19,802
Unión Médica la Fuencisla, S.A., Compañía de Seguros, Saragossa	94.69%	7,152	458
D.A.S. Deutscher Automobil Schutz Allgemeine Rechtsschutz-Versicherungs-Aktiengesellschaft, Munich ³	94.69%	236,338	0
D.A.S. Deutscher Automobil Schutz Versicherungs-Aktiengesellschaft, Munich ³	94.69%	55,988	0
D.A.S. Österreichische Allgemeine Rechtsschutz-Versicherungs-Aktiengesellschaft, Vienna	94.67%	44,513	6,099
D.A.S. Société anonyme belge d'assurances de Protection Juridique, Brussels	94.67%	8,580	1,791
DAS Legal Expenses Insurance Company Limited, Bristol	94.69%	52,480	7,855
DAS Nederlandse Rechtsbijstand Verzekeringmaatschappij N.V., Amsterdam	48.29%	51,087	16,680
DAS Rechtsschutz-Versicherungs-AG, Lucerne	94.69%	6,777	897
KarstadtQuelle Krankenversicherung AG, Fürth	52.08%	44,400	3,961
KarstadtQuelle Lebensversicherung AG, Fürth	52.08%	58,695	8,350
KarstadtQuelle Versicherung AG, Fürth	52.08%	42,340	1,039
Neckermann Lebensversicherung AG, Fürth	71.01%	11,696	1,000
Neckermann Versicherung AG, Nuremberg	71.01%	8,511	2,312
Quelle Lebensversicherung AG, Schwechat	52.08%	5,793	84

