MUNICH RE
GROUP ANNUAL REPORT 2009

09

Key figures (IFRS)[1]

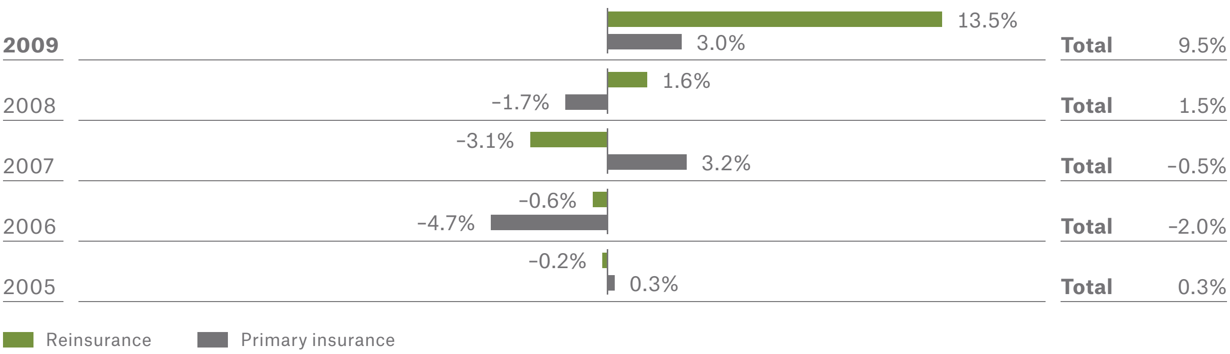
Munich Re		2009	2008	2007	2006	2005
Gross premiums written	€bn	41.4	37.8	37.3	37.4	38.2
Operating result	€m	4,721	3,834	5,573	5,877	4,156
Taxes on income	€m	1,264	1,372	801	1,648	1,014
Consolidated result	€m	2,564	1,579	3,923	3,519	2,751
Attributable to minority interests	€m	43	24	83	94	72
Investments	€bn	182.2	174.9	176.2	176.9	177.2
Return on equity	%	11.8	7.0	15.3	14.1	12.5
Equity	€bn	22.3	21.1	25.3	26.3	24.3
Valuation reserves not recognised in balance sheet[2]	€bn	3.2	2.5	0.8	1.9	2.6
Net technical provisions	€bn	163.9	157.1	152.4	153.9	154.0
Staff at 31 December		47,249	44,209	38,634	37,210	37,953

Reinsurance[3]		2009	2008	2007	2006	2005
Gross premiums written	€bn	24.8	21.9	21.5	22.2	22.3
Investments	€bn	78.5	78.4	81.9	85.0	87.0
Net technical provisions	€bn	55.3	55.8	55.5	59.6	63.4
Reserve ratios property-casualty	%	272.7	271.9	272.0	280.9	295.8
Large and very large losses (net)	€m	1,157	1,507	1,126	585	3,134
Natural catastrophe losses	€m	196	832	634	139	2,603
Combined ratio property-casualty	%	95.3	99.4	96.4	92.6	111.7

Primary insurance[3]		2009	2008	2007	2006	2005
Gross premiums written	€bn	17.5	17.0	17.3	16.7	17.6
Investments	€bn	119.5	114.0	109.3	107.4	105.9
Net technical provisions	€bn	108.7	101.4	96.9	94.3	90.8
Reserve ratios property-casualty	%	125.6	118.8	121.4	124.9	113.1
Combined ratio property-casualty	%	93.1	90.9	93.4	90.8	93.1

Our shares		2009	2008	2007	2006	2005
Earnings per share	€	12.95	7.74	17.83	15.05	11.74
Dividend per share	€	5.75	5.50	5.50	4.50	3.10
Amount distributed	€m	1,088	1,073	1,124	988	707
Share price at 31 December	€	108.67	111.00	132.94	130.42	114.38
Munich Re's market capitalisation at 31 December[4]	€bn	21.5	22.9	29.0	29.9	26.3

Premium growth



[1] Previous year's figures adjusted pursuant to IFRS 3.62 (see "Consolidation") and to IFRS 8 and IAS 8 (see "Changes in accounting policies").
[2] Including amounts attributable to minority interests and policyholders.
[3] Before elimination of intra-Group transactions across segments.
[4] This includes own shares earmarked for retirement.

Diversified structure – Diversified risk

Munich Re (Group)

Reinsurance	Munich Health	Primary insurance
Munich RE	MUNICH HEALTH	ERGO
Munich Re America	DKV Salute	ERGO Austria
Munich Holdings of Australasia	DKV Belgium	ERGO Direkt
Munich American Reassurance Company	DKV Luxembourg	ERGO Hestia
Munich Re of Canada	Globality	ERGOİSVİÇRE
Munich Re of Africa/ Munich Mauritius Reinsurance Company	Daman National Health Insurance Company	ERGO Life
Great Lakes Reinsurance (UK)	MedNet	ERGO Previdenza
Temple Insurance Company	Apollo DKV Health Insurance	almeda Assistance and Health Services
New Reinsurance Company	storebrand	Bank Austria Creditanstalt Versicherung AG
The Midland Company	Sterling Life Insurance Company	Deutscher Automobil Schutz
The Hartford Steam Boiler Inspection and Insurance Company	Munich Re	Deutsche Krankenversicherung
Munich Re Underwriting	Munich Re America	ERV
		Hamburg-Mannheimer[1]
		Victoria[2]

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 leading reinsurers, and one of the leading 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.

[1] The Hamburg-Mannheimer brand will be subsumed into the ERGO brand in the second half of 2010 as part of ERGO's new brand strategy.
[2] The VICTORIA brand will be subsumed into the ERGO brand in the second half of 2010 as part of ERGO's new brand strategy.

“After the game is before the game.”

Joseph “Sepp” Herberger (1897–1977)
Former German national team manager

The next quarterly report will be published on 7 May 2010.

Munich RE

IN THE LEAD

In the lead

1:0

Successful despite the crisis // With underwriting discipline and capital strength, Munich Re achieves a good result despite difficult market conditions.

2:0

Taking opportunities // With the acquisition of the Hartford Steam Boiler Group, one of the world's leading specialists for engineering risks, Munich Re resolutely expands its business in know-how-intensive and profitable niche segments.

3:0

Taking the lead in climate protection // As catalyst and founding member, Munich Re plays a major part in setting up the Desertec Industrial Initiative. Aiming to use solar and wind power generated in the deserts of North Africa and the Middle East for a sustainable energy supply, Desertec is one of the world's biggest climate protection projects.

11.06.2010 / 16.00 hrs
Johannesburg, South Africa

Kick-off for the opening game of the 2010 World Cup – Insured by Munich Re.

A good reason for taking a closer look at the venue. And the starting point for a trip around the world, which is also a journey through the world of Munich Re.

In this brochure, we would like to show you how and where our Group is actively involved worldwide: with **innovative solutions**, even for complex risks (page 4); with competent, reliable support for our clients in **primary insurance** (page 8); with customised **insurance** for every situation (page 12); with new offers for the **international healthcare market** (page 18); and with dependable **asset management** (page 24).

We insure small stars and big stadiums

Playmaker //
Creating all-round protection for the 2010 World Cup

For many people around the world, football is the most exciting spectacle there is. But for the organisers of a World Cup, it is a huge challenge – one that can only be met with the help of strong partners. Munich Re is the first choice when it comes to covering the risks involved.

2010 sees South Africa become the first African country to host the world's biggest sporting event after the Olympic Games. The motto of this World Cup is "Ke Nako. Celebrate Africa's Humanity".

High expectations – Big challenges

The World Cup four years ago gave Germany the chance to show the world its fun-loving and friendly side. But the importance of this year's World Cup is even greater, as all of Africa hopes that this frequently forgotten continent can project a positive image.

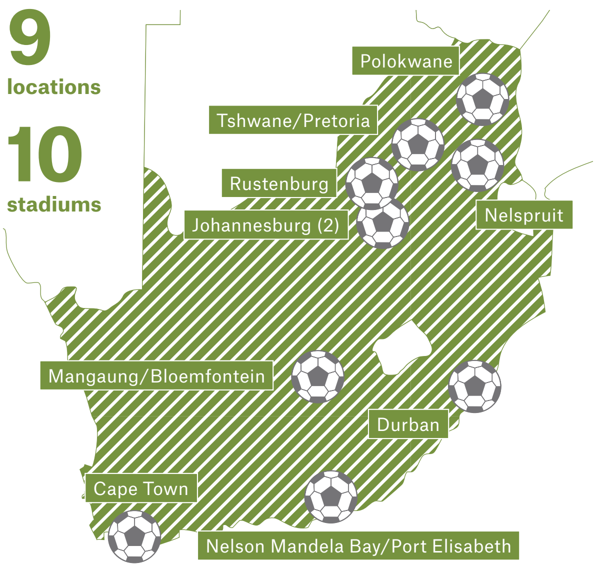
However, the higher the expectations, the greater the challenges. Staging the World Cup finals is an enormous undertaking for both hosts and organisers. And the risks involved are clearly enormous as well. The financial consequences of the event being cancelled, abandoned mid-way through or simply postponed due to a natural catastrophe or a terrorist attack are simply too great for the organisers to shoulder on their own. That is why a strong partner is needed to help carry this risk.

Risks on every scale

Take broadcasting rights, for example: the period between the opening ceremony on 11 June 2010 to the presentation of the trophy a month later will see almost 100 hours of live football broadcast by TV stations around the world. Four years ago, the licensor of the broadcasting rights, the sports and media agency Infront AG, concluded contracts with broadcasters from 205 countries. As the official organiser of the World Cup, the world football association FIFA earned, according to its own figures, a total of €2.2bn from the broadcasting rights at the 2002 and 2006 World Cups. However, for FIFA to earn this money, the finals have to go ahead on schedule and without a hitch. If they do not, compensation claims are likely to follow.

Then there are the sponsors. Much of the financing for the World Cup in Germany came from sponsorship money, with the 15 main international sponsors providing around €600m – three times more than the amount generated by ticket sales. In South Africa, there will be twelve main sponsors and six national sponsors, which help to finance the running of the

The 2010 World Cup in South Africa



World Cup Organising Committee. As was the case four years ago in Germany, a company has been established in South Africa to take care of the planning and running of the event. The company is headed by Danny Jordaan, a former South African international footballer. In order to attract sponsors, the 2010 FIFA World Cup Organising Committee South Africa needs to offer companies the certainty that their investment is safe – even in the unlikely event that the finals cannot go ahead.

However, the list of those that may need risk cover would not be complete without the many large and small companies involved on the fringes of such a massive event which have invested considerable sums of money in advance: travel companies that have block-booked hotel rooms, airlines that change their schedules to ensure fans from all over the world can be flown to South Africa in the shortest possible time, the organisers of side events that are held during the World Cup, the manufacturers of souvenirs and fan merchandise, etc., etc.

"All in all, the potential demand for cancellation insurance at the World Cup in South Africa could be in the region of US$ 5bn", says Andrew Duxbury, underwriting manager at Munich Re in London. Munich Re will write only a part of this business, but its share of the cancellation-of-events cover for the organisers is the biggest at US$ 350m. Such financial commitment is possible because the world's largest reinsurer not only has the financial strength but also the know-how needed to assess the risks accurately.

Munich Re provides for planning certainty

"Our services benefit all participants", explains Andrew Duxbury. "The organisers can guarantee stakeholders that their investment will not be lost if it really comes to a scenario in which the World Cup cannot take place. Significant financial involvment without this protection would simply be too risky for many."

What can happen when this protection is lacking was demonstrated at the 2002 World Cup in Japan and South Korea: many insurers withdrew cover in the wake of the 9/11 terrorist attacks, believing that the risk was impossible to calculate. Sponsorship revenues suffered as a result and remained well below expectations.

Since then, Munich Re has made every effort to ensure that even such risks can be realistically assessed and to develop innovative solutions for its clients so that the show can go on. "As the market leader with our combined global expertise, we have a wealth of know-how to draw on", explains Duxbury. For example, our Geo Risks Research centre supplies precise data about the likelihood of natural catastrophes occurring and specially trained experts analyse the political situation in the host country. What is the situation regarding internal security? Is the political system stable and the government in control? Are there extremists in the country who pose a threat of violence? "One must bear in mind that there will be hundreds of thousands of visiting fans from abroad in South Africa during the World Cup. This makes it especially difficult to calculate the risks", says Duxbury.

Customised solutions for major risks

The only way you can tackle this problem is with experience and tailor-made insurance solutions. Munich Re has long been a leader when it comes to insuring major events. The information that the Group has been able to assemble from similar events in the past is invaluable in making a realistic and fair calculation of the risks.

But even that is not enough for our risk managers. Andrew Duxbury visited South Africa two years ago to get a first-hand view of the risk situation there. "Danny Jordaan took a lot of time and effort to get us the information we needed and to answer all our questions", reports Duxbury. Also of great value is the expertise provided by specialists from the Munich Re offices in Johannesburg and Cape Town. "Our colleagues from South Africa can tell us about a lot of things that may not be sufficiently newsworthy to make the international media. We would only have half the picture without this information."

But now we can look forward to a wonderful celebration of football. Duxbury is proud to have done his bit to make this possible. As an Englishman and a football fan, Duxbury is confident: "The only fear I have now is England losing to Germany on penalties." //

Munich Re in South Africa

With African passion and German heart

Munich Re is represented in sub-Saharan Africa and the Indian Ocean Islands by Munich Reinsurance Company of Africa Limited (MRoA), with its Head Office in Johannesburg, South Africa, and a life office in Cape Town. In addition, Munich Mauritius Reinsurance Company Limited (MMRC), a fully-owned subsidiary of MRoA, operates from Réduit, Mauritius, with representative offices in Nairobi, Kenya and Accra, Ghana.

Under the leadership of Junior Ngulube, and a staff complement in excess of 200, Munich Re's clients across this area of operation are offered a broad range of services and products – from customised risk transfer solutions to professional loss assessments, new business support and client training, technical publications and market analysis. The recipe for success? "A mixture of African passion and German heart", says MRoA CEO Ngulube.

The awarding of the FIFA World Cup to South Africa in 2010 has triggered a construction boom across the country, which will have far-reaching benefits for South Africa and the African continent. MRoA participates in the reinsurance of stadium construction and the expansion of OR Tambo International Airport, and, in addition, many of the ancillary projects are given significant support by MRoA in the role of risk carrier. Of major significance here is Munich Re's involvement as leading reinsurer in the building of the Gautrain rail network between Johannesburg and Pretoria, a project which makes significant strides towards infrastructure development in South Africa.

Further information

www.munichre.com/MRoA

Sweeper // Backing the team with geo knowledge

If event cancellation insurance is to be taken out for major international sporting highlights such as the FIFA World Cup, the Olympic Games or Formula 1 Grand Prix racing, one important aspect always has to be considered: natural hazards.

Natural hazards can inflict such damage on infrastructure that an event may have to be postponed or even cancelled, resulting in substantial costs. Take Japan, for example, which hosted the 2002 World Cup together with South Korea. It is located in one of the most seismically active earthquake zones on earth. If a stadium had been damaged by a quake, it would have been necessary to relocate matches to other venues in Japan or even to South Korea. Also in China, which played host to the 2008 Summer Olympics, natural hazards can be extreme when they do occur: major flooding or a severe typhoon could easily have ruined the Games. On the other hand, events such as skiing are dependent on the right weather conditions – a lack of snow could lead to the event being called off.

An immense amount of background knowledge is necessary to accurately assess and quantify the actual risks at the sporting venues. That is why Munich Re's Geo Risks Research experts are always part of the team conducting the risk assessment. With their experience gained over decades, they are key players when it comes to evaluating natural hazards anywhere in the world. These experts can determine the probability of a strong earthquake or a powerful windstorm for any given region or city. Then they analyse the possible consequences: would the destruction of a stadium make it impossible to stage or continue a specific sporting event? Can the event as a whole, or individual disciplines, be moved to a different venue or postponed in adverse weather conditions? And what financial outlay would these measures entail?

Munich Re has been examining natural hazards systematically since 1974. With more than 26,000 records, Munich Re's own NatCatSERVICE is the world's largest database of natural catastrophe losses. Between 700 and 900 new events are recorded and analysed every year in terms of their extent and intensity. These data support both risk assessment and our self-developed MRHazard modelling software, currently comprising 30 country models for earthquake, nine for windstorm (tropical and extratropical), five for flood, and one for storm surge. The models, which are continually being refined, are used as the basis for quotations, pricing, contract design and risk prevention. A comprehensive analysis of natural hazards exposure is indispensable for major risks such as international sporting events. Only after a detailed review of all the factors can the risks accompanying such wide-ranging covers be optimally managed. **//**

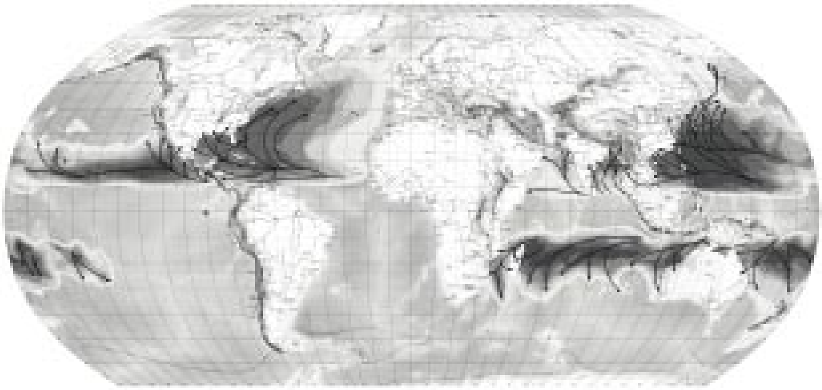
Further information

www.munichre.com/climate-change

World Map of Natural Hazards

First published in 1978, the World Map of Natural Hazards, together with our NatCatSERVICE, encapsulates Munich Re's geo knowledge.

It documents the impact of climate change – for example cyclone, precipitation or drought risks – as well as the threats posed by volcanoes and earthquakes.



Source: Munich Re

Offside //
Why the international insurance markets need reliable rules

By **Torsten Jeworrek**

Football has clear rules ...

... which everyone understands and accepts. Two teams of eleven players compete to get the ball into each other's goal, with only the goalkeepers allowed to use their hands. This is what makes the game so successful the world over.

The same applies in principle to (re)insurance business. Only recently, we asked our clients what was especially important to them. Values like clarity and dependability headed the list. We at Munich Re strive to embrace these attributes. As a major handler of risks, excellence in risk management and the highest quality in underwriting have top priority for us. However, the reinsurance business is not as simple as football. It involves assessing and covering some very complex risks, which may change – owing to varying external parameters, for example. Just think of the financial market crisis and its impact on claims costs in credit insurance, D&O or marine covers. If such developments occur, it is clear that we have to adjust our prices, terms and conditions to take account of the new situation.

The crucial thing is that we do not do this arbitrarily but in a structured way that clients understand. In future, we will therefore be gearing our underwriting policy even more strongly to clear, transparent rules which we discuss openly with our clients. Dependability, reliability and fairness are our foremost maxims. We want clients to know where they stand with us. And we intend to play by these rules in difficult times as well. We proved this in the past financial year – in an environment that could hardly be more difficult – and we promise to do so in future as well.

An equally important factor is that our business environment is also based on a good set of rules. This includes legislation that ensures free movement of capital and goods and promotes rather than hinders enterprise, as well as fair play on the financial markets. The financial crisis has led to more and more people questioning the radical free market beliefs of recent years. Instead, there are calls everywhere for state intervention, greater regulation and stricter controls. The collective unease triggered by the many ailing banks that have only survived thanks to enormous injections of taxpayers' money is understandable. It is not right, however, to now tar all companies in the financial and insurance industry with the same brush. Rather, what we need is a fair balance between public and private interests, between the state and the market.

What will help here is the new European insurance supervisory regime Solvency II, which is due to come into force in 2012. Even if many details still need to be clarified, I am sure of one thing: we can expect a harmonised supervisory system of the highest level that is consistently risk-based and geared to economic principles. To ensure that Solvency II is a success, we need appropriate capital requirements for the insurance industry which, while providing for a high degree of security, also leave room for entrepreneurial risk. Further important factors are realistic demands on internal risk models, reporting obligations that concentrate on the essentials, and a level playing field for all financial services providers in the competition for capital. Incidentally, reinsurers like Munich Re which have a good rating will benefit especially from Solvency II, since the high degree of solidity and broad diversification we provide will have a direct impact on clients' balance sheets and reduce their capital requirements. The coming months will show whether supervisors and the industry can agree on an appropriate regime. I am confident they will, because ultimately the two sides have a common objective: a functioning insurance market with strong companies that are able to fulfil their important economic role. //

Torsten Jeworrek
Member of Munich Re's Board of Management
Chairman of the Reinsurance Committee

We insure loyal fans from 1 to 100


SHEFFELD
WEDNESDAY
SUPER

Penalty? //
Playing it safe when travelling

The Germans' wanderlust remains undiminished – despite the crisis: nearly 80% of the population go on holiday every year, and some two-thirds of all trips are taken abroad. The further the destination, however, the more important the preparations. All-round travel protection is a must for mitigating the consequences if something does go wrong. It is what Jürgen Reiss from TUI ReiseCentre in Karlsruhe always recommends his clients. He knows these insurance products and benefits like the back of his hand: "When you hear what happens, you quickly realise that all-round travel protection is not a luxury."

Taking out optimal coverage before departure

TUI ReiseCenter is one of around 17,000 tourist agencies in Germany offering travel insurance from Europäische Reiseversicherung (ERV) to clients who book a trip. And for good reason: the ERGO subsidiary is a quality provider that does much more than simply reimburse travellers when unforeseen difficulties force them to cancel their holidays at short notice.

In fact, ERV offers its clients a whole range of invaluable services in addition to their insurance cover. "What happens, for instance, if a client falls ill just before a trip?" asks Jürgen Reiss. The terms and conditions of insurance stipulate that a trip has to be cancelled immediately if it looks as if the insured will not be fit to travel. But what seems perfectly clear in theory is often a huge dilemma in practice. How serious is the illness really? What if the client gets better before departure? To cancel or not to cancel – that is the difficult question the clients are usually left to answer on their own, at the risk of having to shoulder high cancellation fees.

Since July 2009, ERV has been offering a medical consultancy service for cases such as these as part of its travel cancellation insurance. "Experienced travel medics provide customers with advice over the phone. They give recommendations based on a doctor's certificate or diagnosis. If they advise against cancelling the trip and the person's health does not improve contrary to all expectations, ERV carries the higher cancellation costs", says Jürgen Reiss regarding the benefit to the customer.

Competent help in an emergency

Having the right travel protection is indispensable during the holidays, too. If, for instance, an accident happens on vacation, it is a relief to know that it is possible to get competent help easily thanks to travel health insurance that provides assistance in a medical emergency. Jürgen Reiss: "A customer of mine, a 26-year-old who had just finished his studies, decided to go on a roundtrip to Australia before starting work. During the very first stage of the trip – a three-day diving excursion to the Great Barrier Reef – a mishap occurred: he slipped on the deck of the ship and broke his leg. After receiving primary medical care, he was taken to the nearest hospital, where he immediately contacted the emergency call centre, which put him in touch with a German-speaking doctor. Since the fracture turned out to be complicated, the emergency call centre's team organised the patient's transfer to Sydney, where surgery was carried out. One week later, the patient was able to fly home with his leg in plaster. The cost of medical treatment, the stay in hospital, the transfers and, finally, the regular flight requiring additional seats for supporting the elevated fractured leg totalled some €14,000. If it hadn't been for the insurer who covered the costs, the young man would have started his career heavily in debt."

24/7 – Around the world

almeda provides clients with the security of being able to access a competent contact person at any hour of the day or night in every corner of the world via the travel insurer's emergency line. ERGO's quality provider for integrated services in the area of assistance and health offers these and other services on behalf of affiliated companies in the group as well as for companies outside the group or within the Munich Health field of business. Its doctors contact the attending physicians directly in such difficult cases, discuss the medical necessity and urgency of an operation and check the clinic's professional skills. In parallel, the Munich emergency communications centre instructs local correspondents to clarify important questions. Which hospital is the most suitable? How is admission to hospital best organised? What is the fastest way of providing the hospital with the guarantee that costs will be reimbursed? In addition, the helpers organise the patient's repatriation after hospitalisation. Patients are thus given the best possible all-round care and can focus entirely on their recovery. //

Further information

www.almeda.de

www.reiseversicherung.de

Security far from home: ERV and almeda provide all-round services for travellers.

** ALMEDA **

MUC > WORLDWIDE ** ERSTVERSICHERUNG **

+ Some 20 years of expertise in **medical and technical assistance**
+ Over ten years of experience in **telemedical health services**
+ Partner to over **70 major clients** representing some **60 million consumers**
+ **12,000 medical emergencies** abroad and **150,000 enquiries for technical assistance** handled per year
+ **One million incoming calls** per annum
+ 80% of all calls taken within **20 seconds**
+ A current 25,000 chronically ill patients looked after in **health programmes**
+ 110,00 telephone enquiries per year as part of **demand management**

2009 34 1A 123 345 987 300

** EUROPÄISCHE REISEVERSICHERUNG **

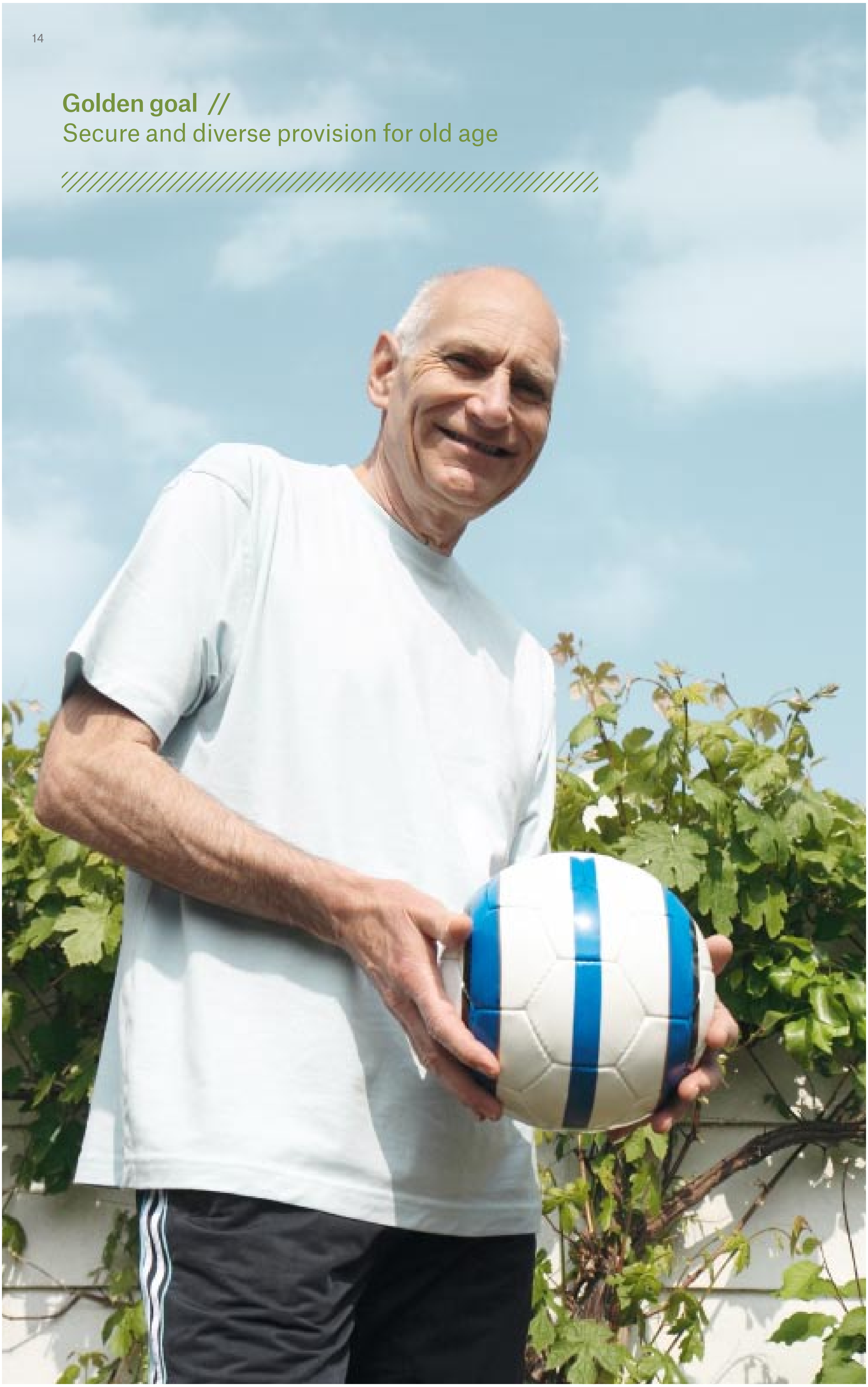
ERV

MUC > WORLDWIDE ** ERSTVERSICHERUNG **

+ More than 100 years of experience as a **travel insurance** specialist
+ Partner to some **13,000 travel agencies** and a further **17,000 agents** in Germany
+ Over **1,000 employees** worldwide
+ Around **120,000 e-mails** and **370,000 calls** handled by the service centre every year
+ Approximately 55% of claims paid within **24 hours**

1907 18 1A 678 000 345 111

Golden goal //
Secure and diverse provision for old age



It is 1965 and André-François Raffray, a French attorney, has just made the deal of his life – or so he thinks, when his 90-year-old client Jeanne Calment signs over her apartment to him. In return, he agrees to transfer an annuity equivalent to some €380 per month to her – for the rest of her life. What sounds like a good deal in fact turns out to be a disaster, for Jeanne Calment dies in 1997, aged 122, having entered the Guinness Book of World Records as the oldest person ever to have lived. She even outlives her attorney, whose total transfers to her amounted to three times the actual value of the apartment.