Company	% share of capital	Equity in €'000 ²	Result for the year in €'000 ²
Bank Austria Creditanstalt Versicherung AG, Vienna	85.22%	110,057	34,945
ERGO Assicurazioni S.p.A., Milan	94.69%	65,216	4,744
ERGO Daum Direct Auto Insurance Co. Ltd., Seoul	61.55%	15,616	3,626
ERGO Generales Seguros y Reaseguros, S.A., Madrid	94.69%	23,571	4,994
ERGO International Aktiengesellschaft, Düsseldorf ³	94.69%	1,957,172	0
ERGO Italia S.p.A., Milan	94.69%	299,533	28,257
ERGO Kindlustuse AS, Tallinn	94.69%	42,265	6,795
ERGO Latvija Versicherung AG (ERGO Latvija Apdrošināšanas Akciju Sabiedriba), Riga	94.69%	7,212	715
ERGO Lietuva draudimo UADB, Vilnius	94.69%	15,915	3,214
ERGO Life N.V., Brussels	94.69%	71,114	6,733
ERGO Previdenza S.p.A., Milan	88.15%	320,489	43,243
ERGO Vida Seguros y Reaseguros, Sociedad Anónima, Saragossa	94.69%	26,236	2,033
ERGOISVIÇRE Emeklilik ve Hayat A.S., İstanbul	94.69%	10,792	-3,886
ERGOISVIÇRE SIGORTA A.S., İstanbul	94.69%	72,060	12,915
Sopockie Towarzystwo Ubezpieczen na Zycie Ergo Hestia Spolka Akcyjna, Sopot	94.69%	16,586	3,590
Sopockie Towarzystwo Ubezpieczeniowe Ergo Hestia Spolka Akcyjna, Sopot	94.69%	156,445	30,058
Compagnie Européenne d'Assurances, Nanterre	100.00%	5,623	-118
Compania Europea de Seguros S.A., Madrid	100.00%	9,888	1,923
Europaeiske Rejseforsikring A/S, Copenhagen	100.00%	31,969	3,328
EUROPÄISCHE Reiseversicherung Aktiengesellschaft, Munich	100.00%	72,004	-12,859
Europeiska Försäkringsaktiebolaget, Stockholm	100.00%	16,524	1,008
Evropska Cestovni Pojistovna A.S., Prague	90.00%	7,453	1,671
Primary insurance, associates			
Bloemers Holding B. V., Rotterdam	22.73%	45,544	11,053
D.A.S. Difesa Automobilistica Sinistri, S.p.A. di Assicurazione, Verona	47.34%	13,977	3,666
DAMAN – National Health Insurance Company, Abu Dhabi	20.00%	51,618	9,434
Europai Utazasi Biztosito Rt., Budapest	26.00%	5,564	1,508
Europäische Reiseversicherungs-Aktiengesellschaft, Vienna	25.01%	6,038	252
Global Aerospace Underwriting Managers Ltd., London	40.00%	12,561	7,067
HDFC ERGO General Insurance Company Ltd., Mumbai	24.62%	15,237	-2,667
Middlesea Insurance p.l.c, Floriana ⁴ (MC: €64m)	19.90%	42,888	5,259
Saudi National Insurance Company B.S.C.(c), Manama	22.50%	24,075	7,901
Storebrand Helseforsikring AS, Oslo	47.34%	7,309	1,951
VEREINSBANK VICTORIA Bauspar Aktiengesellschaft, Munich	28.41%	64,326	1,060
VICTORIA-VOLKS BANKEN Pensionskassen Aktiengesellschaft, Vienna	39.27%	12,647	1,148
Financial services and asset management, consolidated companies and associates			
IDEENKAPITAL AG, Düsseldorf	94.69%	26,801	12,720
MEAG Hong Kong Limited, Hong Kong	100.00%	4,739	1,541
MEAG MUNICH ERGO AssetManagement GmbH, Munich	97.87%	137,424	40,780
MEAG MUNICH ERGO Kapitalanlagegesellschaft mbH, Munich ³	97.87%	19,665	0
MEAG New York Corporation, Wilmington, Delaware	100.00%	9,241	838
Munich Re Capital Markets New York, Inc., Wilmington, Delaware	100.00%	7,183	-29,996
PICC Asset Management Company Ltd., Shanghai	18.60%	94,494	7,760
Other participating interests			
Admiral Group plc, Cardiff	15.26%	154,180	170,148
Allfinanz Limited, Dublin	100.00%	3,895	275
BHS tabletop AG, Selb ⁴ (MC: €34m)	28.91%	34,743	4,029
Credit Guarantee Insurance Corporation, Johannesburg	7.10%	21,627	14,965
Forst Ebnath AG, Ebnath	96.73%	5,302	909
Helvetia Holding, St. Gall	8.16%	651,820	114,399
Jordan Insurance Co. p.l.c., Amman	10.00%	36,228	-5,183
Mecklenburgische Lebensversicherungs-AG, Hanover ³	12.50%	20,800	2,400
MEDICLIN Aktiengesellschaft, Frankfurt am Main ⁴ (MC: €146m)	33.16%	144,582	4,322
MR Solar GmbH & Co. KG, Nuremberg	99.92%	59,554	-149
Sana Kliniken AG, Munich	20.55%	161,028	10,322
Österreichische Volksbanken-AG, Vienna	9.47%	1,333,019	101,443

¹ Some of these selected participating interests are held indirectly. They are calculated proportionally in each case.

² The amounts are taken from the individual companies' financial statements. They have been translated using the exchange rates applicable on 31 December 2008 (equity as at the reporting date, result for the year at the average rate).

³ Result for the year after profit transfer.

⁴ The amount in brackets is the company's market capitalisation at 31 December 2008.

Auditor's report

The following is a translation of the auditor's opinion in respect of the original German consolidated financial statements and Group management report:

We have audited the consolidated financial statements prepared by the Münchener Rückversicherungs-Gesellschaft Aktiengesellschaft in München, Munich, comprising the balance sheet, the income statement, statement of changes in equity, cash flow statement and the notes to the consolidated financial statements, together with the Group management report for the business year from 1 January to 31 December 2008. The preparation of the consolidated financial statements and the Group management report in accordance with IFRS, as adopted by the EU, and the additional requirements of German commercial law pursuant to Section 315a paragraph 1 of the German Commercial Code (HGB) are the responsibility of the legal representatives of the Company. Our responsibility is to express an opinion on the consolidated financial statements and on the Group management report based on our audit.

We conducted our audit of the consolidated financial statements in accordance with Section 317 of the German Commercial Code and German generally accepted standards for the audit of financial statements promulgated by the German Institute of Certified Accountants (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the consolidated financial statements in accordance with the applicable financial reporting framework and in the Group management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the consolidated financial statements and the Group management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of those entities included in consolidation, the determination of entities to be included in consolidation, the accounting and consolidation principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements and Group management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the consolidated financial statements comply with IFRS, as adopted by the EU, and the additional requirements of German commercial law pursuant to Section 315a para. 1 of the German Commercial Code and give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with these requirements. The Group management report is consistent with the consolidated financial statements and as a whole provides a suitable view of the Group's position and suitably presents the opportunities and risks of future development.

Munich, 5 March 2009

KPMG Bayerische Treuhandgesellschaft Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

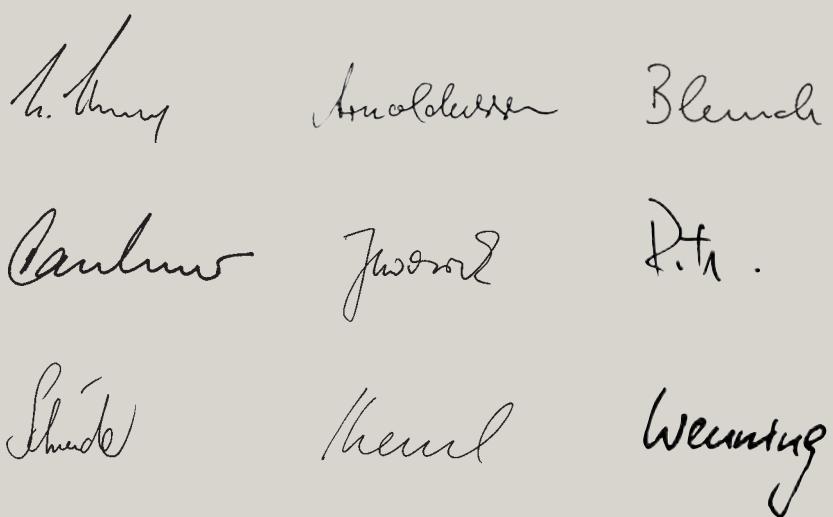
Klaus Becker
Wirtschaftsprüfer
(Certified public accountant)

Martin Berger
Wirtschaftsprüfer
(Certified public accountant)

Declaration of the Board of Management

"To the best of our knowledge, and in accordance with the applicable reporting principles, the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group, and the Group management report includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal opportunities and risks associated with the expected development of the Group."

Munich, 13 March 2009



The image shows eight handwritten signatures arranged in two rows of four. The top row contains the signatures of H. Körner, H. Molissen, B. Lenz, and R. Paulus. The bottom row contains the signatures of P. H. Schmid, H. Kneul, and W. Weisung. The signatures are in cursive script and are slightly overlapping.