Scope created by a strong partner

The French lady's biblical age was exceptional, but it is nevertheless true that average life expectancy is rising and none of us know whether the savings we accumulate over a lifetime of work will be sufficient to secure our standard of living in old age. In addition, statutory pension systems like the one in Germany are often based on the pay-as-you-go principle and have started running into trouble as a result of demographic trends. Under a pay-as-you-go model, people do not save any funds for their own retirement during the pay-in phase, because these are distributed directly to the current pension recipients. As long as there is population growth and a sufficient number of new contributors, this does not constitute a problem. But in societies where only few children are born and life expectancy is increasing, there are fewer and fewer contributors for more and more pensioners. In Germany, it has long been clear that the level of pensions will continue to decline over the coming years. An ever greater number of people are therefore not going to be able to achieve the standard of living they desire solely based on their state pension entitlements. Additional private cover from a strong and reliable partner is thus indispensable. The lifelong guaranteed annuity offered by a funded scheme provides the security needed for carefree retirement.

Hitting the target from every position

Annuity insurance, however, is but one variant of life insurance that protects against biometric risks, i.e. hazards affecting one's life or livelihood. Life insurance can be used not only for maintaining one's standard of living in old age but also for providing for one's family or financing real estate. Each person can choose from a range of products that best suit his or her personal needs, from endowment insurance as a means of providing for dependants or for one's own old age to disability insurance and educational endowment insurance for one's offspring. After all, different lifestyles require suitably tailored provision models. When it comes to deciding which offer is the right one, ERGO's advisors make excellent coaches, whether it is helping to pick completely safe choices or investments involving higher risk but better earnings prospects.

V.I.P. 2009 – Earnings opportunities flanked by security

Endowment and annuity insurance covers are also available as unit-linked products. They are geared to investors who bank on profits from equities, real estate and bonds. In the case of this variant, the savings component of the insurance premium is invested in one or more investment funds in whose performance the client participates directly. //

Further information

www.ergo.de/unsere produkte/altersvorsorge

Vorsorge Invest-Plus

In June 2009, the ERGO Insurance Group launched a new unit-linked annuity insurance product called "Vorsorge Invest-Plus" (V.I.P.). This product is sold via the Luxembourg subsidiary of Vorsorge Lebensversicherung, which is part of the ERGO Group. It combines the conventional guarantees of maintaining the capital sum and a minimum return with additional profit opportunities: "V.I.P. offers a guaranteed interest payment of 1% per year, which at the end of the 12-year term is equivalent to a guaranteed payment of 112.7% of the single premium. On top of this, the customer shares in the performance of efficiently managed funds", explained Dr. Johannes Lörper, responsible for private pension products on the Board of Management of ERGO's life insurers. Opportunities for returns on the capital market can also be exploited using a specially designed investment concept. "For ERGO, the new unit-linked annuity insurance is a key component of our product portfolio, since it allows clients to benefit rapidly from rising interest rates and share prices."

We develop healthcare concepts – from XXL to individual

Potent attacking force // Combined know-how for the market of the future

Interview with **Dr. Wolfgang Strassl,**
Member of Munich Re’s Board of Management

Dr. Strassl, with its international healthcare business, Munich Re last year established a third pillar. Why?

Munich Re has identified the international healthcare market as a market of the future in terms of profitable growth. There are numerous reasons for this. One of the most important is ongoing medical progress that enables more and more diseases to be successfully diagnosed and treated. Just think of the demographics of industrialised countries. People are living longer on average. Often this longevity is accompanied by chronic illnesses, so that the demand for medical services is constantly growing.

What is the position in emerging countries like India or China?

There are major opportunities there, too, due to the fast-rising standard of living. Experience shows that the wealthier people are, the more they spend on healthcare. In developed countries, it is often the case that significantly more than 10% of gross national product flows into the healthcare sector. And this is a rising trend. In less developed regions, the figure is considerably lower. So there is a lot of potential there.

Couldn't this potential have been leveraged with the existing structures? Why a separate field of business?

Because health business makes very special demands. The challenge is to provide insureds with access to high-quality medical care that is also affordable. For this, we need not only extensive insurance know-how but also a clear understanding of how medical care and health markets function, including the underlying dynamics. That's not something you can do on the side.

So the trend is towards specialisation?

Absolutely. If you analyse global healthcare systems, you will discover that in all countries in which private health insurance plays an important part, it is the province of specialists. Look at Britain or the USA, look at Switzerland or Germany. As soon as a health insurance market has reached a certain stage of maturity, it is dominated by specialists. In the long run, specialisation and focus are the only way of being successful in this business, either as an insurer or as a reinsurer. All the rest will fail.

And where does Munich Health derive the specialist knowledge to succeed in this difficult market?

The key to success lies in pooling our human resources and skills in the healthcare sector, which we already have in abundance but which were previously dispersed throughout the Group. As Munich Health, we have succeeded in bringing together a unique spectrum of service providers and risk carriers under one roof. These extend from pure reinsurers and traditional primary insurers to full-range providers of integrated insurance and healthcare services, and we offer all of this in virtually all the world's important or promising healthcare markets.

What are the most important cornerstones of the new field of business?

"In the long run, specialisation and focus are the only way of being successful in the health insurance market."

On the one hand, our global reinsurance business in health and the related service companies of the MedNet group. On the other hand, Munich Health also includes the international subsidiaries of our health insurer DKV. Besides this, there is our specialist insurer for seniors in the USA, Sterling Life Insurance, which we acquired in 2008.

Could you give an example of where this cooperation is already paying off?

Take the province Denia on the Spanish Costa Blanca, where we took over responsibility for providing healthcare for the local population a year ago from the regional administration. There we operate and finance a new hospital for the public sector and at the same time make sure that the costs of healthcare in the region are affordable. This means that we cover the whole value chain in the healthcare sector, from insurance to healthcare provision. For such solutions, it is naturally not enough just to be a good health insurer; you also need medical competence and must know how to run a hospital.

Since last spring, you have been operating under a new brand, Munich Health. What are the distinctive features of this brand?

First and foremost, the new brand stands for our Group's commitment to health business. We see ourselves as partners to our clients – competent, innovative and dependable.

Can you elaborate?

Munich Health is operating in a market that is not only growing rapidly but is also facing enormous challenges. Medical progress is making it possible to combat diseases ever more quickly and efficiently. Last year, for instance, it took only a few months after the discovery of the H1N1 virus for a vaccine to be available worldwide. That would have been inconceivable just a short time ago. But people's expectations of receiving the best possible healthcare are also increasing. After all, health is the most important thing in life. But the related costs are spiralling out of control. Many state healthcare systems are coming up against the limits of what they can finance.

"The new Munich Health brand stands for our Group's commitment to health business."

And private health insurance offers a way out here?

Yes, but it also has to remain affordable so that everyone can insure themselves and receive the best possible care. To achieve this, our clients need a strong partner at their side whom they can rely on and who has the experience and know-how to identify their needs, develop suitable solutions and explore new avenues. As part of Munich Re, this is our mission – and our duty!

The most important health market in the world is North America. How is Munich Health positioned there?

The USA is also the biggest and most important market for Munich Health, not least because – unlike in most countries – the majority of the population is privately insured and there is state cover only for pensioners and people on welfare. Although the USA is a rich country and spends some 17% of its GDP on healthcare, a large proportion of the population, some 50 million Americans, do not have adequate health cover. Many people there do not earn enough to afford health insurance. On the other hand, they are not so poor that they are on welfare and receive state cover. But this situation is now to be resolved by an extensive reform of the US health insurance system. We are well represented in the USA by our reinsurance unit at Munich Re America and by our primary insurance subsidiary Sterling Life. We are keeping a very close eye on such changes in the political environment – they are part of our business. It is important to identify them in good time and to adjust our business policy accordingly. As such reforms often involve privatisation and liberalisation of the private health insurance market, they frequently give rise to new business opportunities that we can exploit.

Munich Health is a very young enterprise and still at the development stage in many areas. What are your key objectives for the coming year?

2010 will be a crucial year for us in several respects. Top of the list for me is our Go Client initiative: we want to take advantage of the opportunities offered by our new set-up and go to our clients with a significantly broadened and strengthened value proposition. We want to understand more clearly than in the past how we can help them make access to first-rate medical care affordable. Our experience so far in meetings with clients shows that we are

"We are filled with a pioneering spirit. We have set ourselves very ambitious goals, individually as well as collectively."

preaching to the converted. There is a demand for innovative healthcare solutions worldwide. I am therefore convinced that our efforts will soon be successful if we stay on the ball.

Are there any further milestones you plan to achieve?

Obviously we are working flat out to realise the synergies we planned when we set up our new field of business. I attach particular importance to making transparent the many different skills of our 5,000 staff worldwide – all specialists in their field – via networks and joint projects. In future, they should be deployed precisely where they are most valuable for our clients, which is where we need them most. Our staff have understood that our strength lies in this interdisciplinary and international cooperation across specialisations and national boundaries. This new approach is very demanding on the individuals involved. It changes and redefines the way they work. Nevertheless, we manage to maintain a pioneering spirit. In addition, we have set ourselves very ambitious goals, individually as well as collectively. Starting this year, we will be reporting our business figures separately to our investors for the first time.

They will certainly be keeping a close eye on your performance, especially at the beginning. What exactly can investors expect from you?

We want to grow profitably. This is what we are all about, and we have already made good progress over the last year with our premiums. But premium growth is not the sole factor. What counts is our results – we aim to contribute to an attractive return on capital for our shareholders. This is the standard by which we will measure our progress. //

Further information

www.munichhealth.com

Munich Health in figures

5,000
Employees worldwide

€4.0bn
Premium

>€2,300bn
Total volume of international health market

26
locations worldwide

North and South America
Andover
Bellingham
Princeton
Santiago de Chile
São Paolo

Europe
Middle East
Africa
Abu Dhabi
Amman
Athens
Bahrain
Brussels
Denia
Spain
Dubai
Istanbul
Jeddah
London
Luxembourg
Madrid
Milan
Munich
Oslo

Asia
Beijing
Hong Kong
Gurgaon
Shanghai
Singapore
Taipei

Source: Munich Health

We know where we stand

Playing system //
Security at the push of a button

As is often the case with bad economic news, the story breaks on a Sunday. Herbert Friedel, Head of Credit Risk/Limit Management at MEAG, Munich – Munich Re's asset management subsidiary – is watching the late-night news on 1 November 2009 when he hears that US commercial lender CIT Group has filed for creditor protection under Chapter 11 of the US Bankruptcy Code, the second-largest bank failure after the collapse of Lehman Brothers about a year earlier.

For Friedel there is no cause for alarm, however. The most he will do is go to work an hour earlier the next day. It is part of his job as an experienced capital markets expert to examine whether the investments MEAG makes on behalf of Munich Re might be affected by the collapse. At his desk, Friedel immediately begins to look into the matter. It just takes a couple of mouseclicks for him to turn his assumption into certainty and sound the "all clear". MEAG is not invested in CIT, and its assets are safe. Friedel sends a circular mail to the important decision-makers in the group: "No danger."

CIT collapses – Munich has the risk under control

"We always know exactly what is in our portfolio", explains Peter Schenk, head of MEAG's investment controlling unit. This seems obvious, but anyone who saw how difficult it was during the hot phase of the crisis in autumn 2008 and spring 2009 for some financial market players to estimate the impact of the turbulences on their portfolio is aware of the fact that there is – has to be – more to it than that. Keeping an overview of the total investments held by a global asset manager of MEAG's size and significance is anything but straightforward. This is due, for one thing, to their sheer mass: at the reporting date of 31 December 2009, Munich Re's portfolio comprised fixed-interest investments worth some €165bn, stemming from over 1,500 issuers in over 90 countries.

Security systems for the inconceivable

In the past, many investment companies tried to spread the credit default risk on as many shoulders as possible, continually changing the way in which their credit portfolios were combined and sold. At the height of the financial crisis, this practice resulted in many banks hardly knowing what risks were in their portfolios anymore. "As long as the market continues to deal with the usual risk categories, there is no problem with this securitisation practice", explains Schenk. The situation becomes critical when a structural change causes the safety systems in place to fail. "When that happens, it is extremely important to know what situation you're in", says Schenk.

Know your risks!

MEAG does. When times are normal, close cooperation between portfolio management and investment controlling ensures that only sufficiently crisis-resistant securities are purchased for the portfolio. And thanks to the company's sophisticated reporting system, it takes the analysts only a few hours – even in the most complex cases – to tell exactly whether and, if so, what products in the portfolio are affected by upheavals. "In times of crisis this is more than half the battle, because it allows you to take systematic action", says Schenk.

STAR creates transparency in the portfolio

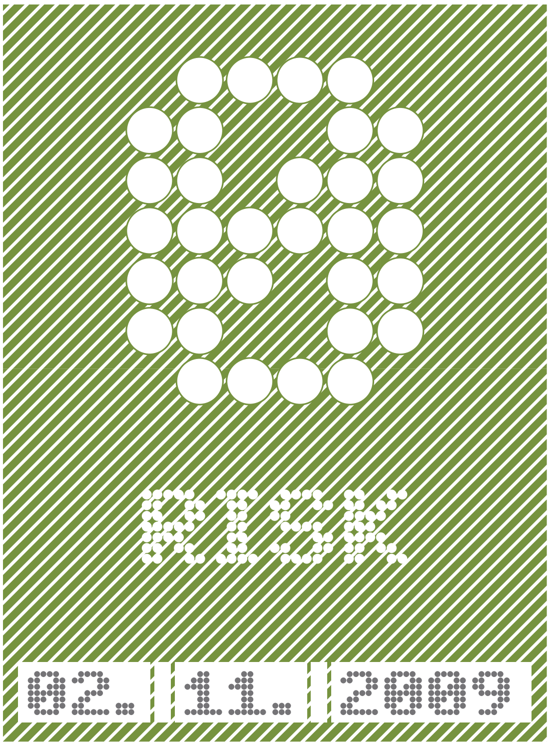
In order to be equipped for any emergency, MEAG has put together a sophisticated database in cooperation with the Munich Re and ERGO experts over the past few years. It lists every security, right down to the very last detail. The objective was to achieve the greatest possible transparency and security. The expense was formidable – an eight-figure euro amount, but it paid off in the crisis. The database is internally referred to as STAR, which stands for Standardised Asset Management Reporting. “We are one of the few companies that not only keep a close eye on their portfolios but also really have control over them”, summarises Schenk. “Investments whose risks we cannot resolve do not make it into our books.” That is one of the reasons why Munich Re survived the crisis more or less unscathed. Although over 100 banks were forced into liquidation in the USA last year alone, MEAG did not suffer a single direct default. MEAG’s credit analysts and portfolio managers in Munich and New York systematically and regularly review the portfolio. In the case of CIT, they suspected early on that something was wrong. In spring 2007, long before the rating agencies drew attention to the danger by downgrading the bank’s credit rating, MEAG began to quickly reduce its CIT holdings originally totalling almost €140m. The Munich team’s excellent risk management did not go unnoticed elsewhere either. In 2009, risk expert SimCorp Strategy Lab gave MEAG the Risk Management Excellence Award for its prudent and exemplary risk policy. It is a well-deserved reward for a strategy that gives priority to the avoidance of risk and the security of the funds placed in its keeping: a strategy that allows the clients of Munich Re and ERGO to sleep easy at night – even if the economic news in the media is bad. //

Further information

www.meag.com

MEAG – Solid investments with controlled risk

Collapse on the Hudson
The US commercial lender CIT Group files for creditor protection



Calm on the Isar
MEAG is safe – thanks to its crisis-resistant portfolio and excellent risk management.

01

02

03

04

05

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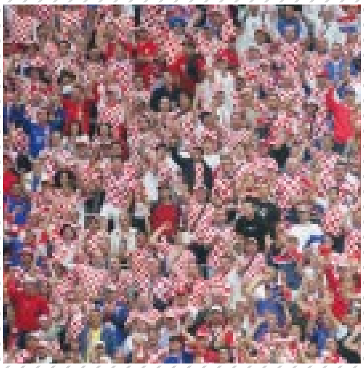
07



08

Eight images of football

01 // Abidjan, Ivory Coast: Street tournament in the Koumassi quarter
Picture taken in 2009
Source: Stefan Meisel

02 // Cape Town, South Africa: Green Point Stadium during the construction phase
Picture taken in 2009
Source: Thomas Schüer

03 // Beijing, China: Footballing kids in a suburb
Picture taken in 2009
Source: Zhang Peng 4

04 // Sheffield, England: Enthusiastic fan at a home game in Hillsborough Stadium
Picture taken in 2006
Source: Christopher Furlong

05 // Doha, Qatar: Fans cheering their national team in Group 1 qualifier for FIFA World Cup
Picture taken in 2008
Source: Karim Jaafar/AFP/Getty Images

06 // Sukhothai, Thailand: Budding young footballer
Picture taken in 2009
Source: Michael Riehle/laif.

07 // Kenya: Four-man wall.
Picture taken in 2009
Source: Corbis

08 // Klagenfurt, Austria: Croatian fans at the match against Germany during the European Championships in 2008
Picture taken in 2008
Source: Corbis

We are a long-term partner for our investors.

Our strong capital base and clear positioning make us a formidable player and allow us to grow profitably in a dynamic market.

Our integrated business model of insurance and reinsurance enables us to devise and successfully market customised solutions for our clients.

Thanks to their risk knowledge and innovative thinking, our highly qualified and motivated staff create sustained value.

MUNICH RE 2009

More detailed lists of contents are provided on the pages separating the individual sections.


5.3%
Dividend yield
€1,088m
Dividend payout
€12.95
Earnings per share
197.4 million
Shares (at 31 December 2009)
€5.75
Dividend per share
€587.7m
Share capital
€21.5bn
Market capitalisation

MUNICH RE 2009

To our shareholders

Pitch

Even in the professional game, football pitches are not uniform in size. Lengths vary between 90 and 120 metres, and widths between 45 and 90 metres. But the measurements of individual areas of the pitch and the size of the goals are clearly specified.

Foresight and responsibility are guiding features of our business.

Our integrated business model of insurance and reinsurance under one roof, with its diversification effects, make us more independent of economic fluctuations.

With our risk knowledge and our capital strength, we can give our clients targeted support, even during a global economic crisis.

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

Dear Shareholders,

In the initial months of 2009, the severest financial crisis for 80 years was at its height. Important companies in nearly all sectors were badly hit, and even whole economies faltered. Governments and central banks responded with massive support measures such as economic stimulus programmes and interest-rate cuts, preventing the imminent collapse of the financial markets and an even worse recession.

A year ago, I informed you that in 2009 we would again be aiming for a result that underlined Munich Re's leading status in our industry. In this we have succeeded. With a profit of €2.56bn, we have even slightly surpassed expectations. We have achieved our ambitious target of a 15% return on risk-adjusted capital (RORAC), posting a figure of 15.1%. In addition, we were able to strengthen our capital base last year, despite paying an attractive dividend for 2008 and buying back more shares.

So against the background of the difficult market environment, I am very satisfied. We want you to share in this success, which is why we will be proposing payment of an increased dividend of €5.75, up from €5.50, at the Annual General Meeting. With this payout, we want to make clear our conviction that our business model can deliver sustained earnings even in economically difficult times. And we want to thank our shareholders for the confidence they have shown in us.

In the past year, financial solidity and reliability were sought after more than ever. This was true in insurance business with end-customers and even more so in reinsurance. Many primary insurers – our clients in reinsurance – found their capital base temporarily weakened by the financial crisis. They were faced with the need to raise fresh capital if they wanted to keep writing the same amount of business. Together with our clients, we therefore devised risk transfer solutions that in many cases rendered capital increases unnecessary. This applied particularly in life reinsurance and the international health market. In return, we received attractive business – some guaranteed for a period of several years.

One of our particular successes was the acquisition of the Hartford Steam Boiler Group, which has enabled us to enhance our already strong position in the field of engineering insurance. But I will openly admit that we had expected to be able to exploit our financial strength even more in the crisis, be it in reinsurance or through further acquisitions. We were not able to achieve this objective to the desired extent. Generous accounting rules and the rapid recovery of the financial markets – due to state intervention – prevented our clients' demand for reinsurance increasing as much as we had anticipated. As far as potential acquisitions were concerned, we considered a large number of offers. However, as the prices asked for did not take sufficient account of the subdued economic prospects, we held back with acquisitions and developed our business through our own resources. We demonstrated last year that we are well positioned to do so: more than two-thirds of the increase in Group premium comes from organic growth.

In the business field of primary insurance, ERGO successfully turned its results around, more than doubling its profit in 2009 compared with the previous year. The combined ratio in property-casualty business once again remained well within the long-term target of 95%. Another pleasing aspect is that the efficiency programmes which have made considerable demands on ERGO employees in recent years are beginning to bear fruit. The effort has been worth it.

ERGO was also able to increase its premium income, mainly thanks to marked growth in its international business. In Turkey and eastern Europe, we have achieved satisfying development through organic growth. But acquisitions like Bank Austria Creditanstalt Versicherung also played their part. Despite the curbing effects of changes in exchange rates, our international primary insurance business now contributes more than one-fifth of ERGO's premium income. And ERGO has become a leading provider in yet more markets. In Germany, on the other hand, the picture was mixed: while we were able to grow in property-casualty business, development in life insurance was below expectations. ERGO's new brand presence will help us here.

Munich Re's strengths are its great financial solidity, outstanding risk knowledge and sophisticated risk management. We devise needs-oriented solutions for our clients and can draw on a broad marketing network. In the current year, we will continue to pursue our strategy of an integrated insurance group geared to sustained profitability. In so doing, we intend to take advantage of the opportunities with which the risk market presents us in a still uncertain environment. I am confident that we will again succeed in achieving our ambitious goals.

Yours sincerely,

Nikolaus von Bomhard
Chairman of Munich Reinsurance Company's Board of Management

The Board of Management

From left to right

Jörg Schneider
Group Reporting/Group Controlling/Corporate Finance Mergers & Acquisitions/Integrated Risk Management/Group Legal, Compliance/Group Taxation/Investor and Rating Agency Relations

Joachim Wenning
Life

Georg Daschner
Europe and Latin America

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

From left to right

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

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
HealthCare/Human Resources

Thomas Blunck
Special and Financial Risks/Reinsurance Investments/Central Procurement

Notable events in 2009

01–03/09

// 10th anniversary of MEAG

Since 1999, Munich Re's and ERGO's investment activities have been managed by MUNICH ERGO AssetManagement Gesellschaft, or MEAG for short. With units in Munich, New York and Hong Kong and assets under management of €190bn, MEAG has advanced to become one of the most important asset management companies in Europe.

// ERGO life insurers tested by the German technical inspection agency TÜV

In February, ERGO's two major life insurers Hamburg-Mannheimer and Victoria had their service quality tested by TÜV Süd for the first time and were rated "good". Factors considered were commitment, professional competence and courtesy of staff, as well as availability, reliability and handling of complaints.

// EU GreenBuilding Award for MEAG buildings

In 2009, three new MEAG buildings were placed on the list of official partners of the EU GreenBuilding Programme: the Cologne Oval Offices, the Westgate in Cologne and Munich's Sonnencarree. The GreenBuilding certification confirms that a building undercuts the 2007 German Energy Saving Ordinance limit by more than 25% and is awarded to the owners of commercial buildings whose energy-saving designs promote sustainable construction.

// Acquisition of Hartford Steam Boiler concluded

On 31 March, the purchase of US specialty insurer HSB Group was successfully completed. Munich Re had announced the acquisition back in December 2008. HSB is one of the world's leading providers of insurance for machinery breakdown and engineering risks, other specialty insurances, as well as inspection, certification and engineering services.

04–06/09

// International HealthCare becomes Munich Health

In May, Munich Re's international healthcare business began operating under its own brand, Munich Health. The new business field brings together global know-how in the insurance and reinsurance of healthcare outside Germany. Munich Health employs over 5,000 experts at 26 locations.

// First microinsurance against floods worldwide

Munich Re launched a microinsurance project for the inhabitants of Indonesia's capital Jakarta under a public-private partnership with Indonesian insurer Asuransi Wahana Tata and Deutsche Gesellschaft für Technische Zusammenarbeit (GTZ, the German Agency for Technical Cooperation). The innovative product provides Jakartans with the option to insure themselves against financial losses from floods and the social risks associated with them.

// MEAG FairReturn Fund

The MEAG FairReturn investment fund was established in June. The mixed fund investing largely in Europe is geared especially to foundations and is managed according to sustainability criteria. Its investment objective is to perform in line with the capital market and to yield plannable regular income. The minimum investment amount is €100,000.

// Signet Solar – New insurance solution for photovoltaic modules

Together with industrial insurance broker Marsh and photovoltaic producer Signet Solar, Munich Re launched a new insurance solution to cover the risk of a performance deterioration in photovoltaic modules. This solution covers the warranty given for Signet Solar modules over a period of 25 years and guarantees performance of at least 90% in the first ten years and no less than 80% in the remaining 15.

07–09/09

// Desertec initiative

At the instigation of Munich Re, twelve leading companies signed a memorandum of understanding in July, establishing the Desertec Industrial Initiative planning entity (DII). The DII commenced its work in October. It is to develop the parameters for investments needed to exploit the energy potential of deserts and make this usable for other regions of the world. Its long-term goal is to cover a significant share of the energy needs of Europe, the Middle East and North Africa on the basis of solar and wind power generated in the desert.

// Munich Health launches health coaching in Abu Dhabi

Daman National Health Insurance, in which Munich Re holds a stake of nearly 20%, opened a new medical service centre in Abu Dhabi. Together with almeda GmbH, the Group's assistance and telemedical healthcare service provider, this centre started offering healthcare programmes in August to patients with chronic diabetes and obesity. In October, the United Arab Emirates' leading health insurer and Munich Re extended their strategic partnership until 2019.