General information

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Glossary

Accumulation	The situation where a number of risks insured or reinsured with the same company may be affected simultaneously by a loss event.
Actuary	Qualified expert who analyses problems from the area of insurance, home loans, investments and pensions using methods of probability theory and financial mathematics, and develops solutions with due regard to legal and economic parameters.
Alternative risk financing	Utilising the capacity of the capital markets to cover insurance risks. An example is the securitisation of natural catastrophe risks that can no longer be borne in full by the insurance and reinsurance industry.
Asset-liability management	Management of a business in a way that coordinates decisions on assets and liabilities. Specifically, it is the ongoing process of formulating, implementing, monitoring, and revising strategies related to assets and liabilities in an attempt to achieve financial objectives for a given set of risk tolerances and constraints.
Bornhuetter-Ferguson method	Standard actuarial method used to estimate the reserves needed for future claims expenditure resulting from losses that have already occurred but are not yet sufficiently specific. With this method, the overall loss expected is determined on the basis of historical data on the run-off of losses in the portfolio and an independent assessment by the insurer. These parameters are given different weightings, depending on the information available on the status of the losses.
Capital Asset Pricing Model (CAPM)	Capital market model based on the portfolio theory, used to evaluate securities. The CAPM expands the portfolio theory to include the question of which part of a security's overall risk cannot be eliminated by means of risk diversification and explains how investment opportunities entailing risk are assessed in the capital markets. Accordingly, in efficient markets where prices already incorporate all the information, a greater return can only be achieved by assuming more risk.
Captive	An insurance company established as a subsidiary of one or more industrial/trading companies or groups mainly for the purpose of insuring the risks of these companies and their affiliates.
Catastrophe bond	Also referred to as "cat bonds" and "act of God bonds", catastrophe bonds are used to transfer (natural) catastrophe risks to the capital markets. The buyers of such bonds profit from a comparatively high coupon rate, but assume all or part of the (re)insurer's risk with regard to a (natural) catastrophe. If a catastrophe exceeds the predefined parametric trigger, some or all of the capital and interest is used to pay the (re)insurer's financial loss from the (natural) catastrophe instead of being repaid/credited to the buyers.
Cedant	Client of a reinsurance company.
Chain ladder method	Standard (multiplicative) actuarial method used to estimate the reserves needed for future claims expenditure on the assumption that the cumulative loss will rise by the same factor in all accident years. With this method, the overall loss expected is determined exclusively on the basis of historical data on the run-off of losses in the insurer's portfolio.

Claims equalisation provision	Provisions required by national regulations to smooth fluctuations in loss experience in future years. In IFRS accounting, they are recognised in equity.
Combined ratio	Percentage ratio of the sum of net claims expenses plus net operating expenses to net earned premiums. It corresponds to the sum of the loss ratio and the expense ratio.
Composite insurer	Insurer that writes both life and non-life business.
Convexity	A volatility measure to describe how a bond's price will change as interest rates rise or fall. As with duration, the concept of convexity is based on an estimate of the bond's present value. A customary bond with regular coupon payments and complete repayment of the principal on maturity will rise in price more strongly if interest rates decline than it will fall in price if interest rates rise. This phenomenon of convexity is caused by a change in the bond's duration when interest rates change. Falling interest rates result in an increase in the bond's duration and thus in its interest rate sensitivity, so that if interest rates continue to fall, the price rise accelerates. In the case of rising interest rates, the converse occurs.
Credit default swaps	Capital market instruments used by investors to hedge against the risk of debtors defaulting. The size of the spread depends on the market's assessment of the default probability and therefore provides a good indicator of a company's or country's credit standing.
Cycle management	Insurance, reinsurance and retrocession markets are subject to global and regional cycles that may have external (interest-rate development, economic development, major losses, etc.) and internal causes (price competition, premium calculation methods, etc.). We manage the cycle by continuously analysing its course, taking proactive strategic measures and ensuring risk-adequate terms (prices, scope of cover, and conditions) in every phase of the cycle.
Deferred acquisition costs	Costs incurred for the acquisition or the renewal of insurance policies (e.g. commission, cost of processing applications) which are capitalised and amortised over the term of the contracts.
Delta	The delta or delta factor is a measure of the change in the option price relative to a change in the value of an underlying asset by one unit. If, for example, an option has a delta of 2, the option price rises by 2% if the value of the underlying asset increases by 1%.
Deposits retained on assumed reinsurance and ceded business	Receivables which reinsurers have vis-à-vis their cedants for collateral (cash deposits) that has been retained by the cedants as a security to cover future reinsurance claims. The cedants show the retained funds as deposits withheld on ceded business.
Duration	The average term of an interest-sensitive investment (or portfolio) and a measure of the risk of its sensitivity to changes in interest rates.
Embedded value	Concept used in valuing life and health insurance business. Embedded value mainly comprises the present value of earnings from business in force, calculated according to actuarial principles, plus the value of equity, including valuation reserves, and less the cost of holding capital.