// Munich Re rebranding

Munich Re introduced its new brand to the public at the reinsurers' industry meeting in Monte Carlo. This is combined with a sharpened value proposition in reinsurance, whose cornerstones are financial solidity coupled with forward-looking expertise. Munich Re aims to place much more emphasis on leveraging its extensive risk knowledge to develop individual solutions for its clients in response to complex issues.

// ERGO insurers design new accident prevention cover with a money-back guarantee

In July, ERGO began offering a single-premium personal accident cover that returns premiums, in addition to its regular-premium personal accident cover with premium refund. In future, clients will be able to select either variant – coverage providing a safe investment in times of financial crisis.

10–12/09

// Share buy-back programme resumed

At the beginning of October, Munich Re announced that it will resume its share buy-back programme, suspended in April owing to the financial and economic crisis. Shares with a volume of up to €1bn are to be repurchased and retired by the AGM on 28 April 2010.

// New ERGO brand strategy as a growth engine

In November, ERGO announced a revised multi-brand strategy. In future, it will offer life and property-casualty insurance under the ERGO brand in Germany as well. The brands Victoria and Hamburg-Mannheimer will be withdrawn from the market. Health insurance will be pooled under the DKV brand, legal expenses insurance under D.A.S., and travel insurance will continue to be represented by the ERV brand. Direct insurer KarstadtQuelle Versicherungen is to be renamed ERGO Direkt Versicherungen, a change subsequently implemented in February 2010.

// Munich Re set to acquire full ownership of ERGO

Munich Re purchased a further stake of nearly 5% in the ERGO Insurance Group from Bayerische Hypo- and Vereinsbank via an investment company. For the remaining 237,000 shares, i.e. 0.31% of the equity, a squeeze-out resolution is to be adopted at ERGO's next Annual General Meeting on 12 May 2010.

// Natural catastrophe figures

In 2009, natural catastrophes caused far fewer losses than in the previous year, owing to the low incidence of major events and the benign North Atlantic hurricane season. Of the economic losses totalling US$ 50bn, insurers had to pay US$ 22bn. Winter Storm Klaus ranked as the costliest single event, with insured losses amounting to around US$ 3bn. The trend towards an increase in weather-related catastrophes nevertheless remains unbroken: the number of destructive events – 850 in all – was above the long-term average.

Our shares

// Munich Re shares proved a stable investment again in 2009. Although their price showed a slight reduction of 2.1% over the course of the year, on a long-term basis – taking dividend payments into account – they have clearly outperformed the competition.

Very stable in a volatile market environment

Macroeconomic parameters in 2009 were strongly impacted by the crisis on the international financial markets and a global recession. Companies, particularly in the financial sector, reported substantial downturns in their 2008 results and, in some cases, significant depletions of equity capital. In general, banks were much harder hit by these events than insurers. However, some primary insurers around the world suffered considerably from the crisis, especially those focusing on life business. This boosted demand for reinsurance solutions that provided capital relief. As a result, the start of 2009 saw investors favouring shares in reinsurers, especially those geared towards property-casualty business, where many investors expected an appreciable improvement in the reinsurance market's prices, terms and conditions.

Numerous insurers stepped up their investment derisking, a process that started in 2008. This helped the sector's financial position to stabilise relatively quickly. In addition, there were signs of an economic recovery in the second half of the year. On the international stock markets, prices rose markedly from spring onwards, after considerable setbacks in the first few months. Among insurance stocks, the chief beneficiaries were those that had previously fallen furthest in value.

News on share price at www.munichre.com/chartservice-en

After performing very well in the previous year compared with both the insurance sector and the market as a whole, Munich Re shares proved themselves a stable investment in this environment. Particularly at the beginning of 2009, when the downward trend among financial services stocks was still continuing, they demonstrated their relative strength. It is true that between 1 January and the market low at the beginning of March their price fell by 27% from €111.00 to €81.03 (closing price on 9 March 2009). However, this reduction was comparable to that of the cross-sector price indices (DAX 30: –23.3%; EURO STOXX 50: –26.1%; US indices Dow Jones and S&P 500: –25.4% and –25.1%), while Munich Re shares performed better than the insurance industry as a whole: the EURO STOXX Insurance lost 44.4% up to 9 March 2009, and the global MSCI insurance index declined by 39.5% on a euro basis.

In this market situation, our investors benefited from Munich Re's capital strength, our proven risk management, and our active cycle and portfolio management. With a high degree of transparency, Munich Re enhanced investors' confidence in the dependability of its financial performance and the reliability of its consistent economic management approach. Consequently, the above-average performance of Munich Re shares continued through much of the first quarter. In the months that followed, however, investors tended to prefer stocks with more pronounced risk profiles, particularly insurance stocks whose result performance was more closely correlated with the stock markets. The winners were mainly shares in life insurers, especially as the high expectations with regard to growth and profitability in reinsurance were not completely fulfilled. The pricing levels for insurance stocks thus converged again. Despite the change in market preferences, Munich Re stuck to its course, focusing clearly on its core business of insurance and reinsurance, while maintaining a restrained approach to investment risks.

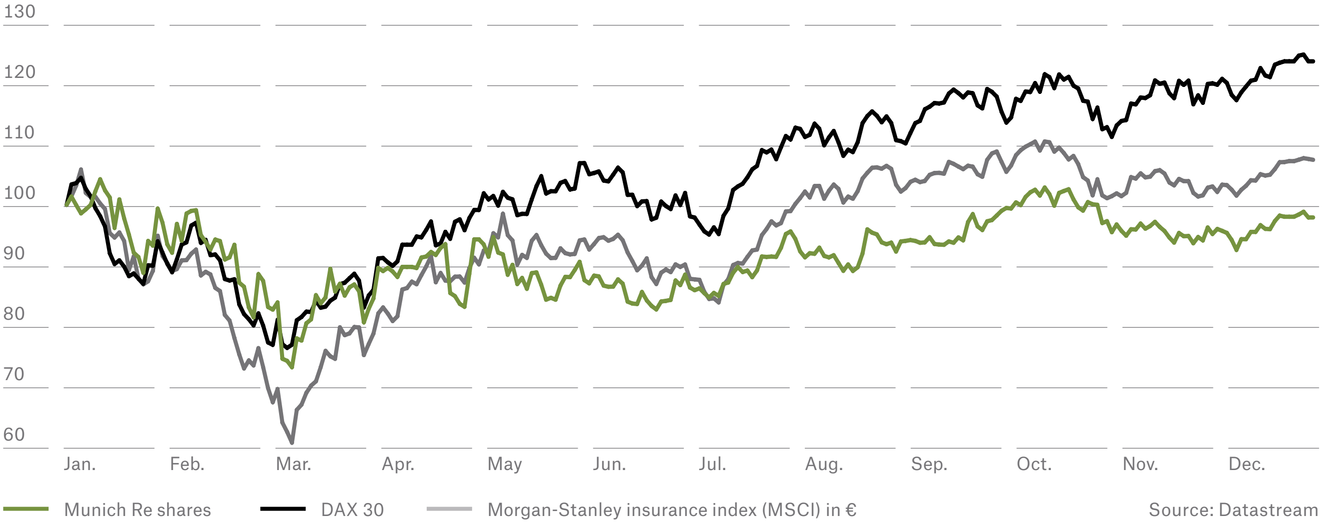
Thanks to their defensive risk profile, the volatility of our shares remained low, and they repeatedly showed their strength in phases where the markets became more conscious of the crisis again. Munich Re underlined its clear commitment to creating value for shareholders by resuming its temporarily suspended share buy-back programme in October, which gave our share price additional stability.

Nevertheless, Munich Re shares were not able to rally on from those first few months of the year, and they were outperformed by insurance stocks with greater recovery potential. Altogether, the shares closed the year with an annual price performance of –2.1%. The corresponding figures for the EURO STOXX Insurance and the MSCI insurance index on a euro basis were +8.9% and +7.5% respectively.

Our subdued share price performance at year-end was also a consequence of our expectation management for 2010. We had pointed out that, in view of the persistently low interest rates on the capital markets and the prudent risk profile of our investment portfolio, our investment result was likely to be considerably reduced compared with previous years. However, the lower overall result to be expected due to this should be subject to less volatility, further enhancing the dependability of our financial performance. We expect this result quality to have a positive impact on our shares going forward.

All in all, Munich Re shares demonstrated the attractiveness of the stock's clear investment profile in the environment of the international crisis. Their long-term performance is also convincing: over the last three-year and five-year periods, their performance (including dividend payments) has bettered both the DAX and the EURO STOXX Insurance indices.

Share price performance 1 January 2009 = 100



Source: Datastream

More than 40 banks and brokerage houses regularly evaluate Munich Re shares. At the end of December 2009, some 62% of the analysts gave our shares a positive assessment, 32% a neutral one, and only 6% a negative rating.

Munich Re pursues a flexible dividend policy, with the payout essentially based on the result for the year and our capital requirements. Taking this into account, we generally aim to pay out at least 25% of the annual result to our shareholders. Despite the lower result in a difficult business environment in 2008 due to the financial crisis, we kept the dividend at the previous year's level of €5.50 per share.

For the financial year 2009, the Board of Management and the Supervisory Board intend to propose to the Annual General Meeting on 28 April 2010 that the dividend be increased by €0.25 compared with last year to €5.75. Altogether, this would mean a total payout to shareholders of nearly €1.1bn, after €1.073bn in the previous year. The dividend will be paid on 29 April 2010, the day after the Annual General Meeting.

With a dividend yield of approximately 5.3% (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.

More at www.munichre.com/share-buy-back

We essentially adhered to our share buy-back programme, but decided in spring to suspend the buy-backs, owing to the uncertain economic situation. At the beginning of October, in an improved environment, we resumed the programme and have since bought back shares with a volume of around €648m (status as at 28 February 2010). Altogether, as announced, we intend to repurchase shares with a volume of up to €1bn by the Annual General Meeting on 28 April 2010.

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, though trading takes place almost exclusively on the Xetra electronic trading platform.

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 €121m, putting us in 11th place among the DAX stocks at year-end 2009. In terms of market capitalisation, we also ranked 11th with around €21.5bn.

Key figures for our shares		2009	2008
Share capital	€m	587.7	587.7
Number of shares at 31 December	m	197.4	206.4
Year high	€	116.80	133.24
Date		9.1.2009	4.1.2008
Year low	€	79.01	76.17
Date		9.3.2009	28.10.2008
Year-end closing price	€	108.67	111.00
Annual performance (excluding dividend)	%	–2.1	–16.5
Beta relative to DAX (daily, raw)	%	0.8	0.7
Market capitalisation at 31 December	€bn	21.5	22.9
Market value/equity at 31 December[1]		1.0	1.1
Average daily turnover	'000	1,191	2,269
Earnings per share	€	12.95	7.74
Dividend per share	€	5.75	5.50
Dividend yield at 31 December	%	5.3	5.0
Dividend payout (status at 28 Feb. 2009)	€m	1,088	1,073

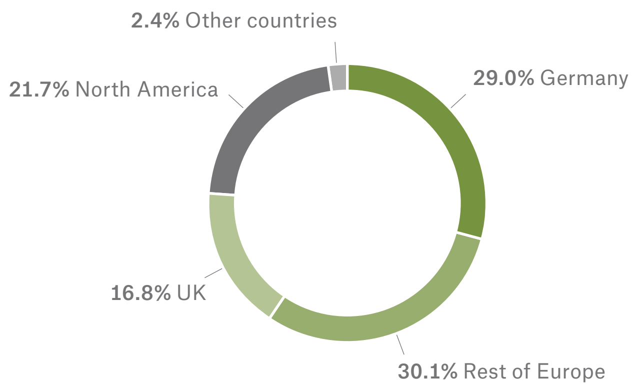
[1] Including minority interests.

In December 2009, a total of 121,000 shareholders were entered in our share register. The vast majority of shares were held by institutional investors such as banks, insurers or investment companies; around 8.3% were in the hands of private investors.

Our largest shareholder at the end of 2009, with around 4.6%, was US asset management firm BlackRock Inc., New York. By acquiring Barclays Global Investors (BGI), the asset management subsidiary of Barclays Bank UK, BlackRock became the world's largest asset manager and a new major shareholder of many German companies. With the addition of the Munich Re shares held by BGI, BlackRock's stake in our Company at the beginning of December exceeded the threshold notifiable under the German Securities Trading Act. Since February 2010, Warren E. Buffett has held a stake of over 5% in Munich Reinsurance Company via various companies in his group. He also holds financial instruments that give him the right to subscribe for a further 3,840,000 Munich Re shares (1.95% of the share capital). The exercise date for the financial instruments is 11 March 2010. AllianceBernstein L.P., our largest shareholder at the beginning of 2009, has reduced its stake from over 5% to below 3% in the current year.

The proportion of international investors remained at around the same level as in the previous year. At year-end 2009, a good 70% of the shares were held by foreign investors.

Regional distribution[1]



[1] Percentage of share capital at 31 December 2009. Source: Munich Re share register

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, this stood at 12.1% at the end of the year.

Further information on corporate responsibility at www.munichre.com/sustainability

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 corporate responsibility, and enjoys an excellent reputation among socially responsible investors (SRIs), who hold some 2% of our stock.

Weighting of Munich Re shares[1]	%
DAX 30	4.0
DJ EURO STOXX 50	1.3
DJ EURO STOXX Insurance	12.1
MSCI EURO	1.1
FTSE EUROTOP 100	0.6
DJ Sustainability World	0.4

[1] Status: 31 December 2009

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 2009, for example, management and our investor relations unit presented Munich Re's strategic and financial development at more than 40 roadshows, above all in the USA and Europe, and strengthened their presence at investor conferences of various investment banks. Management also held over 100 individual meetings with investors and analysts at our offices.

Besides our annual analysts' conference on 3 March 2009, the separate events we held on individual issues of topical interest met with a very positive response: on 29 June 2009, we staged a seminar on life reinsurance; on 19 November 2009, we reported to analysts on our assessment of Solvency II, including the implications for the insurance industry and the business opportunities for Munich Re. On 10 March 2010, we present our figures for the financial year 2009, and at our analysts' conference on 11 March 2010 we will give an update on Munich Re's strategic orientation. We reported on the key figures for the financial year 2009 on 2 February 2010.

But our activities are not only geared to institutional investors: private investors can contact Munich Re directly at any time as well. We have done well in insurance-sector rankings for the quality of companies' investor relations, achieving recognition in particular for the consistency and transparency of our reporting and the quality of our roadshows. 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.

Full information on the Annual General Meeting at www.munichre.com/agm

The service pages of our shareholder portal provide our shareholders with a wide range of information and offer them such facilities as registering to receive documents for the Annual General Meeting by e-mail or updating their registered shareholder data online.

Some 3,800 investors accepted our invitation to the 122nd Annual General Meeting on 22 April 2009 at the ICM – 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 44.6%, the proportion of the share capital represented in the votes was only just below the previous year's level (45.1%). We see this renewed high figure as a reflection of our efforts to actively inform our investors and 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. The whole meeting is transmitted on the internet, admission cards can be ordered online, and shareholders can have their votes cast by Company proxies in accordance with their instructions. In addition, the implementation of the Shareholders' Rights Directive in Germany has created new opportunities which we will be one of the first DAX companies to exploit, e.g. by providing for a postal vote at the 2010 Annual General Meeting. We publish the resolutions adopted at the Annual General Meeting immediately on our website.

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 came under pressure at the start of 2009. Taking advantage of this attractive price level, Munich Re bought back subordinated euro bonds with a face value of €251m in the first half of 2009.

A complete list of the outstanding bonds can be found on pages 244 and 257

Over the year, the prices of the subordinated bonds showed a marked recovery. At year-end, the undated euro bond was listed at 90.4%, the bond maturing in 2023 at 107.1%, and the pound sterling bond maturing in 2028 at 108.9%. Munich Re America's senior bond closed the year at 103.0%. The issuer of this senior bond bought back a principal amount of US$ 24m in the second and third quarters.

An overview of the current ratings is included in the management report/financial position on page 130

For many years, Munich Re has received excellent ratings from the leading rating agencies. Even in 2009, a challenging year for the insurance industry, the outook for all Munich Re ratings remained unchanged. In January 2010, Fitch adjusted its ratings for Munich Reinsurance Company's subordinated bonds from A+ to A, based on a change in its rating methodology for hybrid securities. More than 200 securities from issuers in the insurance sector were affected by this methodological change.

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 firms with very low CDS spreads at both national and international level. In the course of 2009, the spread – and thus the implicit credit risk – was even lower than that of some western European states and the USA.

Strategy

- // Our strategy of creating sustainable value has proved its worth in the crisis and will continue to be consistently applied.
- // Primary insurance is to become more competitive through our new ERGO brand presence in Germany.
- // In reinsurance, we have sharpened our value proposition with a new Munich Re brand.

Creating sustainable value remains the guiding principle

Munich Re has weathered the global financial and economic crisis well and achieved a good result for the financial year 2009. This success is founded on the consistent implementation of our strategy geared to creating sustainable value. At its centre are our value-based management, our rigorously practised integrated risk management covering both sides of the balance sheet, and our outstanding risk knowledge. This business approach makes us an attractive, dependable and reliable partner for our clients and adds value for our investors.

Our strategy of providing insurance and reinsurance under one roof has again proved its effectiveness. The contrasting developments we experience between markets and lines of business (e.g. in prices and conditions or in growth opportunities) compensate for each other in the Group's business as a whole. At the same time, we see uniform trends, particularly in issues of supervision, accounting, risk management and control, with corresponding synergies from the Group perspective. The diversification resulting from the very different portfolios of our insurance and reinsurance business reduces the Group's risk capital requirements.

Hence in 2009 we benefited from the fact that we have been consistently pursuing our objectives for years and have resolutely implemented our strategy, refusing to be thrown off course by what we regard as short-lived trends – a stance we will continue to adopt in future. We were well prepared for the challenges ensuing from the crisis and therefore had enough headroom even in a difficult period. We took advantage of this situation and launched a series of important initiatives in the past year. Now we have to implement these initiatives and bring them to fruition.

New brand strategy in primary insurance

For our primary insurance group, establishing the ERGO brand in the German market is the greatest challenge. Many of our international primary insurers already operate successfully using the ERGO brand. In Germany, on the other hand, we have so far conducted our business under different brands. At the end of last year, we decided to streamline our market presence, meaning that in our domestic market the life and property-casualty insurers will operate solely under the ERGO brand in future.

We will withdraw the long-established Hamburg-Mannheimer and Victoria brands from the market. Our direct insurer, formerly KarstadtQuelle Versicherungen, will write business under the name of ERGO Direkt. The providers of specialty lines – DKV, D.A.S. and ERV – will retain their household brand names.

The new brand architecture offers many advantages for ERGO's business. In future, we will be able to concentrate our marketing activities on just a few brands and provide "one face to the customer" internationally, making the whole spectrum of ERGO products more visible to the client. We will maintain our wide range of distribution structures. Regardless of which route clients choose to come to us: they will find a strong and effective partner in the ERGO Group for every line of business and every product. This strengthens ERGO's competitiveness and will stimulate growth.

In order to further simplify our shareholding structures and facilitate cooperation within the Group, we also decided last year to acquire additional shares in ERGO. By purchasing nearly 5% more of its shares, we have clearly exceeded the threshold of 95% and have initiated a squeeze-out, in accordance with Section 327a of the German Stock Companies Act. We will also save costs through the subsequent delisting of ERGO's shares.

Munich Health strengthens our position in the healthcare market

Growth, rather than cost savings, is our object in pooling our Group-wide activities in international health business. In this field of business, we have combined our primary insurance activities outside Germany and our worldwide health reinsurance business under the Munich Health brand. Having made good progress in establishing the organisation in 2009, we will be showing Munich Health's business figures separately for the first time as part of the segment reporting in 2010.

Munich Health unites the global expertise of more than 5,000 staff from a whole range of specialist risk carriers and service providers in the health sector. With these units and our external partners, we can cover large sections of the value chain in healthcare and offer our clients unique solutions tailored to their needs. We deploy our resources where, with our global experience, we can achieve the greatest added value for clients. The focus, however, will naturally continue to be on risk-carrying. When market conditions change, Munich Health can react flexibly. This is currently happening in important markets for us, like the USA and India. Following acquisitions in recent years, we are now looking to consolidate what we have achieved and grow organically. Just as in the other fields of business, profitability has priority.

In reinsurance, too, we have undertaken organisational changes in the past few years. The client management teams that we introduced as part of our Changing Gear programme have successfully concluded their first rounds of treaty renewals. We are now focusing on further intensifying contact with our clients. We want to understand even better how we can support them and, with our knowledge, develop individual solutions that benefit both sides.

With this in mind, we carried out a broad client survey last year to determine the effectiveness of our organisational realignment. The results have confirmed our expectations: besides Munich Re's security, cedants especially value our great risk competence. Understanding and assessing risks in all their facets, at the same time identifying new developments and considering hidden connections – these are our strengths. We want to use these strengths for our clients even more systematically in future.

International subsidiaries to assume Munich Re brand

Last year, we adjusted our brand in reinsurance to take account of today's market environment and our even more international role. The German brand name "Münchener Rück" has been dropped in favour of "Munich Re". The next step will be to unify our market presence. By the end of the year, all our subsidiaries and branches that conduct reinsurance business will bear the Munich Re brand. Also, the specialised providers and primary insurers that we manage from within the business field of reinsurance will in future operate for the most part under the Munich Re brand, supplemented by the descriptor "Risk Solutions".

With the introduction of the new brand, we have sharpened our value proposition: we will make our clients more successful by devising tailor-made solutions with them. We anticipate developments and make future risks controllable. To this end, we are constantly expanding our risk competence, also via strategic partnerships, and are one step ahead of the competition. In this way, we will consolidate and extend our market leadership.

Pioneer in developing solutions for future challenges

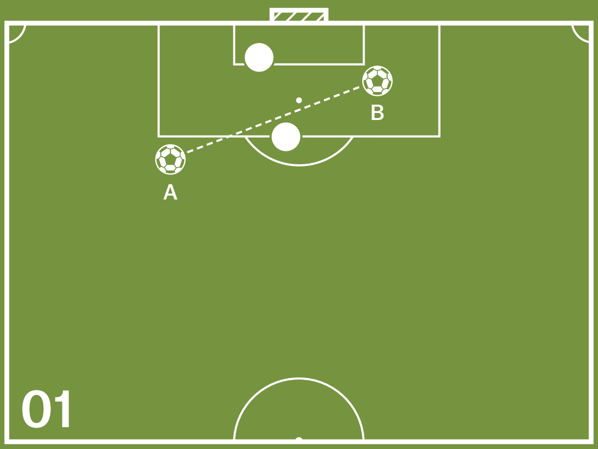
We have started the new business year with confidence. As a Group, we are well positioned for organic growth. Known risks are assuming new dimensions, while at the same time risks that no one had previously thought of are emerging, e.g. through technological innovation. Growing risk awareness and, in many areas, greater risk aversion are creating additional demand for insurance coverage. Beyond this, we aim to strengthen our growth with selected acquisitions where this makes strategic sense and is possible at a reasonable price. The following maxim continues to apply: for us, growth is not an end in itself; it must always be profitable.

One topic that will concern us and our industry intensively in future is climate change. It is already the case that every year losses running into several billion US dollars are attributable to climate change worldwide. Such losses will continue to increase, and it is high time that decisive measures are taken to counter this development. We are convinced that doing nothing will cost substantially more in the long run than taking action to curb global warming today. But we do not see our role by any means as just being a warning voice: we are actively devising solutions to counter climate change. The creation of the Desertec Industrial Initiative is a good example. Desertec's aim is to generate solar power on an industrial scale in the deserts of North Africa. Munich Re has played a major part in driving the initiative forward, thus sending out a message far beyond the borders of Germany. If the project is realised, it will be a significant step towards carbon-free energy production. Our involvement in Desertec is, of course, also an investment in the future of our own business: new technologies for renewable energy will require new risk transfer solutions. We have already established ourselves successfully as a pioneer in this market.

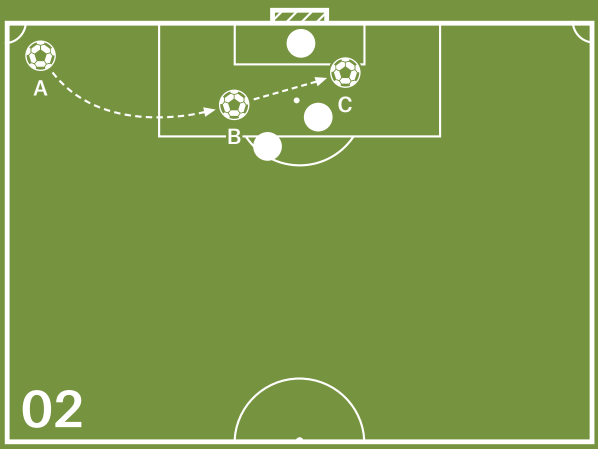
Our activities are not restricted to climate change. Whether it is natural catastrophes threatening our increasingly interwoven economies, demographic change, or new diseases – in all these areas we are actively contributing our know-how. Our objective is to expand the boundaries of insurability. Munich Re thus assumes social responsibility, while at the same time creating value for clients and investors.

FOUR BASIC RULES

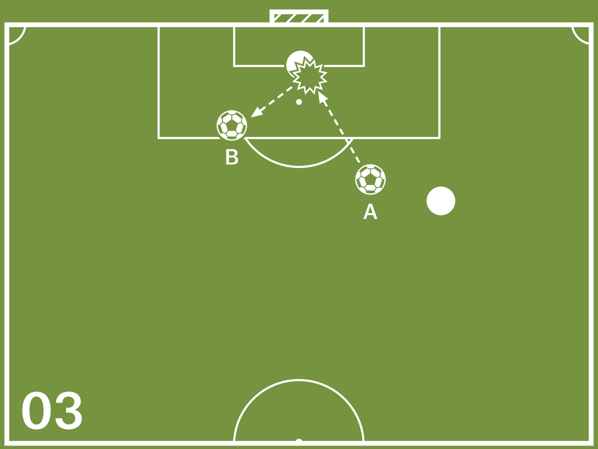
of good corporate governance



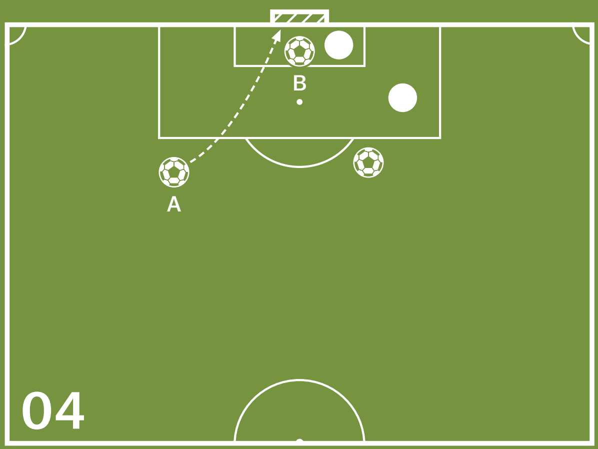
Responsible corporate management



Promotion of shareholders’ interests



Transparent corporate communications



Efficient practices on our Boards

MUNICH RE 2009

Corporate governance

Offside

The early rules of football drawn up in England in 1863 already included an offside rule, designed to prevent players positioning themselves behind the opposing defence and waiting for the ball to be passed upfield to them just in front of goal. The offside rule is regarded as the most complex in football, and its application requires fine judgement from referees and their assistants.

Dr. Hans-Jürgen Schinzler
Chairman of the
Supervisory Board

Ladies and gentlemen,

In the financial year 2009, the composition of the Supervisory Board changed considerably as a result of the elections at the Annual General Meeting on 22 April 2009. As Chairman of both the former and current Supervisory Board, I can assure you that the Supervisory Board duly fulfilled the tasks and duties incumbent upon it under the law, the Articles of Association and the rules of procedure.

The Board of Management informed us directly about all decisions of fundamental significance and briefed us regularly, both orally and in writing, about all important transactions. At the scheduled meetings, the Board of Management kept the Supervisory Board up to date on strategic developments, corporate planning, comparisons with competitors, and business performance. The Board of Management satisfied its reporting obligations towards the Supervisory Board in all respects. We discussed its reports in detail at our meetings and submitted suggestions and proposals for improvement. Overall, as in previous years, the Board of Management was commendably open in its collaboration with the Supervisory Board and was always prepared to engage in a constructive exchange of ideas. The shareholder and employee representatives had the opportunity prior to the Supervisory Board meetings to raise important topics separately with the Chairman of the Board of Management.

As Chairman of the Supervisory Board, I was in regular contact with the Chairman of the Board of Management, particularly in connection with key issues of strategy, corporate risk management and current business performance. In addition, the Chairman of the Board of Management informed me of significant events and developments in the Group where necessary. Dr. Albrecht Schmidt, Chairman of the Audit Committee until 22 April 2009, and his successor, Prof. Dr. Henning Kagermann, remained in close contact with Dr. Jörg Schneider, member of the Board of Management, whose responsibilities include Group reporting.

The Supervisory Board advised the Board of Management in its running of the Group and constantly monitored its management activities. At no time 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 2009, the Supervisory Board held six meetings and one discussion on strategic topics. A representative of the German Federal Financial Supervisory Authority (BaFin) took part as a guest at one of the meetings.

At every meeting, we discussed the Munich Re Group's performance. Against the background of the still difficult financial market situation, we considered business opportunities and risks together with the Board of Management and obtained detailed reports on the Group's risk situation and profitability. We satisfied ourselves that the Board of Management was guiding Munich Re soundly through the financial crisis thanks to its prudent risk strategy. We regularly gained an overview of the Group's investments, naturally with due regard to the current situation on the financial and capital markets. We debated the Group's risk strategy at length with the Chief Risk Officer. The Supervisory Board also established procedure for handling risk strategy at the plenary sessions in future, including the distribution of responsibilities between the Audit Committee and the full Supervisory Board. In addition, at a separate meeting in July, we looked closely at all aspects of the Group's strategic positioning in the economic crisis. Munich Re's integrated strategy of combining primary insurance and reinsurance under one roof was also discussed in detail.

At our first meeting in 2009, we concerned ourselves with the Company and Group financial statements for the 2008 financial year and prepared the motions for resolution by the 2009 Annual General Meeting. We also took reports on compliance and anti-fraud management. At the other meetings held in the financial year, we considered the quarterly reports and annual result expected for 2009. In autumn, we had an in-depth discussion on the Group planning for 2010 and 2011.

Other focal points of our consultations in the second half of the year were the changes to the German Corporate Governance Code and, above all, the German Act on the Appropriateness of Management Board Remuneration. We decided on amendments to the rules of procedure for the Supervisory Board and on the introduction of rules of procedure for the Audit Committee. At an extraordinary meeting, we also concerned ourselves extensively with proposals for the early adaptation of the remuneration system for the Board of Management to the provisions of the Act on the Appropriateness of Management Board Remuneration. In a further plenary session, we adopted the revised remuneration system applicable since 1 January 2010, which is geared even more strongly to sustainable corporate development. We also adopted resolutions regarding the amount of remuneration for the Board of Management with effect from 1 January 2010 and the assessment bases for variable remuneration in 2010. More details can be obtained from the remuneration report on page 36 of the annual report.

Other items on the agenda at meetings of the full Supervisory Board were current issues, such as the introduction of the new brand and the further organisational development of the new field of business, Munich Health. Between the meetings, we received ad-hoc reports concerning important matters in the Group, such as the key figures of the 2009 financial statements, the Desertec project, the new ERGO brand strategy, and the planned squeeze-out at ERGO.

Work of the committees

The Supervisory Board elections in 2009 also resulted in changes in the composition of the Supervisory Board committees (Personnel Committee, Audit Committee, Standing Committee, Nomination Committee and Conference Committee) in the year under review. An overview is presented on page 74. The committee chairmen submitted full reports on the topics dealt with by the committees at all meetings of the full Supervisory Board.

The Personnel Committee met six times. In addition to succession planning for the Board of Management, the Committee also considered the extension of one Board member's contract. Besides this, it decided on the remuneration from the 2008 annual bonus payment and medium-term bonus 2006–2008. A regular item on the agenda was the authorisation of the acceptance of new seats on supervisory, advisory and similar boards by members of the Board of Management. In the second half of 2009, the new statutory provisions under the Act on the Appropriateness of Management Board Remuneration and the new regulations of the German Corporate Governance Code were central issues discussed, which led inter alia to changes in the responsibilities of the Personnel Committee and full Supervisory Board. As a result, the Personnel Committee no longer decided on the Board of Management's remuneration but prepared the relevant resolution for the Supervisory Board, giving detailed attention to the new remuneration structure for members of the Board of Management. This included the design of the variable remuneration, retirement provision, fringe benefits and the necessary adjustments to the employment contracts for members of the Board of Management. In addition, the Personnel Committee prepared the proposal for a resolution by the full Supervisory Board on the basis for variable remuneration in 2010.

The Standing Committee met three times in the year under review. It prepared the meetings of the Supervisory Board and dealt with corporate governance issues. It also received regular reports on the share register.

The Audit Committee held six meetings in 2009. At two meetings with the external auditor, it discussed in detail the Company and Group financial statements, the Company 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 financial year 2008. The Chief Risk Officer submitted his report on the Group's risk situation. In this context, we also debated the minimum requirements for the risk management of insurance undertakings, or MaRisk (VA), issued by BaFin in January 2009. The Head of Internal Audit regularly reported on his reviews in 2008 and the audit planning for 2009. Topics of compliance were dealt with by the Audit Committee at every meeting. Additionally, the committee also had the Compliance Officer report personally on his department's responsibilities and measures and on specific compliance incidents.

The newly elected Audit Committee examined the work and fundamental monitoring processes it is responsible for performing. As a result, it submitted to the full Supervisory Board a proposal to issue Audit Committee rules of procedure. The committee reviewed and monitored the auditor's independence. In this context, the Audit Committee also took delivery of reports from the auditor on its auditing and non-audit-related services. It also commissioned the audit for the financial year 2009 and decided on the focal points of the audit – taking into account the new minimum risk management requirements for insurance companies – and the auditor's fees. Furthermore, it commissioned the external auditor with a review of the half-year financial report 2009. The Audit Committee also scrutinised the 2009 quarterly reports and the 2009 half-year financial report, which it discussed at length in the presence of the auditor.

Naturally, the Audit Committee was concerned with the impact of the financial crisis on Munich Re in the financial year ended. It therefore paid particular attention to the Group's asset management. Likewise, it monitored and debated the Group's risk situation. Finally, the Audit Committee discussed risk management and risk strategy developments with the Chief Risk Officer. At the committee's request, the Chief Risk Officer will, in future, submit the risk report on a quarterly basis and provide answers to questions as required, but at least twice a year. The Audit Committee received separate reports on the development of embedded values in life reinsurance business and in life and health primary insurance business.

The Nomination Committee met four times in 2009. It first prepared the election of the shareholders' representatives by the 2009 Annual General Meeting. The committee selected suitable candidates on the basis of the criteria it had defined and submitted its proposals to the full Supervisory Board so that the Annual General Meeting could decide on the Supervisory Board nominations. Following the death of Prof. Karel Van Miert, the Nomination Committee met three times in order to determine his successor. At the suggestion of the committee and with the consent of the shareholders' representatives, the Board of Management applied for the appointment of Dr. Benita Ferrero-Waldner, former Member of the European Commission, by the Registration Court. Under item 5.4.3 of the German Corporate Governance Code, this appointment is limited until the next Annual General Meeting. The Supervisory Board proposes that Dr. Ferrero-Waldner be elected by the Annual General Meeting 2010 for the remaining term of office.

The Conference Committee as stipulated by Section 27 para. 3 of the German Co-Determination Act and item 7.5 of the rules of procedure for the Supervisory Board did not need to be convened in the financial year ended.

Corporate governance and declaration of conformity

The Supervisory Board considered the amendments to the German Corporate Governance Code and adjusted the rules of procedure of the Supervisory Board accordingly, in particular with a view to the extended responsibility of the full Supervisory Board for Board of Management remuneration. The Standing Committee looked into the efficiency of the Supervisory Board's work and presented the results to the full Supervisory Board. 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 28.

In November 2009, 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 28 of this report and on the Company's website.

Changes on the Supervisory Board

At the end of the Annual General Meeting on 22 April 2009, the five-year term of office of the Supervisory Board expired. The following shareholders' representatives retired: Ulrich Hartmann, Prof. Dr. Hubert Markl, Prof. Dr. Heinrich v. Pierer and Dr. Albrecht Schmidt. With the exception of Herbert Bach, all the employee representatives retired from the Supervisory Board, i.e. Hans-Georg Appel, Holger Emmert, Dr. Rainer Janßen, Kerstin Michl, Ingrid Müller, Dr. Jürgen Schimetschek, Wolfgang Stögbauer, Josef Süßl and Judy Võ. The Supervisory Board wishes to thank all the retired members for their valuable and constructive counsel and their dedication to the development and supervision of Munich Re, in some cases over many years.

The Annual General Meeting elected Prof. Dr. Peter Gruss, Peter Löscher, Anton van Rossum and Dr. Thomas Wellauer as new members of the Supervisory Board. On the basis of the co-determination agreement concluded as part of the merger between MR Italia and Munich Reinsurance Company, the following employee representatives were newly appointed to the Supervisory Board: Dina Bösch, Hans Peter Claußen, Frank Fassin, Christian Fuhrmann, Silvia Müller, Marco Nörenberg, Reinhard Pasch, Andrés Ruiz Feger and Richard Sommer.

Prof. Karel von Miert died on 23 June 2009. He had been a member of the Supervisory Board from 2002 until his death. We mourn the loss of an exceptional figure and a knowledgeable and far-sighted advisor, whose memory we honour.

Company and Group financial statements

KPMG Bayerische Treuhandgesellschaft Aktiengesellschaft Wirtschaftsprüfungsgesellschaft Steuerberatungsgesellschaft duly audited the following documents and gave them an unqualified auditor's opinion: the financial statements and management report of Munich Reinsurance Company and the Group financial statements and management report as at 31 December 2009. The respective reports and the Board of Management's proposal for appropriation of the net retained profits were submitted directly to the members of the Supervisory Board. At its meeting on 1 February 2010, the Audit Committee had the opportunity to confer in detail about the preliminary year-end figures as at 31 December 2009. On 8 March 2010, they 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, the Audit Committee examined the Company and Group financial statements, the management reports and the Board of Management's proposal for appropriation of the net retained profits. It discussed these at length with the auditor 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 9 March 2010.

The Supervisory Board also checked the Munich Reinsurance Company and Group financial statements and management 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 had no objections and agreed to the outcome of the external audit. It approved the Company financial statements and Group financial statements on 9 March 2010. The financial statements were thus adopted. Having carefully weighed 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

In an environment that remained difficult, the Board of Management and employees showed both great dedication and prudence. This was a key factor in achieving another successful overall result in the financial year 2009, for which the Supervisory Board wishes to thank them most sincerely.

Munich, 9 March 2010

For the Supervisory Board

Dr. Hans-Jürgen Schinzler
Chairman

Corporate governance statement[1]

Munich Reinsurance Company's corporate governance statement comprises (1) the declaration in accordance with Section 161 of the German Stock Companies Act and (2) the report of the Chairman of the Supervisory Board on the Company's corporate governance within the meaning of item 3.10 of the German Corporate Governance Code, including the remuneration report in accordance with item 4.2.5 of that Code and the disclosures as per Section 289a para. 2 items 2 and 3 of the German Commercial Code.

1. Declaration of the Board of Management and Supervisory Board of Munich Reinsurance Company in accordance with Section 161 of the German Stock Companies Act, dated November 2009

"Münchener Rückversicherungs-Gesellschaft Aktiengesellschaft in München fulfils all the recommendations of the German Corporate Governance Code of 18 June 2009 (published on 5 August 2009) and will continue to do so in future. Since the last declaration of conformity in November 2008, Münchener Rückversicherungs-Gesellschaft Aktiengesellschaft in München has fulfilled all the recommendations of the German Corporate Governance Code of 6 June 2008 (published on 8 August 2008)."

This declaration is permanently accessible on our internet website.

Munich Reinsurance Company also complies with all the proposals of the German Corporate Governance Code.

[1] Copy from the management report of Munich Reinsurance Company. The figures on pension entitlements have been calculated on the basis of International Accounting Standards.

2. 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.

Munich Re Code of Conduct

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 published on our website.

In our Code of Conduct we clearly state our views on corporate integrity, i.e. legally impeccable behaviour based on ethical principles. At the same time, the Code is an expression of our understanding of value management. The Code of Conduct contains regulations that are binding on all Munich Re[1] employees including the management, in particular for dealing with conflicts of interest. Furthermore, it outlines a procedure for reporting legal infringements or contraventions, which allows the Company to respond promptly even to the suspicion of irregularities and to prevent any form of financial crime.

How we view corporate governance

Corporate governance stands for a form of responsible company management and control geared to long-term creation of value. One of our particular aims in this context is to foster the confidence of investors, clients, employees and the general public. Also of great relevance for us are efficient practices on the Board of Management and Supervisory Board, good collaboration between these bodies and with 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?

As a result of its international organisation, Munich Re 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 Reinsurance Company has its headquarters, corporate governance rules are laid down above all in the German Stock Companies Act and the German Corporate Governance Code. Also applicable to Munich Reinsurance Company is the German Act on the Co-Determination of Employees in Cross-Border Mergers (MgVG) and a co-determination agreement concluded in December 2008 on the basis of the MgVG; these provisions supersede those of the German Co-Determination Act. The co-determination agreement is published on our website.

[1] In order to make the spectrum of our global business model clearer, all our reinsurance units throughout the world appear under the uniform brand of Munich Re. As of September 2009, this also applies to the German-speaking market. We use the reinsurance brand for the Group as well, and thus refer to the Munich Re Group as Munich Re. When we report on Münchener Rückversicherungs-Gesellschaft Aktiengesellschaft in München, we refer to Munich Reinsurance Company.

The German Corporate Governance Code, 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 Reinsurance Company's Board of Management and Supervisory Board publish a declaration stating how far the Code's recommendations have been and will be complied with. The current declaration of conformity can be found on page 28.

Corporate legal structure

Munich Reinsurance Company 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 derive from the relevant legal provisions, the co-determination agreement and the Articles of Association, which are published on our website.

The principle of parity co-determination on the Supervisory Board has been maintained as a result of the relevant provision in the co-determination agreement, and strengthened by taking into account staff employed in the rest of Europe.

Board of Management

Duties and responsibilities

The Board of Management is responsible for managing the Company, setting objectives and determining strategy. In doing so, it is obliged to 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 control in the Company. The Chairman of the Board of Management provides for homogeneous management of the Company, which he represents especially vis-à-vis the authorities, the press and associations.

Internal regulation and working procedure

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. Munich Reinsurance Company's Board of Management had nine members in the 2009 financial year. An overview of its composition and distribution of responsibilities can be found on page 71. Additional information on individual members of the Board of Management is available on our website. Since 1 January 2006, the Board of Management has had two committees – one for Group matters and one for reinsurance – 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. The full Board of Management decides on all matters for which the law or the Articles of Association prescribe a decision by the Board of Management. In particular, it is responsible for matters requiring the approval of the Supervisory Board, for items which have to be submitted to the Annual General Meeting, for tasks which constitute fundamental management functions or are of exceptionally great importance, and finally for significant personnel issues at top management level.

Meetings of the Board of Management take place as required, but at least once a month. The members of the Board of Management cooperate closely to the benefit of the Company and aim to reach unanimous decisions.

Composition and working procedure of the Board of Management committees

The **Group Committee** comprises the Chairman of the Board of Management and at least one other member of the Board of Management. As in the past financial year, its current members are Nikolaus von Bomhard, Jörg Schneider and the Chief Risk Officer of Munich Reinsurance Company, Joachim Oechslin. The Chairman of the Board of Management is also Chairman of the Group Committee. The Group Committee decides on all fundamental matters relating to its members' divisions unless the full Board of Management is mandatorily responsible. In addition, it prepares decisions that have to be taken by the full Board.

The **Reinsurance Committee** comprises those members of the Board of Management that do not sit on the Group Committee, i.e. Torsten Jeworrek, Ludger Arnoldussen, Thomas Blunck, Georg Daschner, Peter Röder, Wolfgang Strassl and Joachim Wenning. A further member, as in the past business year, is the Chief Financial Officer for Reinsurance, Hermann Pohlchristoph. The Chairman of the Committee is appointed by the Supervisory Board. In the period under review, this office was held by Torsten Jeworrek. The Reinsurance Committee decides on all fundamental matters relating to the business field of reinsurance except where the full Board of Management is mandatorily responsible.

The committee meetings are held as needed, and usually take place every two weeks.

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 and divestments of substantial size and individual capital measures (e.g. according to Article 4 of the Articles of Association) generally require the Supervisory Board's consent. Beyond this, the Board of Management reports to the Audit Committee on specific topics falling within the latter's scope of responsibility. The Chairman of the Board of Management keeps the Supervisory Board informed about all significant business transactions.

Supervisory Board

The Supervisory Board monitors the Board of Management and gives counsel where appropriate. Certain transactions 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 Article 15 of the Articles of Association, i.e. is determined by the shareholders. A breakdown is provided on page 50 ff.

In compliance with the Articles of Association, Munich Reinsurance Company'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. Following the merger of Münchener Rück Italia S.p.A. with Munich Reinsurance Company, the opportunity was taken to modernise employee co-determination on the Company's Supervisory Board. Previously, the right to participate in elections of employee representatives to the Supervisory Board had been restricted to Munich Re employees working in Germany. Now employees of Group companies in the European Union (EU) and European Economic Area (EEA) may also participate. The new arrangement was applied for the first time in the regular election of Munich Reinsurance Company's Supervisory Board for a new term of office in April 2009. Employee representatives on the Supervisory Board will in future be elected by a European electoral board, made up of members from employee representative bodies and employees. Every EU/EEA member country in which at least 10% of the total Munich Re workforce is employed has a seat on the Supervisory Board. Munich Re's fields of business are to be adequately represented on the Supervisory Board. The distribution of the seats apportionable to Germany for senior executives and union representatives is based on the MgVG. 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 72 ff. Additional information on the current members of the Supervisory Board (shareholder representatives) is available on our website.

Internal regulation and working procedure of the Supervisory Board

The Supervisory Board has established its own rules of procedure, specifying responsibilities, work processes and required majorities. In July 2009, it also adopted separate rules of procedure for the Audit Committee. As provided for in the German Co-Determination Act and included in the provisions of Article 12 of the Articles of Association, the Chairman of the Supervisory Board and his first deputy must be elected by a majority of two-thirds of its constituent members. If a second vote is needed, the shareholder representatives elect the Chairman of the Supervisory Board, and the employee representatives his first deputy, by a majority of the votes cast in each case.

The Supervisory Board is quorate if all its members have been invited to the meeting or called upon to vote and if ten members including the Chairman or alternatively 15 members participate in the vote. Members of the Supervisory Board unable to attend in person may vote in writing. In addition, votes may be taken between meetings in writing, by phone or in similar form if the Chairman of the Supervisory Board so determines. Subject to the same precondition, whole meetings may be conducted by means of telecommunications (e.g. as a videoconference), or individual members may take part in this fashion.

The Chairman of the Supervisory Board is authorised to make declarations on the Supervisory Board's behalf. He signs minutes, copies of resolutions and other Supervisory Board documents and publications.

Composition and working procedure of the Supervisory Board committees

Munich Reinsurance Company's Supervisory Board has set up five committees: the Standing Committee, the Personnel Committee, the Audit Committee, the Conference Committee, and the Nomination Committee. The main committee responsibilities are described below. As a result of the changes on the Supervisory Board after the elections at the Annual General Meeting in 2009, the composition of most of the committees altered during the year.

The **Standing Committee** prepares Supervisory Board meetings and decides on matters of Company business requiring the Supervisory Board's approval insofar as the full Supervisory Board or another committee is not responsible. It makes amendments to the Articles of Association that only affect the wording, and decides on the attendance of guests at Supervisory Board meetings. Besides this, it prepares the annual declaration of conformity with the German Corporate Governance Code, in accordance with Section 161 of the German Stock Companies Act, and the Supervisory Board's report about the Company's corporate governance in the annual report. Every year, it reviews the efficiency of the Supervisory Board's work and submits appropriate proposals to the full Supervisory Board where necessary. Subject to the rules concerning matters for which the Personnel Committee is responsible, it also approves certain legal transactions of the Company with members of the Board of Management and Supervisory Board or parties related to them. If the Chairman of the Supervisory Board is unable to attend, it determines the Chair of the Annual General Meeting.

Members of the Standing Committee are Dr. Hans-Jürgen Schinzler (Chairman), Herbert Bach, Hans Peter Claußen, Wolfgang Mayrhuber and Dr. Bernd Pischetsrieder. Up to the end of the 2009 Annual General Meeting, the members of the committee were as follows: Dr. Hans-Jürgen Schinzler (Chairman), Herbert Bach, Dr. Bernd Pischetsrieder, Dr. Albrecht Schmidt and Josef Süßl.

The **Personnel Committee** prepares the appointment of members of the Board of Management and, together with the Board of Management, concerns itself with long-term succession planning. It also prepares the Supervisory Board's resolution on the remuneration system for the Board of Management, including the total remuneration of the individual members of the Board of Management. Its responsibility for fixing the Board of Management remuneration has ceased, owing to changes in the relevant legal provisions. The Personnel Committee also represents the Company vis-à-vis the members of the Board of Management and is responsible for other personnel matters involving members of that Board unless these are issues that have to be dealt with by the full Supervisory Board. It approves certain legal transactions between the Company or affiliated companies and members of the Board of Management or parties related to them. It also decides on secondary occupations that members of the Board of Management may pursue and seats they hold on the boards of other companies.

Members of the Personnel Committee during the whole of 2009 were Dr. Hans-Jürgen Schinzler (Chairman), Herbert Bach and Dr. Bernd Pischetsrieder, and this continues to be its current composition.

The **Audit Committee** prepares Supervisory Board resolutions on the adoption of the annual Company financial statements and approval of the Group financial statements, reviews the financial reporting, discusses the quarterly reports, and takes delivery of the audit reports and other reports and statements by the external auditor. The committee monitors the accounting process, including the effectiveness of the Company's internal control system, the compliance system, the risk management system and internal audit system. Furthermore, it initiates the decision on the appointment of the external auditor and monitors the latter's independence and quality. It appoints the external auditor for the Company and Group financial statements, determines focal points of the audits and agrees on the auditor's fee for the annual audit; the same applies to the review of the half-year financial report. The requisite statements are given by the Chairman of the Audit Committee on the basis of these resolutions. In addition, together with the Board of Management, it prepares the annual discussion of the risk strategy held before the Supervisory Board and discusses any changes or deviations from the risk strategy with the Board of Management during the year.

Members of the Audit Committee are Prof. Dr. Henning Kagermann (Chairman), Christian Fuhrmann, Marco Nörenberg, Anton van Rossum and Dr. Hans-Jürgen Schinzler. Up to the end of 2009 Annual General Meeting, the members of the committee were as follows: Dr. Albrecht Schmidt (Chairman), Hans-Georg Appel, Prof. Dr. Henning Kagermann, Dr. Hans-Jürgen Schinzler and Wolfgang Stögbauer.

Comprising solely representatives of the shareholders, the **Nomination Committee** suggests suitable candidates to the Supervisory Board for the latter's election proposals to the Annual General Meeting.

Members of the Nomination Committee are Dr. Hans-Jürgen Schinzler (Chairman), Prof. Dr. Henning Kagermann and Dr. Bernd Pischetsrieder. Up to the end of 2009 Annual General Meeting, the members of the committee were as follows: Dr. Hans-Jürgen Schinzler (Chairman), Dr. Bernd Pischetsrieder and Dr. Albrecht Schmidt.

The **Conference Committee** makes personnel proposals to the Supervisory Board if the requisite two-thirds majority is not achieved in the first vote when it comes to appointing or dismissing members of the Board of Management. Its responsibilities remain the same after application of the co-determination agreement and are now laid down in the Articles of Association and the Supervisory Board's rules of procedure.

Members of the Conference Committee are Dr. Hans-Jürgen Schinzler (Chairman), Herbert Bach, Hans Peter Claußen and Dr. Bernd Pischetsrieder. Up to the end of 2009 Annual General Meeting, the members of the committee were as follows: Dr. Hans-Jürgen Schinzler (Chairman), Herbert Bach, Dr. Bernd Pischetsrieder and Judy Võ.

More details of the work of the Supervisory Board committees in the financial year ended can be found in the report of the Supervisory Board to the Annual General Meeting, which is printed on page 23 ff.

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 the Company's Annual General Meeting, the principle of "one share, one vote" applies. Shareholders may exercise their voting rights personally or authorise a proxy to cast their votes. Munich Reinsurance Company 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. At the Annual General Meeting in 2009, an amendment to the Articles of Association was adopted allowing for electronic participation in the Annual General Meeting and postal voting. The details of the procedure are to be determined by the Board of Management and notified when the Annual General Meeting is announced. A precondition for taking part in the Annual General Meeting is that shareholders have given notice of their intention to participate by the deadline specified in Article 6 of the Articles of Association and are entered in the register of shareholders. Insofar as shareholders are entered under their own name as being the holders of shares which belong to a third party and exceed the upper limit of 2% of the share capital as stated in the Articles of Association, the shares entered do not carry any voting rights. The aim of this provision is greater transparency of the share register. Besides this, it is intended to facilitate direct contact with the real shareholders, especially in connection with the convening of the Annual General Meeting and the exercising of voting rights. This regulation applies as from 1 January 2010, also for existing entries.

Corporate governance topics in 2009

The central corporate governance topic in the financial year 2009 was the adjustment of the remuneration system for the Board of Management as from 1 January 2010 to provide even greater incentives for sustainable, long-term-oriented corporate policy.

More details can be obtained from the remuneration report on page 46 ff.

In the past year, the Supervisory Board again performed an efficiency audit. Both the content and the scope of reports from the Board of Management to the Supervisory Board and the work of the Supervisory Board and its committees were assessed as consistently positive and efficient.

Remuneration report[1]

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 Reinsurance Company's Board of Management and the structuring of the individual remuneration components.

In accordance with the provision governing remuneration for 2009 under item 4 of the German Corporate Governance Code, the remuneration system for the Board of Management, along with the key elements of relevant contracts, has been determined by the full Supervisory Board. The necessary preparations for the resolution were made by the Personnel Committee of the Supervisory Board, comprising the Chairman of the Supervisory Board, one shareholder representative and one employee representative.

[1] This remuneration report is part of the Group management report.

Structure and system of the Board of Management's remuneration

Component	Share	Assessment basis/ parameters	Corridor	Precondition for payment	Payment
Basic remuneration, remuneration in kind/ fringe benefits (company car, healthcare, security measures, insurance)	25%	Function Responsibility Length of service on Board	Fixed	Contractual stipulations	Monthly
Annual bonus	35%	Consolidated result Company result Divisional result Individual objectives	0–150% (fully achieved= 100%)	Achievement of objectives	Annually in following year
Mid-Term Incentive Plan (performance share plan; term: three years)	20%	Value-based performance targets (three-year average) Total shareholder return (TSR)	0–150% (fully achieved= 100%)	Achievement of three-year targets	In the fourth year
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 > Munich Re shares have outperformed 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				> Retirement > Insured event	
a) Defined benefits plan (Board members appointed before 2009 who had reached the age of 55 in 2008)	–	Basic remuneration, number of years on the Board	Fixed	> Premature termination or non-extension of employment contract under certain circum-stances	–
b) Defined contribution plan (Board members appointed before 2009 who had not reached the age of 55 in 2008 and Board members appointed with effect from 2009)	–	Basic remuneration	Pension contribution		–

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 The variable components comprise the annual bonus and the share-price-based remuneration components "Mid-Term Incentive Plan" and "Long-Term Incentive Plan".