Expense ratio	Percentage ratio of operating expenses to earned premiums.
Facultative reinsurance	The reinsurer assumes a share of selected individual risks. The primary insurer can offer an individual risk in reinsurance, which the reinsurer for its part can either accept or decline (cf. obligatory reinsurance).
Fair value	The amount for which an asset could be exchanged between knowledgeable, willing parties in an arm's-length transaction.
Gross/net	In insurance terminology, the terms gross and net mean before and after deduction of the portion attributable to business ceded in reinsurance.
IBNR reserve	Provision for claims that are not yet known to the insurer (IBNYR = incurred but not yet reported) but also for claims whose case reserves are not sufficient (IBNER = incurred but not enough reserved).
Layer	Term used in excess-of-loss reinsurance to denote a stratum of cover. Its point of attachment and extent is defined in terms of the sum insured. Example: €5,000 in excess of €1,000 refers to the layer €1,000 to €6,000.
Loss ratio	Percentage ratio of claims expenses to earned premiums.
Major loss	Loss which is of particular significance to insurers or reinsurers because its amount or other criteria are exceptional in relation to historical loss experience. A distinction is typically made between man-made major losses and major losses caused by natural catastrophes.
Managing general agency business	Business where the insurer transfers the underwriting authority for a specific portfolio to a managing general agent or managing general agency (MGA) that acts on its behalf. Depending on the arrangement involved, the agent/agency may be assigned additional responsibilities such as claims handling or administrative tasks.
Morbidity	The probability that an individual in a given group will develop a certain disease or disorder.
Mortality	The ratio of deaths to the entire population or to a particular age group. It is globally expressed in numbers or rates and set out in mortality tables.
Mortality table	Table developed using methods of probability theory for estimating the expected mortality of policyholders in a portfolio of life or health insurance contracts. It shows the probability of future mortality on a differentiated basis according to age and other factors, often taking into account demographic trends. Mortality tables with provision for adverse deviation are generally used for measuring technical provisions.
Net asset value	The value of all tangible and intangible assets of a company minus its liabilities. It reflects a company's fundamental value.
Net expenses for claims and benefits	These include the expenses for claims (claims payments and the change in the provision for outstanding claims), expenses for premium refunds and the change in the remaining technical provisions (provision for future policy benefits and other), in each case after deduction of the ceded share.