Annual bonus

This compensation component is based on different categories of objectives. The targets and scaling for Group, Company 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 RORAC (return on risk-adjusted capital), which comprises key figures from external accounting and from other important portfolio and performance data. Information on the definition of RORAC is provided on page 68. We use the performance measures embodied in value-based management for the Company objective and the divisional objectives.

The processes laid down for specifying objectives and assessing 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.

Mid-Term Incentive Plan

The Mid-Term Incentive Plan 2009–2011 is based on performance over a three-year period. It promotes the medium- and long-term increase in Munich Re's value in terms of value added (value-based success factors) and improvement in the Munich Re share's total shareholder return (TSR). The plan provides for the granting of performance share units, free of charge, to members of the Board of Management. Plan participants have the opportunity to share in the development of Munich Re's value if they achieve their performance targets and increase the TSR.

For the value-based performance objectives, three-year average targets are set for each of the business fields reinsurance, Munich Health and primary insurance. Achievement of objectives is measured at the end of the plan's term, there being no adjustment of the targets during the course of the plan.

The TSR represents the total return on shares, comprising both the rise in the share price and the dividends paid over a period of three years. Further information on the Mid-Term Incentive Plan can be found on page 292 f. in the notes to the financial statements.

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, launched every year since 1999, was set up for the members of the Board of Management for the last time in 2009. The participants were granted 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 over a three-month period during the term of the plan.

Whether the stock appreciation rights can be exercised and, if so, when, is not certain. The exercising and proceeds depend on the development of the share price and fulfilment of the exercise conditions. The amount of income is limited. Up to now, it has only been possible to exercise stock appreciation rights under the plans set up in 1999 and 2003 to 2005. Further information on the Long-Term Incentive Plan can be found on pages 288 to 292 in the notes to the financial statements.

Weighting of remuneration components In the case of 100% achievement of objectives (annual bonus) and based on the imputed value of the share-price-linked compensation (Mid-Term Incentive Plan and Long-Term Incentive Plan) at the granting date, the weightings of the individual components in terms of total remuneration for 2009 were as follows: basic remuneration approximately 25%, annual bonus approximately 35%, Mid-Term Incentive Plan around 20%, and Long-Term Incentive Plan around 20%. Annual bonus, Mid-Term Incentive Plan and Long-Term Incentive Plan together formed a well-balanced and economic, i.e. strongly risk-based, incentive system, designed to ensure that the targets set for the members of the Board of Management do not have undesirable effects. No guaranteed variable salary components are granted.

All in all, the remuneration system for the Board of Management was in conformity with the recommendations of the German Corporate Governance Code for 2009.

Up until 2009, the level of total remuneration was set and regularly reviewed by the Supervisory Board's Personnel Committee, also taking into consideration data from peer-group companies. Criteria for the appropriateness of compensation were 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 is 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 remuneration computation. Exempted from this is remuneration for memberships explicitly recognised by the Company as private.

The members of the Board of Management have no contractual entitlement to severance payments. If the Board member's activities on the Board are terminated prematurely without good cause within the meaning of Section 626 of the German Civil Code, payments due may not surpass the equivalent of two years' total remuneration (three years' remuneration in the event of acquisition of a controlling interest or change of control within the meaning of Section 29 para. 2 of the German Securities Acquisition and Takeover Act) and may not cover more than the remaining period of the employment contract. The calculation is to be based on the overall remuneration for the past financial year and, if necessary, on the probable overall remuneration for the current financial year.

In the event of a change of control, only the conditions of the Long-Term Incentive Plan provide for special exercise options. Details of this are available in the notes to the financial statements on page 288 ff.

Pensions Up to and including 2008, the members of the Board of Management were members of a defined benefit plan, providing for payment of a fixed pension amount depending on their basic remuneration and years of service on the Board. The pension level started at 30% and could reach a maximum of 60% of annual basic remuneration.

Beginning in 2009, pension plans for Board members were changed to a defined contribution system. The main aim of this change was the fullest possible outsourcing of all pension-specific risks from the Company's balance sheet. This major risk transfer was achieved by financing increases in entitlements exclusively by paying premiums into insurance policies concluded to cover these benefit obligations. 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 were thus transferred to the insurer and the individual Board members.

As of 2009, newly appointed members of the Board thus become members of a defined contribution plan. For this plan, the Company provides the Board members with a pension contribution geared to their basic remuneration for each calendar year (contribution year) during the term of their contract . The pension contribution is paid over to an external pension insurer. The insurance benefits which will result from the contribution payments to the external insurer constitute the Company's pension commitment to the Board member. For Board members newly appointed as from 1 January 2009, a uniform pension contribution rate has been set; the annual basic remuneration is multiplied by this rate to arrive at the pension contribution payable.

Board members who had not reached the age of 55 by the end of 2008 maintain as a vested pension their pension entitlement under the previous defined benefit plan (fixed amount in euros) existing at the point of transition on 31 December 2008. As of 1 January 2009, these Board members receive an incremental pension benefit generally based on the defined contribution plan for new Board members. Since the conversion of the pension system took place while Board members' contracts were in force, the pension contributions were calculated in such a way that the total of vested pension, pension-fund pension and incremental pension benefit results in an expected pension at age 60 equivalent to that of the previous pension benefit based on realistic estimates.

Board members who had already reached the age of 55 at the conversion date were not transferred to a defined contribution system and remain members of the previous system's defined benefit plan.

Benefits on termination of employment

Occupational pension

Board members are entitled to an occupational pension on retiring from active service with the Company after reaching the age of 60 or, at the latest, 65.

Benefit amount:
- // For a period of six months, previous monthly basic remuneration (only for Board members appointed prior to 2006)
- // Under the defined contribution plan for new members as from 2009: Annuity based on the policy reserve built up under the external insurance or payment of the policy reserve as a lump sum
- // For Board members transferred from the old system to the new: Vested pension from the defined benefit plan up to 2008 and annuity or lump sum from the policy reserve under the defined contribution plan
- // In the case of defined benefit plans: Defined benefit of between 30% and 60% of annual basic remuneration

Disability pension
Board members are entitled to a disability pension if, due to a permanent incapacity to work, their contract ends by mutual agreement, is terminated by the Company, or their appointment is not extended or revoked. Permanent incapacity to work means 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.

Benefit amount:
- // For a period of six months, previous monthly basic remuneration (only for Board members appointed prior to 2006)
- // Under the defined contribution plan for new members as from 2009: 80% of the insured occupational pension up to the age of 59, with subsequent occupational pension
- // For Board members transferred from the old system to the new: Vested pension from defined benefit plan up to 2008 and 80% of the insured occupational pension benefit up to age 59 with subsequent occupational pension based on the defined contribution plan
- // In the case of defined benefit plans: Defined benefit of between 30% and 60% of annual basic remuneration

Reduced occupational pension on early retirement
Board members are entitled to an occupational pension if the contract of employment is terminated as a result of non-extension or revocation of the Board member's appointment without the Board member having given cause for this through a gross violation of his duties or at his own request; the precondition is that the Board member has already passed the age of 50, has been in the employment of the Company for more than ten years when the contract terminates, and has had his appointment to the Board of Management extended at least once.

Benefit amount:
- // For a period of six months, previous monthly basic remuneration (only for Board members appointed prior to 2006)
- // Under the defined contribution plan for new members as from 2009: Annuity based on the policy reserve built up under the external insurance or payment of the policy reserve as a lump sum at the date the pension benefit is claimed
- // For Board members transferred from the old system to the new: Entitlement of between 30% and 60% of annual basic remuneration, reduced by 2% for each year or part thereof short of the Board member's 65th birthday; the Company assumes payment of the difference between the monthly occupational pension and the monthly incremental pension from the external insurance. The policy reserve available at the date the pension benefit is claimed can be paid out as an annuity or as a lump sum
- // In the case of defined benefit plans: Defined benefit of between 30% and 60% of the annual basic remuneration, reduced by 2% for each year or part thereof short of the Board member's 65th birthday

Vested benefits for occupational pension, disability pension and surviving dependants

Vested benefits are paid upon the Board member reaching the age of 60, in the case of incapacity to work, or in the event of the Board member's death

a) *Vested benefits under the German Employers' Retirement Benefits Act*

Board members have vested benefits under the German Employers' Retirement Benefits Act if they leave the Company before reaching the age of 60 and the pension commitment has existed for at least five years before.

Benefit amount:

// Under the defined contribution plan for new members as from 2009: Annuity based on the policy reserve built up under the external insurance or payment of the policy reserve as a lump sum at the date the insured event occurs

// For Board members transferred from the old system to the new: The entitlement under the vested pension is a proportion of the vested pension based on the ratio of actual service with the Company to the period the Board member would have worked for the Company altogether up to the fixed retirement age (Section 2 para. 1 of the German Employers' Retirement Benefits Act). The entitlement from the incremental pension comprises the pension benefits fully financed under the insurance contract up to the occurrence of the insured event based on the pension contributions made up to the date of leaving the Company (Section 2 para. 5a of the German Employers' Retirement Benefits Act). This entitlement is paid out as an annuity or a lump sum.

// In the case of defined benefit plans: The defined benefit is between 30% and 60% of the annual 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 his 60th birthday (Section 2 para. 1 of the German Employers' Retirement Benefits Act)

b) *Improved vested benefits*

Improved vested benefits are granted if the contract ends owing to non-extension of the Board member's appointment (by the Company) but not due to gross violation of duties or to the Board member giving notice. A further precondition is that the Board member leaves the Board before reaching the age of 60 and has at least ten years' service with the Company.

The improved vested benefits do not apply to Board members appointed as from 2009. For Board members transferred from the old system to the new, the improved vested benefits apply only to that part of their pension resulting from the vested pension under the defined benefit plan.

Benefit amount:

// For a period of six months after leaving the Board, previous monthly basic remuneration (only for Board members appointed prior to 2006)

// For the share of the defined benefit plan: Defined benefit of between 30% and 60% of the annual basic remuneration, reduced by 2% for each year or part thereof short of the Board member's 60th birthday

Provision for surviving dependants
In the event of the death of a Board member during active service, the surviving dependants (widow/widower, orphans) receive the previous monthly basic remuneration for a period of six months if the deceased was appointed to the Board of Management before 2006. In the case of Board members appointed as from 2006, the previous monthly basic remuneration is paid to the beneficiaries for a period of three months.

If the Board member dies after retirement, the surviving dependants receive the previous monthly occupational pension for a period of three months, provided the marriage took place and/or the child was born before the Board member started drawing the occupational pension. If the Board member's occupational pension was reduced owing to early retirement, widow(er)'s and orphan's pensions are based on the reduced occupational pension.

Surviving dependants of a Board member who dies during active service or after retirement, subsequently receive the following benefits:

Benefit amount:
- Widow(er)'s pension amounting to 60% of the defined benefit or insured occupational pension
- Orphan's pension amounting to 20% of the defined benefit or insured occupational pension per orphan
- Doubling of the orphan's pension if no widow(er)'s pension is payable
- Widow(er)'s and orphan's pensions together may not exceed the occupational pension

The entitlement to provision for surviving dependants ceases if the widow(er) of a Board member appointed as from 2006 remarries. The entitlement for orphans ceases on their reaching the age of 20. For orphans who are in full-time education or vocational training, doing military or civilian service, or unable to support themselves owing to a physical or mental disability, the entitlement is extended until they reach the age of 27.

In the case of Board members appointed before 2009, 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. This arrangement also applies to Board members newly appointed as from 2009 who received a pension commitment from the Company for the first time before 1 January 1999. For Board members appointed as from 2009 who did not receive a pension commitment from the Company before 1 January 1999, occupational pension and benefits for surviving dependents are adjusted by 1% annually from the date when the pension or benefit starts being drawn, in accordance with Section 16 para. 3 item 1 of the German Employers' Retirement Benefits Act. Vested benefits are not adjusted.

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 amount shown for the annual bonus is the provision established for that bonus, since the performance on which the bonus is based has been completed by the balance sheet date and the requisite Board resolution is already foreseeable. The members of Munich Reinsurance Company's Board of Management received remuneration totalling €17.8m (18.2m) for fulfilment of their duties in respect of the parent company and its subsidiaries in the financial year. The previous year's figures have been adjusted in accordance with DRS 17.

Remuneration of individual Board members as per 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 remuner-ation	Remuneration in kind/fringe benefits	Annual bonus[1]	Value of performance share units granted[2, 3]	Value of stock appreciation rights granted[4]	Total	Number of performance share units	Number of stock appre-ciation rights
		€	€	€	€	€	€		
Dr. Nikolaus	**2009**	**910,000**	**35,490**	**1,240,750**	**728,000**	**505,651**	**3,419,891**	**4,306**	**30,333**
von Bomhard	2008	885,000	36,863	349,370	1,978,800	871,232	4,121,265	–	31,820
Dr. Ludger	**2009**	**400,000**	**37,358**	**482,825**	**320,000**	**222,261**	**1,462,444**	**1,893**	**13,333**
Arnoldussen	2008	350,000	40,225	178,220	428,400	344,550	1,341,395	–	12,584
Dr. Thomas	**2009**	**432,500**	**64,371**	**569,301**	**346,000**	**240,331**	**1,652,503**	**2,046**	**14,417**
Blunck[5]	2008	400,000	29,879	277,970	754,800	393,779	1,856,428	–	14,382
Georg	**2009**	**475,000**	**33,604**	**911,418**	**380,000**	**263,936**	**2,063,958**	**2,247**	**15,833**
Daschner	2008	450,000	33,549	305,550	987,600	443,008	2,219,707	–	16,180
Dr. Torsten	**2009**	**600,000**	**32,948**	**986,202**	**480,000**	**333,400**	**2,432,550**	**2,839**	**20,000**
Jeworrek	2008	570,000	35,372	434,434	1,220,400	561,126	2,821,332	–	20,494
Dr. Peter	**2009**	**350,000**	**28,488**	**612,815**	**280,000**	**194,489**	**1,465,792**	**1,656**	**11,667**
Röder	2008	300,000	23,901	141,855	84,600	295,348	845,704	–	10,787
Dr. Jörg	**2009**	**650,000**	**39,458**	**873,950**	**520,000**	**361,189**	**2,444,597**	**3,075**	**21,667**
Schneider	2008	625,000	42,402	392,875	1,396,800	615,283	3,072,360	–	22,472
Dr. Wolfgang	**2009**	**432,500**	**26,600**	**516,652**	**346,000**	**240,331**	**1,562,083**	**2,046**	**14,417**
Strassl	2008	400,000	19,225	386,610	754,800	393,779	1,954,414	–	14,382
Dr. Joachim	**2009**	**300,000**	**92,732**	**471,240**	**240,000**	**166,700**	**1,270,672**	**1,419**	**10,000**
Wenning[6, 7]	2008	–	–	–	–	–	–	–	–
Total	**2009**	**4,550,000**	**391,049**	**6,665,153**	**3,640,000**	**2,528,288**	**17,774,490**	**21,527**	**151,667**
	2008	3,980,000	261,416	2,466,884	7,606,200	3,918,105	18,232,605	–	143,101

1 At the balance sheet date, no Board resolution had yet been passed on the amounts to be paid for 2009. The amount shown for the annual bonus is based on estimates and the corresponding provisions posted. For the 2008 annual bonus, a total of €295,772 more was paid out than had been reserved. The provisions for the 2009 annual bonus have been increased by this amount.

2 Performance share units were granted for the first time for the financial year under the Mid-Term Incentive Plan 2009–2011.
For 2008: Amount paid out for the medium-term bonus 2006–2008. Compared with the amounts shown in the previous year, there is a difference of –€253,800 resulting from the deviation between the provisions of €7,860,000 posted and the actual amount of €7,606,200 paid out.

3 The total expenditure recognised in the reporting period (expenses for reserves due to the development in value of the performance share units from the 2009–2011 plan, including the value recognised in 2009) for the Mid-Term Incentive Plan 2009–2011 breaks down as follows: von Bomhard €835,967, Arnoldussen €340,465, Blunck €368,024, Daschner €404,195, Jeworrek €510,793, Röder €297,979, Schneider €596,981, Strassl €199,609, Wenning €255,301.

4 The total expenditure recognised in the reporting period (expenses for/release of reserves due to the development in value of the stock appreciation rights from the 2002–2009 plans, including the value recognised in 2009) for the long-term incentive plans breaks down as follows: von Bomhard –€2,331,300.53, Arnoldussen –€346,713.03, Blunck –€675,247.58, Daschner –€1,099,742.78, Jeworrek –€1,252,168.39, Röder –€235,286.78, Schneider –€1,697,668.50, Strassl –€736,714.54, Wenning €303,538.79.

5 Remuneration in kind/fringe benefits including anniversary payment.

6 Member of the Board of Management since 1 January 2009.

7 Remuneration in kind/fringe benefits including one-off expenses on appointment to the Board of Management (e.g. maintaining two households, move).

The Mid-Term Incentive Plan 2009–2011 and long-term incentive plans are accounted for at fair value at the granting date. Information on fair values is provided in the notes to the consolidated financial statements on page 288 ff. Whether the variable component amounts 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, on share-price development and on fulfilment of 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.

Remuneration of the individual Board members after allocation of component amounts to the financial years for which they were actually payable

Name	Financial year	Basic remuneration	Remuneration in kind/fringe benefits	Annual bonus[1]	Value of performance share units granted[2, 3]	Value of stock appreciation rights granted[4]	Total	Number of performance share units	Number of stock appreciation rights
		€	€	€	€	€	€		
Dr. Nikolaus von Bomhard	**2009**	**910,000**	**35,490**	**1,191,190**	**728,000**	**505,651**	**3,370,331**	**4,306**	**30,333**
	2008	885,000	36,863	458,430	0	871,232	2,251,525	–	31,820
Dr. Ludger Arnoldussen	**2009**	**400,000**	**37,358**	**452,200**	**320,000**	**222,261**	**1,431,819**	**1,893**	**13,333**
	2008	350,000	40,225	199,185	0	344,550	933,960	–	12,584
Dr. Thomas Blunck[5]	**2009**	**432,500**	**64,371**	**488,941**	**346,000**	**240,331**	**1,572,143**	**2,046**	**14,417**
	2008	400,000	29,879	320,600	0	393,779	1,144,258	–	14,382
Georg Daschner	**2009**	**475,000**	**33,604**	**786,363**	**380,000**	**263,936**	**1,938,903**	**2,247**	**15,833**
	2008	450,000	33,549	419,895	0	443,008	1,346,452	–	16,180
Dr. Torsten Jeworrek	**2009**	**600,000**	**32,948**	**939,120**	**480,000**	**333,400**	**2,385,468**	**2,839**	**20,000**
	2008	570,000	35,372	468,426	0	561,126	1,634,924	–	20,494
Dr. Peter Röder	**2009**	**350,000**	**28,488**	**579,425**	**280,000**	**194,489**	**1,432,402**	**1,656**	**11,667**
	2008	300,000	23,901	171,570	0	295,348	790,819	–	10,787
Dr. Jörg Schneider	**2009**	**650,000**	**39,458**	**882,700**	**520,000**	**361,189**	**2,453,347**	**3,075**	**21,667**
	2008	625,000	42,402	468,125	0	615,283	1,750,810	–	22,472
Dr. Wolfgang Strassl	**2009**	**432,500**	**26,600**	**578,252**	**346,000**	**240,331**	**1,623,683**	**2,046**	**14,417**
	2008	400,000	19,225	336,280	0	393,779	1,149,284	–	14,382
Dr. Joachim Wenning[6, 7]	**2009**	**300,000**	**92,732**	**471,240**	**240,000**	**166,700**	**1,270,672**	**1,419**	10,000
	2008	–	–	–	–	–	–	–	–
Total	**2009**	**4,550,000**	**391,049**	**6,369,431**	**3,640,000**	**2,528,288**	**17,478,768**	**21,527**	**151,667**
	2008	3,980,000	261,416	2,842,511	0	3,918,105	11,002,032	–	143,101

1 At the balance sheet date, no Board resolution had yet been passed on the amounts to be paid for 2009. The amount shown for the annual bonus is based on estimates and the corresponding provisions posted. For 2008, the annual bonus actually paid is shown; it is €295,722 more than the provisions shown in the previous year (total provisions for 2008 = €2,546,789; actual amount paid = €2,842,511).
2 Performance share units were granted for the first time for the financial year under the Mid-Term Incentive Plan 2009–2011. The figure 0 shown for 2008 refers to the medium-term bonus 2006–2008, for which the achievement of objectives was 0% for the previous year.
3 The total expenditure recognised in the reporting period (expenses for reserves due to the development in value of the performance share units from the 2009–2011 plan, including the value shown in 2009) for the Mid-Term Incentive Plan 2009–2011 breaks down as follows: von Bomhard €835,967, Arnoldussen €340,465, Blunck €368,024, Daschner €404,195, Jeworrek €510,793, Röder €297,979, Schneider €596,981, Strassl €199,609, Wenning €255,301.
4 The total expenditure recognised in the reporting period (expenses for/release of reserves due to the development in value of the stock appreciation rights from the 2002–2009 plans, including the value recognised in 2009) for the long-term incentive plans breaks down as follows: von Bomhard –€2,331,300.53, Arnoldussen –€346,713.03, Blunck –€675,247.58, Daschner –€1,099,742.78, Jeworrek –€1,252,168.39, Röder –€235,286.78, Schneider –€1,697,668.50, Strassl –€736,714.54, Wenning €303,538.79.
5 Remuneration in kind/fringe benefits including anniversary payment.
6 Member of the Board of Management since 1 January 2009.
7 Remuneration in kind/fringe benefits including one-off expenses on appointment to the Board of Management (e.g. maintaining two households, move).

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 an increase of €6.5m compared with the previous year. The main reason for this is that, based on the results, the achievement of objectives for the medium-term bonus 2006–2008 was 0% for 2008. After allocation to appropriate periods, total remuneration for the year under review amounts to €17.5m (11.0m).

Pension entitlements Personnel expenses of €4.0m (1.4m) were incurred in the financial year 2009 to finance the pension entitlements for active members of the Board of Management. Of these, €1.0m was apportionable to defined benefit plans and €3.0m to defined contribution plans. As a consequence of the risk transfer to an external insurer under the defined contribution system, 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. The following pension commitments result for the individual members of the Board of Management:

Pension entitlements

Name	Financial year	Defined benefit[1]	Personnel expenses for provisions for defined benefits	Pension contribution rate	Entitlement under defined contribution plan as at 31 December	Personnel expenses for provisions for defined contribution plan
		€	€	%	€	€
Dr. Nikolaus von Bomhard	**2009**	**407,100**	**265,663**	**68**	**25,978**	**618,800**
	2008	407,100	320,962	–	–	–
Dr. Ludger Arnoldussen	**2009**	**157,500**	**192,923**	**59**	**10,742**	**236,000**
	2008	157,500	283,718	–	–	–
Dr. Thomas Blunck	**2009**	**120,000**	**79,922**	**65**	**13,375**	**281,125**
	2008	120,000	121,692	–	–	–
Georg Daschner[2]	**2009**	**190,000**	**65,676**	**–**	**–**	**–**
	2008	180,000	91,810	–	–	–
Dr. Torsten Jeworrek	**2009**	**171,000**	**98,898**	**78**	**21,215**	**468,000**
	2008	171,000	137,763	–	–	–
Dr. Peter Röder	**2009**	**90,000**	**53,513**	**81**	**12,547**	**283,500**
	2008	90,000	72,626	–	–	–
Dr. Jörg Schneider	**2009**	**275,000**	**173,179**	**66**	**18,566**	**429,000**
	2008	275,000	222,254	–	–	–
Dr. Wolfgang Strassl	**2009**	**120,000**	**90,145**	**84**	**15,249**	**363,300**
	2008	120,000	104,878	–	–	–
Dr. Joachim Wenning[3]	**2009**	**–**	**–**	**102**	**12,159**	**306,000**
	2008	–	–	–	–	–
Total	**2009**	**1,530,600**	**1,019,919**		**129,831**	**2,985,725**
	2008	1,520,600	1,355,703		–	–

1 Value of vested pension at 31 December 2008.
2 No transfer to defined contribution system, as Board member had already reached 55 at the conversion date.
3 Member of the Board of Management since 1 January 2009.

Outlook

Structure of the remuneration system for the Board of Management as from 1 January 2010

The remuneration system for the Board of Management has been revised with effect from 1 January 2010 on the basis of the remuneration-related amendments to the German Act on the Appropriateness of Management Board Remuneration and the German Corporate Governance Code. Particular attention has been paid in this regard to comprehensibility and transparency.

The following new remuneration system for the Board of Management has been decided by the full Supervisory Board on the basis of a proposal by the Personnel Committee of the Supervisory Board.

Structure of the remuneration system for the Board of Management

Component	Share[1]	Assessment basis/ parameters	Corridor	Precondition for payment	Payment
Basic remuneration plus remuneration in kind/ fringe benefits (company car, healthcare, security measures, insurance)	**30%**	Function Responsibility Length of service on Board	Fixed	Contractual stipulations	Monthly
Variable remuneration	**70%**	Corporate performance Personal performance			
30% annual performance (for 100% achievement of objectives)		Group objective Company objective Divisional objectives Individual objectives	**0–200%** (fully achieved = 100%)	Achievement of annual objectives	In the **second** year, **on condition that 50% of the net amount paid out is invested by the Board member in Munich Re shares that must be held for at least a four-year period**
70% multi-year performance (for 100% achievement of objectives)		Objectives for the business fields > reinsurance > Munich Health > primary insurance Individual objectives	**0–200%** (fully achieved = 100%)	Achievement of three-year objectives	In the **fourth** year, **on condition that 25 % of the net amount paid out is invested by the Board member in shares that must be held for at least a two-year period**
Pension				> Retirement > Insured event > Premature termination or non-extension of employment contract under certain circumstances	
a) Defined benefits plan (Board members appointed before 2009 who had reached the age of 55 in 2008)	–	Pensionable basic remuneration (= 25% of target overall direct remuneration), number of years on the Board	Fixed		–
b) Defined contribution plan (Board members appointed before 2009 who had not reached the age of 55 in 2008 and Board members appointed since 2009)	–	Target overall direct remuneration	Pension contribution		–

[1] For the variable remuneration, the share shown presupposes 100% achievement of the objectives.

The new structure comprises only two remuneration components: basic and variable remuneration. The variable remuneration component contains both annual and three-year objectives, thus replacing the annual bonus and Mid-Term Incentive Plan. The Long-Term Incentive Plan has been done away with. The share-price-based component has been retained in the form of the Board members' obligation to invest in Munich Re shares that they must hold for at least a four- or two-year period. Overall, the new remuneration system focuses more strongly than before on long-term targets and thus creates an even greater incentive for sustainable corporate development.

Variable remuneration

The variable remuneration component is geared to the overall performance of the Group and of defined organisational units and to the personal performance of the individual members of the Board of Management. It is measured on the basis of annual and multi-year performance, for which new objectives will be set every year. Payouts are made at the end of the one- and three-year periods under consideration. With a view to sustainability, the members of the Board of Management will be obliged to invest part of the variable remuneration paid out in Munich Reinsurance Company shares.

Annual performance

Annual performance targets for the variable remuneration component are set on the basis of divisional and individual objectives as well as the Company and the Group objective. 30% of the target amount for variable remuneration can be earned in the event of full achievement (= 100%) of the objectives. The targets and scaling for Group, Company 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 RORAC (return on risk-adjusted capital), which comprises key figures from external accounting and from other important portfolio and performance data. Information on the definition of RORAC is provided on page 68. The performance measures embodied in value-based management are used for the Company objective and the divisional objectives. The objectives are weighted individually according to the responsibilities of the individual members of the Board of Management.