Net operating expenses	Commission, personnel costs and general expenses for the acquisition and ongoing administration of insurance contracts, less any commission reimbursed by reinsurers, including profit commission, plus expenses from amortisation of the present value of future profits (PVFP).
Non-proportional reinsurance	Under this form of reinsurance, the reinsurer assumes payment of the primary insurer's loss above a defined amount. The calculation of the reinsurance premium is based on claims experience with the type of business concerned.
Obligatory reinsurance	With this reinsurance, the primary insurer is obliged to cede all risks specified in the contract to the reinsurer within a certain scope. The reinsurer accepts these risks without assessing them on a case-by-case basis. Although obligatory reinsurance agreements contain agreed periods of notice, they are generally concluded for an unlimited duration. These treaties between insurers and reinsurers may therefore run for long periods (cf. facultative reinsurance).
Policyholders' bonuses	In life and health insurance, policyholders are entitled by law and contractually to an appropriate share of the surplus earned by their insurers. The amount of this bonus is fixed anew each year. As a rule, in life insurance these bonuses increase the benefit payable on maturity of the policy or on occurrence of the insured event; in health insurance, they are paid by way of premium refunds.
Premium	The amount that has to be paid for the insurance cover provided by an insurer. It may be paid as a regular or single premium. Premiums written means all premium income that has become payable in the financial year. The portion of this premium income that constitutes payment for insurance cover in the financial year is referred to as earned premiums. In the case of products that are largely of an investment nature (e.g. financing treaties and unit-linked life insurance), it only includes – under IASs/IFRSs – the amount serving to cover the risk and costs.
Proportional reinsurance	Form of reinsurance in which the sum insured written by the primary insurer is divided proportionally between the primary insurer and the reinsurer, and the reinsurer is allocated a corresponding share of the premiums and claims.
Provision for future policy benefits	Technical provision calculated using actuarial methods to cover future benefits to which policyholders are entitled, especially in life, health and personal accident insurance. It amounts to the balance of the present value of future obligations less the present value of future premiums.
Provision for outstanding claims	Provision for claims that have already been incurred at the balance sheet date but have either not yet been reported or not yet been fully settled.
Provision for premium refunds	Provision made for obligations involving bonuses and rebates – especially in life and health insurance – which are not yet payable at the balance sheet date; the amount posted is based on supervisory or contractual regulations. It also includes the policyholders' share of accumulated valuation differences between IASs/IFRSs and the German Commercial Code (provision for deferred premium refunds).
Public-private partnership	Long-term arrangement between private companies and public bodies with the aim of providing public services in a more economical manner.

PVFP (Present value of future profits)	When insurance companies or individual insurance portfolios are acquired, the present value of the expected earnings from the business acquired is capitalised as PVFP. This intangible asset arises in particular when life or health insurance companies are acquired.
Reinsurance capacity	Amount of cover that a reinsurance company or the market as a whole can make available.
Renewals	Although obligatory reinsurance agreements contain agreed periods of notice, they are generally concluded for an unlimited duration. These treaties between insurers and reinsurers may therefore run for long periods. In such cases, the treaty conditions are usually adjusted in renewal negotiations each year, and the treaties renewed.
Retrocessionnaire	Reinsurer that reinsurance business assumed by other insurance companies. Retrocession enables the reinsurer to lay off part of its risk to other insurance companies.
Risk exposure	Essentially, the extent of a risk in terms of its potential deviation from the expected value under certain probability assumptions; in connection with accounting, the term is also used to quantify the potential loss resulting for a company from certain assets.
Run-off triangle	Also known as "loss triangle", this is a tabular representation of claims-related data (such as payment, claims reserve, ultimate loss) in two, time-related dimensions. One of these is the calendar year, while the other is usually the accident year (year of the loss occurrence). Run-off triangles – as the basis for measuring claims reserves – make clear how the claims reserve changes over the course of time due to payments made and new estimates of the expected ultimate loss at the respective balance sheet date.
Scenario analysis	Type of analysis used to investigate how certain key figures (market values or carrying amounts) change in the event that predefined market developments occur. Scenario analyses usually take the form of average if-then analyses.
Solvency II	Project of the European Commission to fundamentally reform and harmonise European insurance supervisory regulations. Solvency II follows the three-pillar approach used in Basel II: minimum capital requirements (quantitative), supervisory review processes (qualitative) and market discipline (disclosure).
Stop-loss cover	Non-proportional reinsurance which triggers limited liability if the primary insurer's total loss burden for a specific duration of cover exceeds a predefined value.
Stress test	A special form of scenario analysis. The aim is to make a quantitative statement on the loss potential of portfolios in the event of extreme market fluctuations.
Technical provisions	Uncertain liabilities directly connected with insurance business. These provisions are made to ensure that obligations under insurance contracts can always be met.
Technical result	Balance of income and expenses apportionable to (re)insurance business.