The variable remuneration for annual performance is reviewed and decided on by the full Supervisory Board and then calculated and paid out in the year after the one-year period under consideration. Payment is effected on condition that 50% of the net amount paid out is invested in Munich Reinsurance Company shares that the Board member must hold for at least a four-year period.

Multi-year performance

Three-year targets based on the performance of the reinsurance, Munich Health and primary insurance segments and on individual objectives are fixed every year for the multi-year performance remuneration component. 70% of the target amount for variable remuneration can be earned in the event of full achievement (= 100%) of the objectives. The targets and scaling for the business field targets are geared to VBM performance indicators, and the individual targets are based on individual objectives. The objectives are weighted individually according to the responsibilities of the individual members of the Board of Management.

The variable remuneration for multi-year performance is reviewed and decided on by the full Supervisory Board and then calculated and paid out in the year after the three-year period under consideration. Payment is effected on condition that 25% of the net amount paid out is invested in Munich Reinsurance Company shares that must be held for at least a two-year period.

Pensions

Owing to the increase from 25% to 30% in the share of basic remuneration in overall remuneration, there has been a change in the assessment basis for the Board members' pensions. An unintended rise in the pension would otherwise have been the consequence. From 1 January 2010 onwards, the defined benefits are fixed on the basis of "pensionable basic remuneration", which corresponds to 25% of the target overall direct remuneration (= basic remuneration + variable remuneration on the basis of 100% achievement of objectives). In the case of the defined contribution plan, the rate is fixed on the basis of the target overall direct remuneration.

Further development of the remuneration system

In its Circular 23/2009 of 21 December 2009, the German Federal Financial Supervisory Authority (BaFin) specified in more detail for the German insurance industry the Financial Stability Board principles whose implementation the G20 states agreed on at their summit meeting in Pittsburg in September 2009. In January 2010, Munich Re set up a Remuneration Committee as required by the BaFin circular. In 2010, the Remuneration Committee will deal with the implementation of the principles in the Group at 1 January 2011.

An initial provisional examination has shown that the remuneration system for the Board of Management as decided on with effect from 1 January 2010 is in compliance with the requirements of the BaFin circular.

Remuneration structure for senior executives, including security-based incentive systems In compliance with BaFin's Circular 23/2009, the following paragraphs provide details of the remuneration structures for our senior executives in Munich.

The **fixed components** for senior executives comprise a fixed annual basic remuneration, paid out as a monthly salary, plus customary market fringe benefits and remuneration in kind (e.g. company car, insurance).

The **variable components** are made up of the short-term components "performance-related bonus" and "Company result bonus", and the share-price-linked components Mid-Term Incentive Plan and Long-Term Incentive Plan.

The **performance-related bonus** is based on quantitative and qualitative objectives. We use indicators from strategic planning for the quantitative objectives, while personal objectives are agreed on for the qualitative portion.

The key indicator used for the **Company result bonus** is RORAC (return on risk-adjusted capital), which comprises key figures from external accounting and from other important portfolio and performance data. The targets correspond to the Group objective for the annual bonus for members of the Board of Management. Information on the definition of RORAC is provided on page 68. The Company result bonus basically takes the form of a "bonus pool" model. Depending on corporate performance, an available aggregate amount is calculated that can be distributed between all staff as a bonus. The higher the management level, the higher the target range under the Company result bonus. The way this bonus works ensures that the performance of Munich Re as a whole is systematically reflected in the remuneration of all staff and that the bonus amount bears a reasonable relationship to overall corporate performance.

The **Mid-Term Incentive Plan,** with a duration of three years, and the **Long-Term Incentive Plan,** with a duration of seven years, are based on the corresponding plans for the Board of Management in 2009. Their structure is explained on pages 37 and 38.

The **weighting** for the variable remuneration components is more than 50% for the first management level below the Board of Management. Proceeding down the management hierarchy, the proportion of variable remuneration decreases successively from one management level to the next, making up around one-third of total remuneration at the lowest management level. Thus, with the same incentivisation logic, the individual variable components are present at all management levels, albeit with different weightings.

There is a well-balanced combination of short-, medium- and long-term components. The proportion of medium- and long-term remuneration is over 50% in the variable remuneration for the top management level, so that a longer-term incentive system is provided for. No guaranteed variable remuneration components are granted.

Total remuneration of the Supervisory Board By resolution of the 2008 Annual General Meeting, the Supervisory Board's remuneration was adjusted and restructured to take account of current circumstances. The rules apply for the first time to the financial year 2009. Fixed remuneration has been marginally increased, whereas the performance-related annual remuneration has been reduced. Each member of the Supervisory Board thus receives an annual fixed remuneration of €50,000 (previously €45,000) and a variable, performance-related remuneration.

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 €4,000 for each full euro by which earnings per share exceed €12, but a maximum of €40,000. Based on earnings per share of €12.95, no annual result-related remuneration is payable for the financial year 2009.

Furthermore, in accordance with the German Corporate Governance Code, a remuneration component of €10,000 based on long-term corporate performance has been introduced. 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%. No long-term remuneration component is payable for the remuneration year 2009.

The remuneration for the Chairman of the Supervisory Board and the additional amounts payable to members of the Supervisory Board committees have been increased, thus making greater allowance than in the past for the substantial workload involved. The additional amount paid for work on committees now totals 50% of the fixed remuneration (or 100% for the chairman of a committee). The remuneration of the Chairman of the Supervisory Board amounts to 250% of the fixed and variable remuneration, while his deputy continues to receive 150%.

The limitation of the total remuneration of each member of the Supervisory Board to three times the fixed remuneration ensures that the overall remuneration of individual Supervisory Board members remains appropriate even if further committees are set up.

Remuneration of Supervisory Board members in the financial year 2009 in accordance with Article 15 of the Articles of Association[1]

		Fixed remuneration		Result-related remuneration	Total
Name	Financial year	Annual	For committee work[2]	Annual	
€					
Dr. Hans-Jürgen Schinzler, Chairman	**2009**	**125,000.00**	**143,000.00**	**0.00**	**268,000.00**
	2008	90,000.00	72,250.00	27,000.00	189,250.00
Herbert Bach, until 22.4.2009 Deputy Chairman	**2009**	**57,808.22**	**50,000.00**	**0.00**	**107,808.22**
	2008	67,500.00	22,500.00	20,250.00	110,250.00
Hans Peter Claußen, Deputy Chairman (from 22.4.2009)	**2009**	**52,191.78**	**17,397.26**	**0.00**	**69,589.04**
	2008	–	–	–	–
Hans-Georg Appel (until 22.4.2009)	**2009**	**15,342.47**	**13,671.23**	**0.00**	**29,013.70**
	2008	45,000.00	21,250.00	13,500.00	79,750.00
Dina Bösch (from 22.4.2009)	**2009**	**34,794.52**	**–**	**0.00**	**34,794.52**
	2008	–	–	–	–
Holger Emmert (until 22.4.2009)	**2009**	**15,342.47**	**–**	**0.00**	**15,342.47**
	2008	45,000.00	–	13,500.00	58,500.00
Frank Fassin (from 22.4.2009)	**2009**	**34,794.52**	**–**	**0.00**	**34,794.52**
	2008	–	–	–	–
Christian Fuhrmann (from 22.4.2009)	**2009**	**34,794.52**	**21,397.26**	**0.00**	**56,191.78**
	2008	–	–	–	–
Prof. Dr. Peter Gruss (from 22.4.2009)	**2009**	**34,794.52**	**–**	**0.00**	**34,794.52**
	2008	–	–	–	–
Ulrich Hartmann (until 22.4.2009)	**2009**	**15,342.47**	**–**	**0.00**	**15,342.47**
	2008	45,000.00	–	13,500.00	58,500.00
Dr. Rainer Janßen (until 22.4.2009)	**2009**	**15,342.47**	**–**	**0.00**	**15,342.47**
	2008	45,000.00	–	13,500.00	58,500.00
Prof. Dr. Henning Kagermann	**2009**	**50,000.00**	**58,465.75**	**0.00**	**108,465.75**
	2008	45,000.00	19,250.00	13,500.00	77,750.00
Peter Löscher (from 22.4.2009)	**2009**	**34,794.52**	**–**	**0.00**	**34,794.52**
	2008	–	–	–	–
Prof. Dr. Hubert Markl (until 22.4.2009)	**2009**	**15,342.47**	**–**	**0.00**	**15,342.47**
	2008	45,000.00	–	13,500.00	58,500.00
Wolfgang Mayrhuber	**2009**	**50,000.00**	**17,397.26**	**0,00**	**67,397.26**
	2008	45,000.00	–	13,500.00	58,500.00
Kerstin Michl (until 22.4.2009)	**2009**	**15,342.47**	**–**	**0.00**	**15,342.47**
	2008	45,000.00	–	13,500.00	58,500.00
Prof. Karel Van Miert (deceased) (until 23.6.2009)	**2009**	**16,291.64**	**–**	**0.00**	**16,291.64**
	2008	45,000.00	–	13,500.00	58,500.00

[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

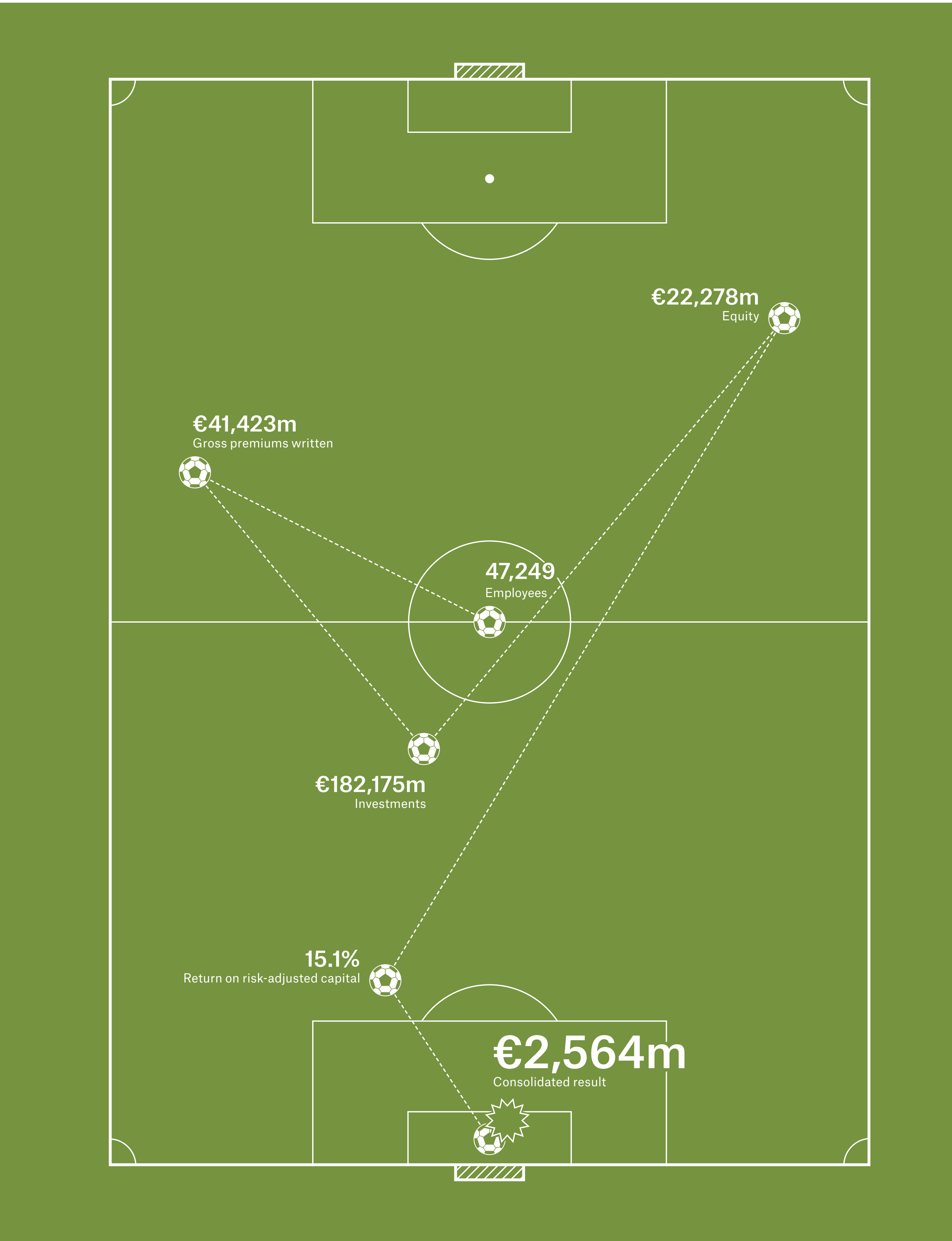
Remuneration of Supervisory Board members in the financial year 2009 in accordance with Article 15 of the Articles of Association[1]

		Fixed remuneration		Result-related remuneration	Total
Name	Financial year	Annual	For committee work[2]	Annual	
€					
Ingrid Müller (until 22.4.2009)	**2009**	**15,342.47**	**–**	**0.00**	**15,342.47**
	2008	45,000.00	–	13,500.00	58,500.00
Silvia Müller (from 22.4.2009)	**2009**	**34,794.52**	**–**	**0.00**	**34,794.52**
	2008	–	–	–	–
Marco Nörenberg (from 22.4.2009)	**2009**	**34,794.52**	**21,397.26**	**0.00**	**56,191.78**
	2008	–	–	–	–
Reinhard Pasch (from 22.4.2009)	**2009**	**34,794.52**	**–**	**0.00**	**34,794.52**
	2008	–	–	–	–
Prof. Dr. Heinrich v. Pierer (until 22.4.2009)	**2009**	**15,342.47**	**–**	**0.00**	**15,342.47**
	2008	45,000.00	–	13,500.00	58,500.00
Dr. Bernd Pischetsrieder	**2009**	**50,000.00**	**58,000.00**	**0.00**	**108,000.00**
	2008	45,000.00	28,500.00	13,500.00	87,000.00
Anton van Rossum (from 22.4.2009)	**2009**	**34,794.52**	**20,131.26**	**0.00**	**54,925.78**
	2008	–	–	–	–
Andrés Ruiz Feger (from 22.4.2009)	**2009**	**34,794.52**	**–**	**0.00**	**34,794.52**
	2008	–	–	–	–
Dr. Jürgen Schimetschek (until 22.4.2009)	**2009**	**15,342.47**	**–**	**0.00**	**15,342.47**
	2008	45,000.00	–	13,500.00	58,500.00
Dr. Albrecht Schmidt (until 22.4.2009)	**2009**	**15,342.47**	**31,013.70**	**0.00**	**46,356.17**
	2008	45,000.00	49,750.00	13,500.00	108,250.00
Richard Sommer (from 22.4.2009)	**2009**	**34,794.52**	**–**	**0.00**	**34,794.52**
	2008	–	–	–	–
Dr. Ron Sommer	**2009**	**50,000.00**	**–**	**0.00**	**50,000.00**
	2008	45,000.00	–	13,500.00	58,500.00
Wolfgang Stögbauer (until 22.4.2009)	**2009**	**15,342.47**	**13,671.23**	**0.00**	**29,013.70**
	2008	45,000.00	21,250.00	13,500.00	79,750.00
Josef Süßl (until 22.4.2009)	**2009**	**15,342.47**	**7,671.23**	**0.00**	**23,013.70**
	2008	45,000.00	11,250.00	13,500.00	69,750.00
Judy Võ (until 22.4.2009)	**2009**	**15,342.47**	**–**	**0.00**	**15,342.47**
	2008	45,000.00	–	13,500.00	58,500.00
Dr. Thomas Wellauer (from 22.4.2009)	**2009**	**34,794.52**	**–**	**0.00**	**34,794.52**
	2008	–	–	–	–
Total	**2009**	**1,068,277.99**	**473,213.44**	**0.00**	**1,541,491.43**
	2008	967,500.00	246,000.00	290,250.00	1,503,750.00

[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.

Share trading and shares held by members of the Board of Management and the Supervisory Board The Company has to be notified promptly of the acquisition or sale of Company shares (or financial instruments based on these) by members of the 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 totalling €5,000 or more in a single calendar year. Under Section 10 para. 1 of the German Securities Prospectus Act, Munich Reinsurance Company is obliged to publish information of this kind on its website without delay as well as in an annual document.

The total number of Munich Re shares and related financial instruments held by all members of the Board of Management and Supervisory Board amounts to less than 1% of the shares issued by the Company.


€22,278m
Equity
€41,423m
Gross premiums written
47,249
Employees
€182,175m
Investments
15.1%
Return on risk-adjusted capital
€2,564m
Consolidated result

MUNICH RE 2009

Group management report

Strategy and tactics

Football is a classic team sport, with two sets of eleven players competing to win the game over 90 minutes. Success depends on individual effort, quick reactions, ball skills and – above all – teamwork.

Management report

Munich Re

In order to make the spectrum of our global business model clearer, all our reinsurance units throughout the world appear under the uniform brand of Munich Re. As of September 2009, this also applies to the German-speaking market. We use the reinsurance brand for the Group as well, and thus refer to the Munich Re Group as Munich Re. When we report on Münchener Rückversicherungs-Gesellschaft Aktiengesellschaft in München, we refer to Munich Reinsurance Company. Primary insurance business is combined in the ERGO Insurance Group (ERGO).

Structure

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

Munich Re offers reinsurance solutions worldwide

The reinsurance companies of the Group operate globally. Its primary insurers traditionally focus on Germany and high-growth European markets, but have meanwhile been looking to extend their activities to promising Asian markets such as South Korea or India. The companies conduct their business from their respective headquarters and also via a large number of branches, subsidiaries and affiliated companies. Domination and profit-transfer agreements are in place with many subsidiaries, especially between holding company ERGO Versicherungsgruppe AG and its subsidiaries.

Since 2005, Munich Reinsurance Company and ERGO Versicherungsgruppe AG have been under unified control within the meaning of the German Stock Companies Act. The relevant statutory regulations and a Group directive govern the distribution of responsibilities and competences for key decisions between Group management and ERGO. The Board of Management of Munich Reinsurance Company, which for legal purposes continues to represent the Company externally, has divided its responsibilities between two Board committees: the Group Committee and the Reinsurance Committee. This structure is geared to maintaining clearly defined strategic management of the equal-ranking business segments and provides for clear assignment of responsibility.

The present management report summarises the activities of the Group according to its segments of reinsurance, primary insurance and asset management rather than on the basis of its legal or corporate structure or individual companies. Such segmentation is determined by how Munich Re manages its business internally. Unlike in previous years, the business of the Watkins Syndicate is shown in the reinsurance segment rather than in the primary insurance segment. In the business field of Munich Health set up in 2008, Munich Re combines its health reinsurance worldwide and health primary insurance outside Germany[1]. The business field has been operating under the Munich Health brand since May 2009 and will not be disclosed as a separate segment until the first quarter of 2010. For 2009, the business written in this field for health reinsurance and Sterling Life Insurance Company (Sterling) is shown for the last time

[1] Excluding travel insurance.

in the reinsurance segment life and health. Likewise, health primary insurance outside Germany is accounted for in the primary insurance segment health for the last time in 2009.

Reinsurance

Of the gross premiums totalling €24.8bn written in 2009, around 61% came from property-casualty and 39% from life and health business.

In reinsurance, we operate in life, health and property-casualty business, the latter being subdivided into liability, accident, motor, marine, aviation, space, fire, engineering, credit and bonding, and other classes of business. The "other classes" comprise the remaining lines of property business, i.e. burglary, plate glass, hail (including agricultural reinsurance), water damage, contingency, windstorm, livestock, householders' and homeowners' comprehensive reinsurance as well as fidelity guarantee reinsurance. As stated, all reinsurance units throughout the world operate under the uniform brand of Munich Re. Under reinsurance, we also include specialised primary insurance activities that are handled by the reinsurance organisation and business from managing general agents (MGA). For the most part, they will be transferred to the Munich Re brand under the Risk Solutions descriptor in the near future.

Reinsurance business is organised in six divisions and Munich Health.

Reinsurance business handled by six divisions and Munich Health

Our international life and health reinsurance business is written in the Life Division and Munich Health respectively. Their organisational structures reflect those of many of our clients, which conduct these two classes of business separately from property-casualty insurance, often through independent entities. 2009 is the last year in which we have booked health reinsurance, which is part of Munich Health, in the life and health reinsurance segment. As mentioned earlier, Munich Health will be shown as a separate segment beginning with the first quarter of 2010.

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 Munich Re, 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 clients in Germany, Africa, Asia, Australia and the Pacific Islands.

Special and Financial Risks (SFR) 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. In addition, the division also attends to our own reinsurance requirements (retrocession).

Global Clients and North America handles our accounts with major international insurance groups (hence "Global Clients") and globally operating Lloyd's syndicates. It also pools our know-how in the North American market. It is responsible for our subsidiaries there, including Munich Reinsurance America, Munich Reinsurance Company of Canada, The Midland Company (Midland) and the Hartford Steam Boiler Group (HSB Group). Besides this, it also handles the business written selectively from

Munich and international special lines of business such as workers' compensation and marine. The division additionally oversees the Watkins Syndicate, which was transferred from primary insurance to reinsurance in 2009.

The Corporate Underwriting Division performs an important function for our property-casualty reinsurance business, without direct responsibility for operative business: 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 units at a glance[1]

Division	Selected subsidiaries and branch offices outside Germany[2]
Life	American Modern Life Insurance Company, Amelia, Ohio LifePlans Inc., Waltham, Massachusetts Munich American Reassurance Company, Atlanta, Georgia Munich Reinsurance Company Canadian Life Branch, Toronto Munich Reinsurance Company Life Reinsurance Eastern Europe/ Central Asia, Moscow Munich Reinsurance Company of Australasia Limited – New Zealand Branch, Auckland Munich Reinsurance Company of Australasia Ltd, Sydney Munich Reinsurance Company UK Life Branch, London Munichre Life Services Limited, London Southern Pioneer Life Insurance Company, Jonesboro, Arkansas
HealthCare[3]	Sterling Life Insurance Company, Bellingham, Washington Apollo DKV Insurance Company Limited, Hyderabad[4] Cairnstone Inc., Andover, Massachusetts[5] DAMAN – National Health Insurance Company, Abu Dhabi DKV Globality S.A., Luxembourg DKV Salute S.p.A., Milan MedNet Holding GmbH, Munich Munich Health Holding AG, Munich
Europe and Latin America	Münchener Rück do Brasil Resseguradora S.A., São Paulo Bell & Clements (London) Ltd, London Münchener Rückversicherungs-Gesellschaft A. G. Sucursal España y Portugal, Madrid Münchener Rückversicherungs-Gesellschaft AG in München Rappresentanza Generale per l'Italia, Milan Munich Re France Branch, Paris Munich Reinsurance Company UK General Branch, London
Germany, Asia Pacific and Africa	Münchener Rückversicherungs-Gesellschaft Australian Branch, Sydney Great Lakes Australia Branch, Sydney Munich Mauritius Reinsurance Co. Ltd., Port Louis Munich Reinsurance Company Beijing Branch, Beijing Munich Reinsurance Company Hong Kong Branch, Hong Kong Munich Reinsurance Company Korea Branch, Seoul

	Munich Reinsurance Company Malaysia Branch, Kuala Lumpur Munich Reinsurance Company New Zealand Branch, Auckland Munich Reinsurance Company of Africa Ltd, Johannesburg Munich Reinsurance Company Singapore Branch, Singapore
Special and Financial Risks	Great Lakes Reinsurance (UK) Plc., London Great Lakes Switzerland Branch, Zurich Munich Re of Malta Holding Limited, Floriana Munich Re of Malta p.l.c., Floriana New Reinsurance Company, Geneva
Global Clients and North America	American Alternative Insurance Corporation, Wilmington, Delaware American Family Home Insurance Company, Jacksonville, Florida American Modern Home Insurance Company, Amelia, Ohio American Modern Insurance Company of Florida, Inc., Jacksonville, Florida American Modern Select Insurance Company, Amelia, Ohio American Modern Surplus Lines Insurance Company, Amelia, Ohio American Southern Home Insurance Company, Jacksonville, Florida American Western Home Insurance Company, Oklahoma City, Oklahoma Beaufort Underwriting Agency Limited, London Global Standards LLC, Wilmington, Delaware HSB Engineering Insurance Ltd, London HSB Group, Inc., Wilmington, Delaware HSB Professional Loss Control, Inc., Lenoir City, Tennessee HSB Solomon Associates LLC, Wilmington, Delaware MSP Underwriting Ltd., London Munich Re Capital Limited, London Munich Reinsurance America, Inc., Wilmington, Delaware Munich Reinsurance Company of Canada, Toronto Roanoke Trade Services Inc., Schaumburg, Illinois Temple Insurance Company, Toronto The Boiler Inspection and Insurance Company of Canada, Toronto The Hartford Steam Boiler Inspection and Insurance Company of Connecticut, Hartford, Connecticut The Hartford Steam Boiler Inspection and Insurance Company, Hartford, Connecticut The Midland Company, Cincinnati, Ohio The Princeton Excess and Surplus Lines Insurance Company, Wilmington, Delaware Watkins Marine Services Limited, London Watkins Syndicate Hong Kong Limited, Hong Kong Watkins Syndicate Middle East Limited, Dubai Watkins Syndicate Singapore Pte. Limited, Singapore

[1] The complete list of our shareholdings is available on our website.
[2] Only subsidiaries outside Germany with equity generally in excess of €5m are listed by name.
[3] Part of Munich Health.
[4] New company name since 12 January 2010: Apollo Munich Health Insurance Company Limited, Hyderabad.
[5] New company name since 1 January 2010: Munich Re America Stop Loss Inc., Andover, Massachusetts.

Primary insurance

Munich Re's second pillar is primary insurance business, which is concentrated in ERGO. With its integrated business model consisting of insurance and reinsurance, Munich Re can cover the entire value chain in the risk market. The Group aims to leverage synergies in revenue and costs, whilst reducing the risk-based capital required through better diversification. In the past year, Munich Re increased its stake of nearly 95% in ERGO by almost 5%. It is planned that the holders of the remaining 237,000 shares, i.e. 0.31% of the share capital, will be bought out. This measure will further simplify the Group's shareholding structures, reduce costs and facilitate Group-wide cooperation.

As at 1 January 2009, travel insurer ERV (Europäische Reiseversicherung), which until then had been owned directly by Munich Reinsurance Company, was integrated along with Mercur Assistance into ERGO, where a travel centre of competence was set up. Munich Re's primary insurance segment thus corresponds to the business managed by ERGO. The international health primary insurers are managed by the Munich Health business field and in 2009 were shown for the last time in the primary insurance segment.

Following the insolvency of Arcandor's Karstadt and Quelle operations, there was a need for action regarding the KarstadtQuelle Versicherungen brand. ERGO therefore decided to fundamentally revise its multi-brand strategy in Germany: the direct insurer KarstadtQuelle Versicherungen has been renamed ERGO Direkt Versicherungen, and the brands Victoria and Hamburg-Mannheimer are being withdrawn from the market. Consequently, life and property-casualty insurance will be only marketed under the ERGO brand in future. Through this clear focus, its all-round offering in primary insurance will become more visible, facilitating the acquisition of new clients and the achievement of more growth.

New brand strategy to strengthen franchise and pool resources as from 2010

The broad range of life and property-casualty insurance available under the ERGO brand will be complemented by that of the specialty brands ERGO has retained. Their respective businesses will be combined, with health insurance pooled under the DKV brand, legal expenses insurance under D.A.S., and travel insurance continuing to be represented by the ERV brand.

The segments life, health and property-casualty business in Germany will continue to be managed by ERGO with a single back office and central infrastructure supporting the various brands and wide range of sales channels. Not only their own strong sales organisations and direct marketing but also their wide variety of broker relationships, extensive marketing cooperations and collaboration with the UniCredit Group in the banking sector are important.