Ultimate loss	As calculated at the end of the calendar year under consideration, the ultimate loss for an accident year indicates the estimated aggregate claims expenditure that will have to be paid to finally settle the claim(s). It comprises the claims payments already made for the accident year in question and the remaining claims reserve posted for payments in future years. Since claims reserves are based on estimates, the ultimate loss changes from one calendar year to the next. Reference may therefore also be made to the ultimate loss position or the ultimate loss estimate.
Underwriter	Member of an insurance or reinsurance company that acts on behalf of his or her employer to negotiate, accept or reject the terms of a (re)insurance contract.
Unearned premium	The portion of premium income in the financial year that is attributable to periods after the balance sheet date is accounted for in the technical provisions as unearned premiums.
Universal life	Contracts in life primary insurance where the amount of the premiums or benefits is not guaranteed or fixed, and the policyholder can vary the premium payments within certain limits.
Value at risk	Method of quantifying risk, which measures the potential future losses that may not be exceeded within a specified period and with a specified probability.
Variable annuity product	A special form of unit-linked life insurance where the investment risk is borne primarily by the policyholder but the insurer guarantees a minimum payment on occurrence of the insured event.

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Important dates 2009/2010

2009		2010	
22 April 2009	Annual General Meeting	25 February 2010	Balance sheet press conference for 2009 financial statements (preliminary figures)
23 April 2009	Dividend payment	28 April 2010	Annual General Meeting
6 May 2009	Interim report as at 31 March 2009	29 April 2010	Dividend payment
4 August 2009	Interim report as at 30 June 2009	7 May 2010	Interim report as at 31 March 2010
4 August 2009	Half-year press conference	4 August 2010	Interim report as at 30 June 2010
5 November 2009	Interim report as at 30 September 2009	4 August 2010	Half-year press conference
		9 November 2010	Interim report as at 30 September 2010

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Multi-year overview

		31.12.2008	31.12.2007 ¹	31.12.2006 ¹	31.12.2005	31.12.2004
Balance sheet						
Investments	€m	174,977	176,173	176,891	177,171	178,132
Equity	€m	21,256	25,416	26,292	24,298	20,492
Net technical provisions	€m	157,171	152,433	153,869	154,131	154,327
Balance sheet total	€m	215,417	214,292	215,872	218,707	214,791
Shares						
Dividend per share	€	5.50	5.50	4.50	3.10	2.00
Amount distributed	€m	1,074	1,124	988	707	457
Share price	€	111.00	132.94	130.42	114.38	90.45
Munich Re's market capitalisation	€bn	22.9	29.0	29.9	26.3	20.8
Other						
Combined ratio						
Reinsurance property-casualty	%	99.5	96.4	92.6	111.7	98.9
Primary insurance property-casualty	%	91.2	93.4	90.8	93.1	93.0
Number of staff		44,209	38,634	37,210	37,953	40,962

¹ Adjusted pursuant to IAS 8.

	€m	2008	2007 ¹	2006	2005	2004
Gross premiums written		37,829	37,256	37,436	38,199	38,071
Net earned premiums		35,724	35,670	35,714	36,210	36,534
Investment result		5,846	9,253	8,972	10,818	8,041
Other income		4,557	2,376	1,784	1,465	1,116
Total income		46,127	47,299	46,470	48,493	45,691
Net expenses for claims and benefits		28,719	30,469	29,780	33,352	31,636
Net operating expenses		9,043	8,878	8,834	9,165	8,847
Other expenses		4,936	2,884	2,375	1,826	1,839
Total expenses		42,698	42,231	40,989	44,343	42,322
Result before amortisation and impairment losses of goodwill		3,429	5,068	5,481	4,150	3,369
Amortisation and impairment losses of goodwill		167	11	4	7	344
Operating result		3,262	5,057	5,477	4,143	3,025
Finance costs		361	333	310	378	426
Taxes on income		1,373	801	1,648	1,014	712
Consolidated result		1,528	3,923	3,519	2,751	1,887
Attributable to Munich Re equity holders		1,503	3,840	3,425	2,679	1,833
Attributable to minority interests		25	83	94	72	54

¹ Adjusted pursuant to IAS 8.