In international business, the Group operates under the ERGO brand name in many markets and will continue to do so even more consistently in future. In addition to its home market of Germany and many European markets, ERGO is also represented in India, South Korea and China. ERGO's main companies outside Germany are ERGO Italia, the Polish property-casualty insurer ERGO Hestia and the Turkish ERGOİSVİÇRE. Beyond this, we are seeking to tap further into selected primary insurance markets in Asia.

The primary insurance group at a glance[1]

Segments	Selected subsidiaries[2]
Life	Hamburg-Mannheimer Pensionskasse AG, Hamburg Hamburg-Mannheimer Versicherungs-Aktiengesellschaft, Hamburg KarstadtQuelle Lebensversicherung AG, Fürth[3] Victoria Lebensversicherung AG, Düsseldorf Bank Austria Creditanstalt Versicherung AG, Vienna ERGO Life N.V., Brussels ERGO Previdenza S.p.A., Milan Sopockie Towarzystwo Ubezpieczen na Zycie Ergo Hestia Spolka Akcyjna, Sopot VICTORIA-VOLKSBANKEN Versicherungsaktiengesellschaft, Vienna
Health	DKV Deutsche Krankenversicherung AG, Cologne EUROPÄISCHE Reiseversicherung AG, Munich KarstadtQuelle Krankenversicherung AG, Fürth[3] Victoria Krankenversicherung AG, Düsseldorf DKV BELGIUM S.A., Brussels[4] DKV Seguros y Reaseguros, Sociedad Anónima Española, Saragossa[4] Europæiske Rejseforsikring A/S, Copenhagen
Property-casualty	D.A.S. Deutscher Automobil Schutz Allgemeine Rechtsschutz-Versicherungs-Aktiengesellschaft, Munich D.A.S. Deutscher Automobil Schutz Versicherungs-Aktiengesellschaft, Munich Hamburg-Mannheimer Rechtsschutzversicherungs-Aktiengesellschaft, Hamburg Hamburg-Mannheimer Sachversicherungs-Aktiengesellschaft, Hamburg KarstadtQuelle Versicherung AG, Fürth[3] Victoria Versicherung AG, Düsseldorf D.A.S. Österreichische Allgemeine Rechtsschutz-Versicherungs-Aktiengesellschaft, Vienna D.A.S. Société anonyme belge d'assurances de Protection Juridique, Brussels ERGO Assicurazioni S.p.A., Milan ERGO Daum Direct Auto Insurance Co. Ltd., Seoul ERGOİSVİÇRE SIGORTA A.Ş., Istanbul MTU Moje Towarzystwo Ubezpieczeniowe S. A., Sopot Sopockie Towarzystwo Ubezpieczen Ergo Hestia Spolka Akcyjna, Sopot VICTORIA General Insurance Company S.A., Athens VICTORIA-Seguros S.A., Lisbon

1 The complete list of shareholdings is available on our website.
2 Only subsidiaries with a premium volume of more than €50m are listed by name.
3 New company names: ERGO Direkt Lebensversicherung AG, Fürth; ERGO Direkt Krankenversicherung AG, Fürth; ERGO Direkt Versicherung AG, Fürth.
4 Part of Munich Health.

Munich Health

Munich Health now in charge of international healthcare business

The global health market is one of the fastest-growing sectors of the economy. This applies to healthcare and insurance alike. In order to maximise the opportunities involved, Munich Re combined its health reinsurance worldwide and health primary insurance outside Germany in a separate organisation that covers the whole health-care-sector value chain. Since May 2009, the new business unit has been operating internationally under the Munich Health brand.

The Munich Health business field has over 5,000 staff at 26 locations throughout the world, servicing clients in over 40 countries. To best meet the often highly diversified needs of clients on a local level, Munich Health has established a decentralised organisation, which is managed from four regional business hubs in Princeton, Abu Dhabi, Singapore and Munich.

Asset management

MEAG MUNICH ERGO AssetManagement GmbH (MEAG) combines the investment activities of Munich Re and ERGO. Virtually the entire asset management of the Group is concentrated here. Its subsidiary MEAG MUNICH ERGO Kapitalanlagegesellschaft mbH is one of the major investment fund companies in Germany. It also offers its comprehensive know-how to external institutional investors and private clients, whose assets under management total around €8bn.

MEAG operates internationally, 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

Munich Re'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, which we constantly refine, within the Group.

The framework for any business activity is our risk strategy (see page 146 f.). Besides value-based parameters, we observe a range of important additional conditions in managing our business. These conditions may be reflected in supplementary targets or may even determine a unit's short-term orientation in a particular situation. They include 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. Only the risk-return relationship reveals how beneficial an activity is from the shareholder point of view.
// With value-based performance indicators we ensure the economic view and the necessary comparability of alternative initiatives and prioritise these.
// 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 on a sustained basis.

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

Property-casualty insurance and reinsurance, and health reinsurance, are lines of business that are mainly of a short-term nature. For these, we employ the following simple formula for measuring the value added annually by our insurance business and for managing and monitoring our business activities:

Adjusted result – Cost of equity = Value added

Determining value added

The adjusted result serves as the basis for determining the value added. It consists of the underwriting 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 calculating the cost of equity is the risk-based capital, which we determine using our internal model. For property-casualty business and health reinsurance, value is added to the extent that, measured on the basis of one calendar year, the adjusted result exceeds the cost of equity.

Embedded value as a performance indicator in life insurance

The products of life primary insurance and life 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 current version of the Principles of Market Consistent Embedded Value (MCEV)©[1], published by the European Insurance CFO Forum in October 2009.

Market Consistent Embedded Value (MCEV) comprises a company's equity and the value of in-force covered business. The latter is the present value of future profits (where profits are post-taxation shareholder cash flows from the in-force covered business and the assets backing the associated liabilities) calculated using financial and actuarial methods, taking into consideration the time value of the financial options and guarantees and the explicitly determined costs of capital.

MCEV relates to the portfolio existing at the valuation date. 100% of our life reinsurance business and more than 94% of our life primary insurance and long-term health primary insurance business is reflected in it. By contrast, MCEV 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. MCEV reflects the present value of all cash flows for all important currency regions on the basis of the "swap rates" and the implicit volatilities at the valuation date of 31 December 2009. 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 by applying 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. 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 capital includes not only the taxes and costs of investment management but also the not explicitly modelled risks of the business and, for health primary insurance, the participation of policyholders in surplus.

The change in MCEV 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.

[1] © Stichting CFO Forum Foundation 2008.

Our steering of Munich Re'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 synthetic investment portfolio best reflects the characteristics of our liabilities towards clients, taking into consideration significant additional parameters in the investment of capital.

In an optimisation process, a benchmark portfolio is developed that reflects 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 into 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 incurred.

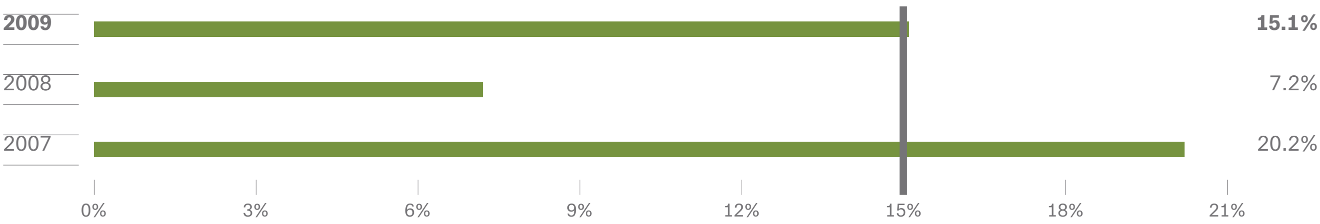
In addition to these purely financial performance factors, non-financial performance measures like innovation, speed of processes, staff-training level and client satisfaction play a part. In the long term, a firm can only be successful if it operates sustainably and takes account of such future-oriented 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 perspectives: "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. Our incentive systems for staff, executives and Board support the clear orientation towards 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 also give more emphasis in external communication to Munich Re'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 – Situation in 2009

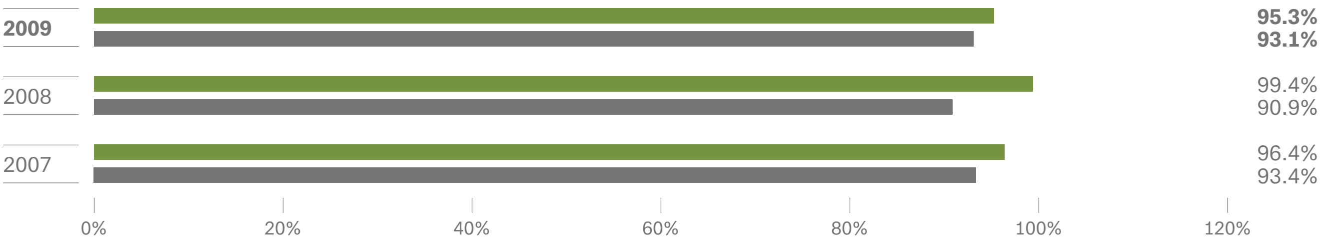
Return on risk-adjusted capital[1]



RORAC Target

[1] Previous year's figures adjusted pursuant to IFRS 3.62 (see "Consolidation") and to IFRS 8 and IAS 8 (see "Changes in accounting policies").

Combined ratio[1]



Reinsurance Primary insurance

[1] Property-casualty business; primary insurance includes legal expenses insurance.

The financial crisis, whose repercussions have in the meantime weakened, also had an impact on insurance business in 2009. We nevertheless reached our long-term target of a 15% return on risk-adjusted capital after tax (RORAC) over the full cycle (for a definition of RORAC see page 68). Our RORAC of 15.1% for 2009 was a respectable result given the still appreciable financial upheavals and low level of interest rates. This achievement was mainly due to positive claims experience in reinsurance and primary insurance and the improved return on investment of 4.3% (3.4%). The return on investment is the ratio between the investment result of €7.9bn and the average market value of the investment portfolio at the year-end and quarterly reporting dates, totalling €181bn. With Munich Re's absolute consolidated profit rising to €2.6bn, the return on equity or RoE rose to 11.8% in terms of the average value of IFRS equity at the year-end and quarterly reporting dates. Compared with its competitors, Munich Re has weathered the financial crisis relatively well, thanks to its robust capitalisation, prudent risk management and balanced investment policy.

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. Not included in the expenses are insignificant portions of other underwriting expenses such as 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 €9,267m (9,362m) and net operating expenses of €4,171m (4,003m) in 2009, compared with net earned premiums of €14,096m (13,448m). The combined ratio thus amounts to 95.3% (99.4%) – a clear improvement partly attributable to the low major-loss burden from natural catastrophes totalling €196.1m, or 1.4% of net earned premiums. Our cycle management and underwriting discipline continue to form the basis of this success.

In 2009, paid claims and the change in claims provisions in the property-casualty primary insurance segment (including legal expenses insurance) totalled €2,763m (2,625m) and net operating expenses €1,511m (1,463m), compared with net earned premiums of €4,591m (4,497m). Our combined ratio in primary insurance thus amounts to 93.1% (90.9%).

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 these periods are, 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.

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 Munich Re’s value creation.

Risk-based Group return target for the financial year 2010

Given the continued uncertainties involved in estimating possible implications of the financial and economic crisis, it is difficult to define guidelines for our future entrepreneurial success. Nevertheless, the targets we have set ourselves for 2010 are ambitious against the background of continuing uncertainties. For this purpose, we are again 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 155 ff. 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 x [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 162. 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, because the additional available economic equity in the system presented here only earns a risk-free interest rate. This is due to the fact that 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 with regard to the return on total capital placed at our disposal.

At what level should the RORAC target be set?

We are adhering to our long-term objective of a 15% return on our risk-based capital (RORAC) after tax across the cycle, although it will be much more difficult to achieve in an environment in which interest rates are low. This target underlines our fundamental commitment to a long-term increase in our corporate value. We are aiming for a consolidated result of over €2bn for 2010.

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 of around 97% of our net earned premiums over the market cycle as a whole, based on an expected average major-loss burden from natural catastrophes of 6.5%. Since we were affected by very severe accumulation loss events at the end of February 2010, i.e. the earthquake in Chile and Winter Storm Xynthia over Europe, we will only be able to achieve our target if random major losses remain below our expectations in the further course of the year. Uncertainties result not only from the random incidence of major individual losses but also from the fact that recession-related exceptional burdens cannot be disregarded in view of the still difficult economic situation. In property-casualty primary insurance, we expect a combined ratio of under 95%.

Embedded value as an additional performance indicator

In life primary insurance and reinsurance and in German health primary insurance, MCEV 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. 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 multifaceted, 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 it is attainable depends in equal measure on the economic parameters and on the random occurrence of major losses. Despite the particular uncertainties of the environment, we will do our utmost to efficiently manage the consequences of the economic crisis.

Excellence in underwriting – Binding standards for underwriting and pricing

Our value proposition requires that we continually expand our knowledge. It also requires high quality standards for underwriting, pricing, accumulation control and claims management. Only in this way can we be the first port of call for our clients when it comes to addressing risk matters and occupying new and profitable business sectors in future. For this reason, Corporate Underwriting is developing ways of expanding our knowledge of non-life reinsurance business and drafting guidelines and best-practice principles for our reinsurance underwriting. Regular reviews ensure that the quality of our reinsurance business is consistently high and that we respond swiftly to changes and new developments. In close cooperation with the operative units, Corporate Underwriting generates needs-oriented products and services for our reinsurance clients. For the life and health reinsurance segment, this task is assumed by specialists in the Life Division and in Munich Health 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, which provides us with a broadly diversified portfolio. 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 business) and the heads of the actuarial departments (property-casualty business) 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)
HealthCare
Human Resources

Dr. oec. publ. Joachim Wenning
Life

Supervisory Board

Chairman
Dr. jur. Hans-Jürgen Schinzler
Member since 2 January 2004, last re-elected on 22 April 2009
Former Chairman of the Board of Management of Munich Reinsurance Company

Deputy Chairman
Hans Peter Claußen
Member since 22 April 2009
Employee of D.A.S. Allgemeine Rechtsschutz-Versicherungs-AG

Hans-Georg Appel
Member until 22 April 2009
Employee of Munich Reinsurance Company

Herbert Bach
Member since 9 December 1994, last re-elected on 22 April 2009
Deputy Chairman until 22 April 2009
Employee of Munich Reinsurance Company

Dina Bösch
Member since 22 April 2009
Member of the National Executive Board of ver.di (trades union)

Holger Emmert
Member until 22 April 2009
Employee of Munich Reinsurance Company

Frank Fassin
Member since 22 April 2009
Regional Section Head Financial Services, ver.di North Rhine-Westphalia

Dr. jur. Benita Ferrero-Waldner
Member since 12 February 2010
Former Member of the European Commission

Christian Fuhrmann
Member since 22 April 2009
Head of Divisional Unit, Munich Reinsurance Company

Prof. Dr. rer. nat. Peter Gruss
Member since 22 April 2009
President of the Max Planck Society for the Advancement of Science

Ulrich Hartmann
Member until 22 April 2009
Chairman of the Supervisory Board of E.ON AG

Dr. rer. nat. Rainer Janßen
Member until 22 April 2009
Employee of Munich Reinsurance Company

Prof. Dr. rer. nat. Dr.-Ing. E. h. Henning Kagermann
Member since 22 July 1999, last re-elected on 22 April 2009
Management consultant, former Chairman of the Executive Board and
Chief Executive Officer of SAP AG

Peter Löscher
Member since 22 April 2009
Chairman of the Board of Management of Siemens AG

Prof. Dr. rer. nat. Drs. h. c. mult. Hubert Markl
Member until 22 April 2009
Former President of the Max Planck Society

Wolfgang Mayrhuber
Member since 13 December 2002, last re-elected on 22 April 2009
Chairman of the Board of Management of Deutsche Lufthansa AG

Kerstin Michl
Member until 22 April 2009
Employee of Munich Reinsurance Company

Prof. Karel Van Miert (died on 23 June 2009)
Member from 17 July 2002, last re-elected on 22 April 2009
Professor at the University of Nyenrode

Ingrid Müller
Member until 22 April 2009
Employee of Munich Reinsurance Company

Silvia Müller
Member since 22 April 2009
Employee of Deutsche Krankenversicherung AG

Marco Nörenberg
Member since 22 April 2009
Employee of Hamburg-Mannheimer Versicherungs-AG

Reinhard Pasch
Member since 22 April 2009
Employee of Victoria Versicherungs-Gesellschaften

Prof. Dr. jur. Dr.-Ing. E. h. Heinrich v. Pierer
Member until 22 April 2009
Former Chairman of the Supervisory Board of Siemens AG

Dr. e. h. Dipl.-Ing. Bernd Pischetsrieder
Member since 17 April 2002, last re-elected on 22 April 2009
Consultant to the Board of Management of Volkswagen AG

Anton van Rossum
Member since 22 April 2009
Member of the Board and Risk Committee of the Credit Suisse Group,
former Chief Executive Officer and former member of the Board of Fortis

Andrés Ruiz Feger
Member since 22 April 2009
Employee of Munich Reinsurance Company

Dr. rer. nat. Jürgen Schimetschek
Member until 22 April 2009
Employee of Munich Reinsurance Company

Dr. jur. Dr. h. c. Albrecht Schmidt
Member until 22 April 2009
Former Chairman of the Supervisory Board of Bayerische Hypo- und Vereinsbank AG

Richard Sommer
Member since 22 April 2009
Head of the Federal Specialist Group, Insurances, ver.di

Dr. phil. Ron Sommer
Member since 5 November 1998, last re-elected on 22 April 2009
Member of the Board of Management of JFSC Sistema, Moscow

Wolfgang Stögbauer
Member until 22 April 2009
Employee of Munich Reinsurance Company

Josef Süßl
Member until 22 April 2009
Employee of Munich Reinsurance Company

Judy Võ
Member until 22 April 2009
Employee of Munich Reinsurance Company

Dr. Ing. Thomas Wellauer
Member since 22 April 2009
Member of the Executive Committee of Novartis International AG (until 31 January 2010)

Membership of the Supervisory Board Committees

Standing Committee
Dr. Hans-Jürgen Schinzler (Chairman)
Herbert Bach
Hans Peter Claußen (since 22 April 2009)
Wolfgang Mayrhuber (since 22 April 2009)
Dr. Bernd Pischetsrieder
Dr. Albrecht Schmidt (until 22 April 2009)
Josef Süßl (until 22 April 2009)

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

Audit Committee
Prof. Dr. Henning Kagermann (Chairman since 22 April 2009)
Dr. Albrecht Schmidt (Chairman until 22 April 2009)
Hans-Georg Appel (until 22 April 2009)
Christian Fuhrmann (since 22 April 2009)
Marco Nörenberg (since 22 April 2009)
Anton van Rossum (since 22 April 2009)
Dr. Hans-Jürgen Schinzler
Wolfgang Stögbauer (until 22 April 2009)

Conference Committee
Dr. Hans-Jürgen Schinzler (Chairman)
Herbert Bach
Hans Peter Claußen (since 22 April 2009)
Dr. Bernd Pischetsrieder
Judy Võ (until 22 April 2009)

Nomination Committee
Dr. Hans-Jürgen Schinzler (Chairman)
Prof. Dr. Henning Kagermann (since 22 April 2009)
Dr. Bernd Pischetsrieder
Dr. Albrecht Schmidt (until 22 April 2009)

A report on the remuneration of the Board of Management and the Supervisory Board is provided on page 36 ff.

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	COMMERZBANK AG ERGO Versicherungsgruppe AG[2] (Chairman) Munich Health Holding-AG[2] (Chairman)	–
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	–	–
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] (Chairman)	–
Dr. oec. publ. Wolfgang Strassl	DKV Deutsche Krankenversicherung AG[2]	Apollo DKV Insurance Company Ltd., Hyderabad, India Storebrand Helseforsikring AS, Oslo
Dr. oec. publ. Joachim Wenning	–	–

[1] Status: 31 December 2009.
[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. Hans-Jürgen Schinzler Chairman	METRO AG	UniCredit S.p.A., Genoa
Hans Peter Claußen Deputy Chairman (since 22 April 2009)	D.A.S. Allgemeine Rechtsschutz-Versicherungs-AG[4] ERGO Versicherungsgruppe AG[4]	–
Hans-Georg Appel (until 22 April 2009)	–	–
Herbert Bach	–	–
Dina Bösch (since 22 April 2009)	–	–
Holger Emmert (until 22 April 2009)	–	–
Frank Fassin (since 22 April 2009)	Provinzial NordWest Holding AG Victoria Versicherung AG[4] ERGO Versicherungsgruppe AG[4]	–
Christian Fuhrmann (since 22 April 2009)	–	Munich Re Holding Company (UK) Ltd.[4]
Prof. Dr. rer. nat. Peter Gruss (since 22 April 2009)	Siemens AG	–
Ulrich Hartmann (until 22 April 2009)	Deutsche Lufthansa AG E.ON AG (Chairman)	Henkel AG & Co. KGaA
Dr. rer. nat. Rainer Janßen (until 22 April 2009)	–	ACORD[4]
Prof. Dr. rer. nat. Dr.-Ing. E. h. Henning Kagermann	Deutsche Bank AG Deutsche Post AG	Nokia Corporation, Finland Wipro Ltd., India
Peter Löscher (since 22 April 2009)	–	–
Prof. Dr. rer. nat. Drs. h. c. mult. Hubert Markl (until 22 April 2009)	Bayerische Motoren-Werke AG (until 14 May 2009)	–
Wolfgang Mayrhuber	Bayerische Motoren-Werke AG Fraport AG Lufthansa-Technik AG[4]	Heico Corporation, Miami AUA Austrian Airlines[4] Brussels Airlines[4]
Kerstin Michl (until 22 April 2009)	–	–
Prof. Karel Van Miert (†) (until 23 June 2009)	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

[3] Status: 31 December 2009 (in the case of members who have left the Supervisory Board, the information shows the status at the date of their departure).
[4] 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
Ingrid Müller (until 22 April 2009)	–	–
Silvia Müller (since 22 April 2009)	Deutsche Krankenversicherung AG[4] ERGO Versicherungsgruppe AG[4]	–
Marco Nörenberg (since 22 April 2009)	Hamburg-Mannheimer Versicherungs-AG[4] ERGO Versicherungsgruppe AG[4]	–
Reinhard Pasch (since 22 April 2009)	–	–
Prof. Dr. jur. Dr.-Ing. E. h. Heinrich v. Pierer (until 22 April 2009)	Hochtief AG	Koç Holding A.S., Istanbul
Dr. e. h. Dipl.-Ing. Bernd Pischetsrieder	METRO AG	Tetra-Laval Group, Pully
Anton van Rossum (since 22 April 2009)	–	Credit Suisse Groupe, Zurich Solvay S.A., Brussels Royal Vopak NV, Rotterdam (Chairman) Rodamco Europe NV, Amsterdam
Andrés Ruiz Feger (since 22 April 2009)	–	–
Dr. rer. nat. Jürgen Schimetschek (until 22 April 2009)	–	–
Dr. jur. Dr. h. c. Albrecht Schmidt (until 22 April 2009)	–	Thyssen'sche Handelsgesellschaft m. b. H., Mülheim/Ruhr
Richard Sommer (since 22 April 2009)	ERGO Versicherungsgruppe AG[4] Hamburg-Mannheimer Versicherungs-AG[4]	
Dr. phil. Ron Sommer	–	MTS OJSC, Russia JSFC Sistema, Russia Tata Consultancy Services Ltd., India Sistema Shyam Teleservices Ltd., India
Wolfgang Stögbauer (until 22 April 2009)	–	–
Josef Süßl (until 22 April 2009)	–	–
Judy Võ (until 22 April 2009)	–	–
Dr. Ing. Thomas Wellauer (since 22 April 2009)	–	–

[3] Status: 31 December 2009 (in the case of members who have left the Supervisory Board, the information shows the status at the date of their departure).
[4] Own group company within the meaning of Section 18 of the German Stock Companies Act.

Parameters

- // Constantly changing, more complex parameters demanding flexibility and tailored solutions
- // Economic crisis apparent in all markets, but initial recovery apparent
- // Profit-oriented underwriting still essential
- // Solvency II on the way – Supervisory architecture in flux

General parameters

More complex environment poses challenge to actuarial practice

Our business environment is one of increasing complexity, with an upward trend in major insurance-relevant events. We are seeing a disproportionate rise in man-made losses in relation to economic activity, due to technological progress, advancing economic and geopolitical interdependencies, and climate change. Concentrations of values are soaring and economic entities as well as regions are becoming ever more interdependent, leading to new risk potentials and accumulation hazards. It is therefore imperative to carry on refining risk models and to translate new findings into actuarial practice.

Demographic change is also leading to fundamental upheavals in many parts of the world. 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 employed 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, giving rise to a major opportunity for the private insurance industry.

Many countries are realigning their social security systems to these demographic requirements, but are doing so half-heartedly and inconsistently. In some cases, this is leading to an uncertain legal and political climate, with which insurers will have to cope for the time being. Particularly in highly-developed countries, insurers are having to adjust to the growing target group of older people with their special needs. Speed and flexibility in the design and maintenance of products thus remain important competitive factors.

The regulatory environment for insurance companies is also set to change substantially. As a consequence of the financial market crisis, supervisory authorities in Europe and around the world are having to reposition themselves. What is more, new rules for state supervision in Europe (Solvency II) and new accounting standards have implications for insurers' capital requirements and external reporting.

Given the developments described, both the demand for insurance cover and its supply are changing. 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 insurance and reinsurance alike.

Economic parameters

As anticipated, the macroeconomic parameters in 2009 were shaped by the crisis on the international financial markets and a global recession, which also affected the insurance industry. From the middle of the year, however, the first signs of an economic recovery became apparent – isolated at first, strengthening later. Prices on the international stock markets rose significantly as of March, and marked price gains were recorded by year-end. Oil prices recovered noticeably over the course of the year.

Economy

Effects of economic crisis felt worldwide in 2009

The **world economy** entered a severe recession in 2009, with China and India remaining the only notable growth drivers. Other key emerging markets, Japan, Europe and the USA suffered from a shrinking economic output. The slump in global demand led to relatively low inflationary pressure – some industrialised countries even saw price falls. To support the economy, public-spending programmes of historical proportions were launched worldwide, accompanied in some cases by unconventional monetary-policy measures on the part of central banks.

The **USA**, the world's largest insurance market, recorded a distinct decline in economic output overall in 2009, although the economy did recover in the third and fourth quarters. The unemployment rate rose to a historic peak over the year and averaged 10.0% in the fourth quarter when seasonally adjusted. Alongside state measures to prop up the economy, it was also underpinned by relatively robust exports. Year on year, real GDP sank by 2.4%. Consumer prices fell by 0.4%.

The **Japanese economy** shrank for the second consecutive year. After –1.2% in 2008, GDP decreased noticeably by 5.0% in real terms.

The **eurozone** was also hit hard by the crisis. Whereas in the previous year slight real economic growth of 0.6% had been posted, economic performance fell by 4.0% in real terms in 2009. There were significant regional differences, but none of the euro countries recorded positive real growth rates.

In **Germany**, the economy shrank noticeably in 2009 – by 5.0% in real terms – and thus fared somewhat worse than the eurozone average. The unemployment rate rose to 8.6% in the first quarter but, partly due to extensive labour-market policy measures, fell to 7.8% in December. Private consumption, also supported by state transfer payments, had a stabilising effect on the economy. Due largely to the recovery of the global economy, a slight economic upturn was apparent from the second quarter onwards. Consumer prices rose by only 0.4%.

At –4.8%, the fall in real GDP for 2009 was also comparatively sharp in the **United Kingdom**.