	€	2008	2007 ¹	2006	2005	2004
Earnings per share		7.48	17.83	15.05	11.74	8.01

¹ Adjusted pursuant to IAS 8.

Quarterly figures

		31.12.2008	30.9.2008 ¹	30.6.2008 ¹	31.3.2008 ¹
Balance sheet					
Investments	€m	174,977	171,409	166,260	170,180
Equity	€m	21,256	21,411	21,429	23,707
Net technical provisions	€m	157,171	157,489	150,592	150,541
Balance sheet total	€m	215,417	214,144	205,978	208,805
Shares					
Share price	€	111.0	106.21	111.26	123.88
Munich Re's market capitalisation	€bn	22.9	21.9	23.0	27.0
Other					
Combined ratio					
Reinsurance property-casualty	%	99.5	100.2	99.6	103.8
Primary insurance property-casualty	%	91.2	90.2	91.0	89.0
Number of staff		44,209	43,814	42,617	39,279

¹Adjusted pursuant to IAS 8.

	€m	Total	Q4 2008	Q3 2008 ¹	Q2 2008 ¹	Q1 2008 ¹
Gross premiums written						
1. Earned premiums		37,829	9,706	9,270	9,011	9,842
Gross		37,277	10,086	9,271	9,054	8,866
Ceded		1,553	459	414	357	323
Net		35,724	9,627	8,857	8,697	8,543
2. Investment result						
Investment income		20,064	7,121	4,516	3,897	4,530
Investment expenses		14,218	5,198	3,854	2,311	2,855
Total		5,846	1,923	662	1,586	1,675
3. Other income		4,557	1,865	1,030	613	1,049
Total income (1-3)		46,127	13,415	10,549	10,896	11,267
4. Expenses for claims and benefits						
Gross		29,896	8,191	7,269	7,349	7,087
Ceded		1,177	446	313	264	154
Net		28,719	7,745	6,956	7,085	6,933
5. Operating expenses						
Gross		9,330	2,692	2,324	2,155	2,159
Ceded		287	88	97	51	51
Net		9,043	2,604	2,227	2,104	2,108
6. Other expenses		4,936	2,055	1,121	674	1,086
Total expenses (4-6)		42,698	12,404	10,304	9,863	10,127
7. Result before impairment losses of goodwill		3,429	1,011	245	1,033	1,140
8. Impairment losses of goodwill		167	167	–	–	–
9. Operating result before tax		3,262	844	245	1,033	1,140
10. Finance costs		361	89	91	95	86
11. Taxes on income		1,373	634	152	310	277
12. Minority interests						
13. Consolidated result		1,528	121	2	628	777
Attributable to Munich Re equity holders		1,503	133	–3	606	767
Attributable to minority interests		25	–12	5	22	10

¹Adjusted pursuant to IAS 8.

		Total	Q4 2008	Q3 2008 ¹	Q2 2008 ¹	Q1 2008 ¹
Earnings per share	€	7.48	0.68	–0.02	2.97	3.75

¹Adjusted pursuant to IAS 8.

Globe of Natural Hazards

Earthquake zones, storm tracks, hail fields. What geo risks have to be reckoned with and where? The interactive DVD shows worldwide natural hazards and climate effects at a glance – yesterday, today and in the future. Extensive knowledge modules for historical catastrophes, megacities and change processes are linked with each other and displayed on the maps, making geo risks transparent and easier to assess.



Installation

The DVD has an autostart feature. If the autostart function is activated, the DVD starts automatically as soon as you insert it in your drive. Otherwise, you can start the program by double-clicking the file MR_Globe.exe. You can go to the Help menu to familiarise yourself with the functional details of the application.

System requirements

Windows 2000/XP/Vista, Pentium IV , 512 MB RAM (1 GB recommended), 1024 x 768 resolution, 16-bit graphics card (32-bit graphics card recommended), 8-speed DVD-ROM drive (16-speed recommended), DirectX 7 or above, sound card

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