The chiefly export-oriented economies of Asia, eastern Europe and Latin America suffered from the sagging global demand in 2009. **China** (+8.7%) and **India** (+7.2%) posted strong economic growth despite considerably restrained momentum. Russia experienced a drastic slump in economic output, owing particularly to much lower raw materials exports. By contrast, the Brazilian economy shrank only slightly, bolstered by relatively robust domestic demand.

Capital markets

Gains in share price indices

After a string of setbacks, the international stock markets recorded marked price gains from March 2009 onwards. Over the course of the year, the EURO STOXX 50 improved by 21.1%. In the USA, the S&P 500 closed 2009 up 23.5%. The DAX gained 23.8% compared with the beginning of the year, while the Japanese Nikkei Index recorded an increase of 19.0%.

The yield on ten-year German government bonds rose from 2.9% to 3.4% in the course of 2009, and ten-year US government bonds also showed a yield increase of 1.5 percentage points from 2.3% to 3.8%.

The European Central Bank lowered its reference interest rate from 2.5% to 1.0%, and the Bank of England took similar measures, cutting its interest rate from 2.0% to 0.5%.

Until early March 2009, the euro lost ground against the US dollar and reached its year-low at US$ 1.25. This trend subsequently reversed, with the exchange rate rising to US$ 1.43 at year-end. The pound sterling exchange rate was very volatile, with the euro depreciating over the year as whole from £0.97 at the start to £0.89 at the close. The euro appreciated marginally in value against the Japanese yen, climbing from ¥126.01 at the beginning of January to ¥133.57 at the end of December.

Development of the US$/€ exchange rate from January to December 2009

Insurance industry

Writing business at risk-adequate prices was once more the central issue on the insurance markets in 2009. Due to the financial crisis and its effects on the capitalisation of the insurance and reinsurance industries, some appreciable price gains were realised in some cases in the renewals at the beginning of the year and at 1 April and 1 July. For many market players, selective and result-oriented underwriting was still the priority.

The capital base of insurers and reinsurers has recovered comparatively quickly from the consequences of the international financial crisis. Large natural catastrophe losses were only recorded in isolated cases. Accordingly, market conditions for reinsurers generally improved less than initially anticipated overall. In the renewals of reinsurance treaties at 1 January 2010, there were therefore marginal price reductions on average.

Premium growth affected by macroeconomic development

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 insurance market cycle. Apart from macroeconomic factors , changes in the legal and tax environment play a key role in the market dynamics of life and health insurance.

In general, the negative trends in the global economy also affected insurance markets, although initial estimates indicate that high growth rates were achieved in **China**. The **European markets** showed differing developments. In Spain, it appears that premium volume grew by only 1.2% compared with the previous year, whereas in France it increased by 9%.

Despite the high degree of economic uncertainty, the insurance industry in **Germany** increased its premium income in 2009 by 3.1% according to provisional estimates, compared with growth of only 1.0% in the previous year. Life insurance benefited considerably from single-premium business and posted a significant improvement of 7.1% in premium volume. Property-casualty business saw hardly any growth, with premium increasing by only 0.2%. Premium income in private health insurance rose by 4.0%.

Regulatory changes

National and international efforts continue on the political front to avoid a repeat of the financial crisis by monitoring those markets and their institutions more effectively.

The new insurance supervision system, **Solvency II**, has been under discussion for some time now. After exhaustive consultations by the bodies responsible, the European framework directive, which is to be implemented at the latest by the end of October 2012, was formally adopted by the Council of the European Union on 10 November 2009. The future requirements for risk-adequate financial resources have thus been set, along with those for adequate qualitative risk management and for reporting duties towards supervisory authorities and the public. The associated implementing measures are currently in preparation.

In January 2009, the German Federal Financial Supervisory Authority (BaFin) published **MaRisk (VA)**, a circular on the minimum supervisory requirements for the risk management of insurance undertakings. The circular anticipates certain Solvency II requirements and is likewise principles-based. This means that within the bounds of the binding minimum requirements, insurers can determine the concrete design of their risk management themselves. In doing so, the insurers consider company-specific risks, the type and scope of their operations, and their business model. The minimum requirements include setting up an internal control and management system (ICS) that provides for adequate risk identification, analysis, assessment, control and monitoring. More information on Munich Re's risk management and ICS can be found in the risk report on page 145 ff.

Regulatory environment subject to changes worldwide

States throughout the world have made insurance supervision regulations more stringent. In Germany, the **Act for Strengthening of the Financial Markets and Insurance Supervision** of 1 August 2009 further extended BaFin's powers of intervention and the insurance companies' reporting obligations. If a company experiences a financial crisis, BaFin can now prevent or limit payments to its group affiliates, for example. In addition, the number of former management board members on an insurance company's supervisory board was limited to two, although BaFin can approve more within a group. The Act lays down requirements for members of supervisory boards with regard to their reliability and professional expertise, and limits the number of memberships of supervisory boards at regulated entities. Furthermore, significant risk concentrations at group level must also be reported to BaFin on a quarterly basis.

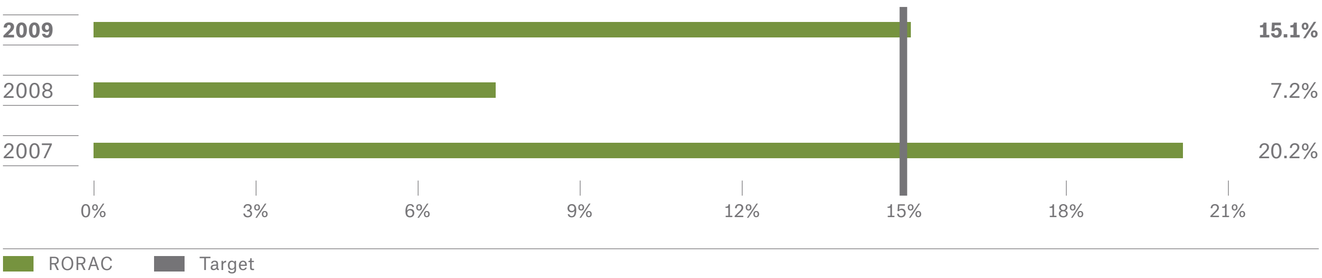
At a European level, the European Commission presented proposals for a reorganisation of supervisory architecture. Its objectives include early identification of systemic risks, more effective cooperation between supervisory authorities in emergencies, and thus the strengthening of financial supervision. The new **European Systemic Risk Board** will have the function of recognising and providing due warning of risks at a macroeconomic level for the financial system as a whole. Moreover, a European System of Financial Supervisors is to be created, comprising the national supervisory authorities as well as three new European supervisory authorities for the areas of banking, securities trading and insurance.

Business performance

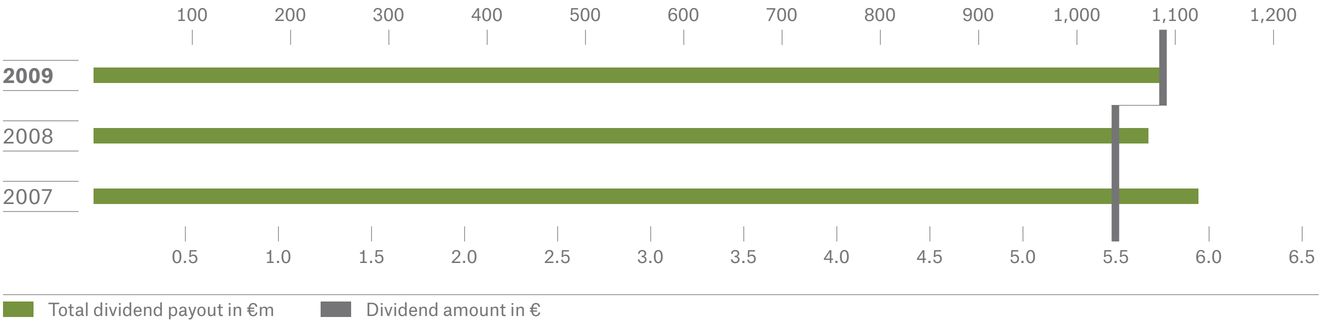
- // 62.4% increase in the consolidated result to €2,564m, despite the difficult environment worldwide
- // Return on risk-adjusted capital (RORAC) of 15.1% after tax
- // Proposed dividend increase to €5.75 (5.50) per share

Overview and key figures

Return on risk-adjusted capital



Dividend



Segment reporting more closely aligned to internal reporting structure

As of the financial year 2009, in accordance with IFRS 8, we are gearing the breakdown of our segment reporting more closely to our internal reporting and management structure. With effect from 2009, we are therefore showing the business of the Watkins Syndicate in the property-casualty reinsurance rather than primary insurance segment. Furthermore, we now show life and health primary insurance as individual segments, owing to their significant volume and separate management. Finally, following their transfer to ERGO, ERV and almeda (formerly Mercur) are now part of the health rather than the property-casualty primary insurance segment. We have adjusted the figures for financial year 2008 accordingly.

As part of the first-time application of IFRS 8, we now clarify the sources of the profit shown in the income statement by splitting the operating result into two components: the technical result and the non-technical result. Also, an interest component is allocated to the technical result in the form of "income from technical interest". This derives from the interest earned on technical provisions and the entitlement of policyholders to portions of the non-technical result. Further information can be found in the notes to the financial statements on page 197.

Operating result up by 23.1%

Munich Re's business performed well in the past financial year, despite the still difficult macroeconomic climate. Gross premium income rose by 9.5% year on year. We posted an operating result of €4,721m for 2009, an increase of 23.1%. This operating result comprises the technical result totalling €2,747m (2,756m) and the non-technical result amounting to €1,974m (1,078m). The increase in the non-technical result was mainly attributable to a significantly higher investment result. The consolidated result was 62.4% up on the previous year. The HSB Group, acquired with effect from 31 March, contributed €123m to the operating result and €78m to the consolidated result. Including the income and expenses recognised directly in equity, there was a result improvement of around €4.2bn compared with the previous year. The investment result climbed to €7.9bn (5.9bn). On the basis of the average investment portfolio at market values, we achieved a return on investment of 4.3% (3.4%).

The return on risk-adjusted capital (RORAC) totalled 15.1% for the 2009 financial year, compared with 7.2% in 2008. The RORAC for 2009 was thus slightly above our long-term target of 15% despite the very difficult environment, a clear sign of our earnings strength.

We want our shareholders to benefit from the Group's performance: the Board of Management and the Supervisory Board will therefore propose at the Annual General Meeting payment of a dividend of €5.75 (5.50) per dividend-bearing share. We are thus maintaining our profit distribution at a high level and will distribute a total of €1.1bn to our shareholders, the same amount as in the previous year.

In 2009, we acquired 3.8 million shares worth €406m – 0.6 million shares or a volume of €56m under the 2008/2009 share buy-back programme concluded by the Annual General Meeting on 22 April 2009, and 3.2 million shares or a total of €350m under the 2009/2010 programme. Since the beginning of the share buy-backs in November 2006, we have been able to return a total of around €7.5bn to our shareholders including dividend payouts.

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.

Key figures		2009	2008	2007	2006	2005
Gross premiums written	€bn	41.4	37.8	37.3	37.4	38.2
Combined ratio						
Reinsurance property-casualty	%	95.3	99.4	96.4	92.6	111.7
Primary insurance property-casualty[1]	%	93.1	90.9	93.4	90.8	93.1
Operating result	€m	4,721	3,834	5,573	5,877	4,156
Consolidated result	€m	2,564	1,579	3,923	3,519	2,751

[1] Including legal expenses insurance.

Result

In the year under review, we significantly improved the **operating result** and **consolidated result**.

Result of €2.6bn in reinsurance

Adjusted to eliminate an intra-Group dividend payment from ERGO to Munich Reinsurance Company in 2008, the 2009 result for **reinsurance** climbed by 75.8% year on year. The improvement is mainly attributable to the below-average burden from major losses and an increased investment result. The financial crisis triggered a rise in man-made losses. Our operating result for reinsurance, which includes the investment result, was up 8.9% to €4.2bn (3.8bn). The Market Consistent Embedded Value (MCEV) of life reinsurance business grew to €6.8bn (6.1bn)[1].

In the first half of 2009, **primary insurance business** still reflected the impact of the capital market crisis. By contrast, thanks to our continued good underwriting in property-casualty business and less strain from the capital markets, the picture from July to December was a positive one. For the whole financial year 2009, the primary insurance result climbed to €375m (156m). In the year under review, MCEV amounted to €3.2bn (1.7bn) in life insurance and €2.0bn (1.8bn) in health insurance[2]. In property-casualty insurance including legal expenses business, our combined ratio remained at a good level of 93.1% (90.9%).

The **investment result** for 2009 was up significantly by 33.2% to €7,883m compared with the previous year. It was favourably influenced by a reduction of €4.5bn in the negative balance from write-ups and write-downs in our equity portfolio and a €750m increase in gains on the disposal of equities. The balance from write-ups and write-downs on derivative financial instruments totalled –€413m (2,842m). We posted a moderate increase of €436m to €6,445m in regular investment income from loans and fixed-interest securities, while dividend income from our portfolio of equities and regular income from associates declined to €224m (963m) as a result of significant cutbacks in our equity portfolio. Our return on investment (based on the average investment portfolio at market values) was 4.3% (3.4%).

[1] The previous year's figures were determined on the basis of European Embedded Value (EEV) Principles. The MCEV for 2008 is €4.7bn.
[2] The previous year's figures were determined on the basis of EEV Principles. The revaluation according to MCEV Principles results in only minor changes.

At €1,264m, **tax expenses** were lower than in the previous year (€1,372m), representing 33.0% (46.5%) of the pre-tax profit. This decrease was particularly attributable to the recovery in the capital markets: in 2009, we realised tax-free gains on the disposal of equities, while our non-deductible losses on the disposal of shares were much lower than in the previous year.

Premium

We earned around 58% (55%) of our **Group premium income** from reinsurance and 42% (45%) from primary insurance. Whereas in reinsurance we operate on a global basis, in primary insurance the major share of our premium, around 74% (76%), comes from the German market. Thanks to companies acquired in 2008, however, foreign business grew to €4,613m (4,144m) in 2009.

In **reinsurance**, premium income rose significantly by €3.0bn or 13.5% in the year under review. Taking into account adjustments to eliminate the effects of currency gains or losses, the increase amounted to 13.1%. Our capital strength was particularly in demand during the financial crisis.

In the life and health segment, gross premiums written were up by 36.6% to €9.7bn (7.1bn). Without currency translation effects, they showed a rise of 36.4%, primarily owing to a series of large-volume transactions providing clients with a capital substitute in the financial crisis. Our underwriting policy continued to be determined by risk-adequate prices, terms and conditions.

In property-casualty reinsurance, premium volume climbed to €15.1bn (14.7bn). Adjusted to eliminate currency translation effects, it rose by 1.8%. Cycle management, underwriting discipline, client focus and leading know-how remain the foundations of our good results. We continue to apply risk-adequate prices, terms and conditions and consistently refrain from participating in business that does not meet our stringent profitability requirements, while aiming to expand specialty segments with strong margins. The 2009 renewal negotiations were satisfying. On balance, stable or increased prices were achieved and attractive new business generated. In particular the price level for offshore energy business showed a marked improvement. We also wrote treaties with US hurricane exposure at considerably better rates and expanded our agricultural business. The HSB Group contributed €458m to premium income.

In **primary insurance**, we posted overall premium income[1] of €19.1bn (18.1bn) in the financial year 2009, a rise of 5.3%. Growth in international business was driven by changes in the consolidated group: Bank Austria Creditanstalt Versicherung (BACAV) had not yet been fully consolidated in the same period of the previous year, and ERGO Daum Direct Auto Insurance Co. (ERGO Daum Direct), Seoul, was not included until the second quarter of 2008.

Premium growth driven by international business

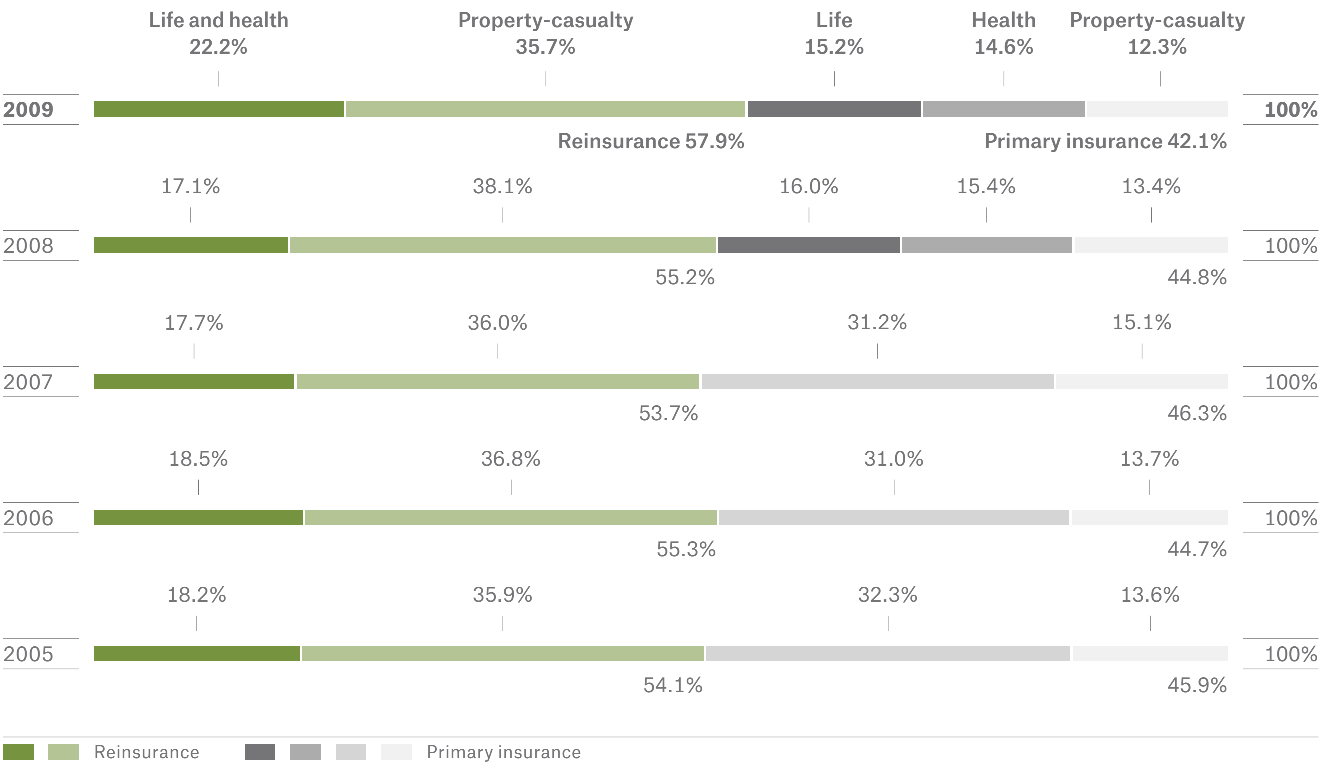
Our life insurers posted growth in total premium volume of 9.9% to €7.9bn (7.2bn). International business showed a particularly steep rise of 19.2%, partly attributable to our acquisition of the majority shareholding in BACAV in the financial year 2008. Single-premium business also had a favourable effect. The success of new regular-premium business in the previous year was not repeated, 2008 having benefited from the last subsidisation stage for Riester policies.

[1] The primary insurance premium income is made up as follows: In the life primary segment, it includes not only gross premiums written but also savings premiums for unit-linked life insurance and capitalisation products in accordance with the statutory accounting guidelines applicable in the insurer's home country. In the property-casualty and health primary insurance segments, it comprises the gross premiums written.

In health insurance, premium volume expanded by 3.6% to €6.0bn (5.8bn). In Germany, health premium income grew by 1.7% to €4.9bn, while international business increased by 12.7% or €126m. The year under review was adversely affected by the impact of the German health reform on comprehensive cover and of the economic crisis on travel insurance.

In the property-casualty segment, premium rose by 1.0% to €5.2bn (5.1bn). Premium volume declined in the highly competitive class of motor business.

Share of reinsurance and primary insurance in Group pemium income[1]



[1] After elimination of intra-Group transactions across segments.

Percentage of premium from foreign business[1]

[1] After elimination of intra-Group transactions across segments.

Group premium income	2009	2008	2007	2006	2005
€bn					
Reinsurance	24.8	21.9	21.5	22.2	22.3
Primary insurance	17.5	17.0	17.3	16.7	17.6
Consolidation	–0.9	–1.1	–1.5	–1.5	–1.7
Total	**41.4**	**37.8**	**37.3**	**37.4**	**38.2**

Munich Health

In 2008, Munich Re brought together its health reinsurance worldwide and health primary insurance outside Germany in a separate business field, operating internationally since May 2009 under the Munich Health brand. In the past financial year, this field of business generated premium income of €4.0bn. From the financial year 2010 onwards, we will report Munich Health as a separate segment under IFRS.

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. Overcoverage[1] in a particular foreign

[1] The term overcoverage denotes a situation in which the assets in a foreign currency exceed the liabilities in that currency.

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 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 Munich Reinsurance Company's Board of Management in the fourth quarter of 2009, we repurchased a further 2,760,659 Munich Re shares with a volume of €298m after the balance sheet date up to 28 February 2010.

On 27 February 2010, a severe earthquake with an intensity of 8.8 occurred off the coast of Chile. On the same weekend, Winter Storm Xynthia swept over western and central Europe. Munich Re has exposures in the regions affected.

Reinsurance

- // Year-on-year increase in premium income of 13.5% to €24.8bn, mainly due to premium growth in life and health
- // Respectable combined ratio of 95.3%; major-loss expenditure totalling €1,158m, primarily for man-made losses
- // Investment result of €3.9bn
- // Consolidated result of €2.6bn
- // Sharpened value proposition

Key figures		2009	2008	2007	2006	2005
Gross premiums written						
Life and health	€m	9,742	7,130	7,293	7,665	7,811
Property-casualty	€m	15,081	14,739	14,224	14,551	14,547
Loss ratio						
Health[1]	%	81.0	76.0	72.0	68.5	62.3
Property-casualty	%	65.7	69.6	67.9	64.7	83.5
Thereof natural catastrophes[2]	Percentage points	1.4	6.2	4.7	1.0	19.2
Expense ratio						
Health[1]	%	19.0	23.1	26.4	27.8	30.7
Property-casualty	%	29.6	29.8	28.5	27.9	28.2
Combined ratio						
Health[1]	%	100.0	99.1	98.4	96.3	93.0
Property-casualty	%	95.3	99.4	96.4	92.6	111.7
Operating result[3]						
Life and health	€m	1,175	930			
Property-casualty	€m	2,989	2,892			
Consolidated result						
Life and health	€m	728	705	714	561	977
Property-casualty	€m	1,827	1,695	2,586	2,134	420

1 Excluding health business conducted like life insurance.
2 2005–2007 adjusted owing to change in methodology.
3 Not available for the financial years 2005–2007, since IFRS 8 was applied for the first time in the financial year 2009.

Munich Re operates in virtually all classes of reinsurance. We offer a full range of products, from traditional reinsurance to innovative solutions for risk assumption. We aim to deploy our extensive risk knowledge to develop individual solutions for our clients in response to complex requirements. The newly positioned Munich Re brand symbolises this sharpened value proposition, whose cornerstones are financial solidity coupled with forward-looking expertise.

Marketing

As reinsurers, we write our business directly with the primary insurers and also via brokers. This includes traditional reinsurance business and primary insurance business from industrial clients, insurance pools, public-private partnerships and business in specialist niche segments. The crucial success factor in all these areas is generally risk expertise.

Overview and key figures

Pleasing performance overall in reinsurance

Munich Re's reinsurance business performance was pleasing overall in the past financial year. Unlike in the previous year, we were largely spared major claims burdens from natural catastrophes. The share of natural catastrophes in the loss ratio was 1.4 (6.2) percentage points, appreciably lower than in the previous year. However, there was a significant increase in man-made losses as a result of the financial crisis. The combined ratio amounted to 95.3% (99.4%) in 2009. We also posted a good result in life and health business in the year under review.

Our capital strength was particularly in demand during the financial crisis, and we were able to realise transactions with a series of clients seeking to cover their need for a capital substitute. In addition, we benefited from consistently pursuing our underwriting policy of forgoing business that fails to meet our risk-adequate terms and conditions. Our expertise in the assessment of risk and proven financial strength are important success factors that are increasingly being rewarded through better prices than those achieved by our competitors.

Our investment result profited from the positive performance of the capital markets and improved in 2009, after being strongly impacted in the previous year by the collapse in share prices on the world's stock markets and the associated substantial write-downs in our equities portfolio.

Result

Consolidated result in reinsurance up 6.5%

The reinsurance segments life and health and property-casualty contributed €0.7bn (0.7bn) and €1.8bn (1.7bn) respectively to the consolidated result. The overall result for reinsurance was thus 6.5% higher than in the previous year, even though the figure for 2008 included an intra-Group dividend payment of €947m from ERGO to Munich Reinsurance Company. The improvement is mainly due to the below-average burden from natural catastrophes and a better investment result, after adjusting the previous year's figure for the ERGO dividend in 2008. The investment result in reinsurance totalled €3.9bn (4.1bn) in 2009 compared with €3.2bn after elimination of the ERGO dividend in 2008. Our operating result for reinsurance, which includes the investment result, rose by 8.9% to €4.2bn (3.8bn). The technical result amounted to €1.9bn (1.6bn).

Reinsurance result	2009	2008[1]	2007	2006	2005
€m					
Operating result[1]	4,164	3,822			
Consolidated result	2,555	2,400	3,300	2,695	1,397

[1] Not available for the financial years 2005–2007, since IFRS 8 was applied for the first time in the financial year 2009.

Premium

Premium growth of 13.5%

At €24.8bn (21.9bn), our premium income in 2009 was significantly up on the previous year (13.5%). If exchange rates had remained unchanged, our premium income would have been 13.1% higher. Approximately €19.6bn or 79% of premium was written in foreign currency, of which 34.5% was in US dollars, 12.9% in Canadian dollars, and 12.5% in pounds sterling. 21% of our premium volume was transacted in euros.

We continued to adhere strictly to our underwriting policy of risk-adequate prices, terms and conditions. After the decline in prices for reinsurance protection in the last few years, we were able to achieve better price levels in many areas in 2009 and to generate attractive new business. In addition, we posted a marked rise in premium as a result of the large-volume transactions in life and health reinsurance and the acquisition of the HSB Group.

About 39% of our total premium income emanated from life and health and 61% from property-casualty business.

Gross premiums by segment	2009	2008[1]	2007	2006	2005
€m					
Life and health	9,742	7,130	7,293	7,665	7,811
Property-casualty	15,081	14,739	14,224	14,551	14,547
Total	**24,823**	**21,869**	**21,517**	**22,216**	**22,358**

Life and health

// Appreciable premium growth of 36.6% compared with the previous year
// Good result of €728m

Key figures		2009	2008	2007	2006	2005
Life						
Gross premiums written	€m	6,796	5,284	5,953	6,356	6,491
Health						
Gross premiums written	€m	2,946	1,846	1,340	1,309	1,320
Combined ratio[1]	%	100.0	99.1	98.4	96.3	93.0

[1] Only for health reinsurance, with the exception of health business conducted like life reinsurance.

At €9.7bn (7.1bn), the gross premiums written in the **life and health** reinsurance segment were distinctly higher than in the previous year. This is primarily due to a number of large-volume transactions providing clients with a capital substitute in the financial crisis. Adjusted to eliminate the effects of changes in exchange rates, growth in premium income amounted to 36.4%.

The operating result of €1,175m (930m) and the consolidated result of €728m (705m) both improved considerably against the previous year. In particular the investment result was up noticeably from 2008, when it was badly affected by the financial crisis.

In 2009, life reinsurance treaties were valued for the first time on the basis of MCEV Principles. Unlike European Embedded Value (EEV) Principles used in the previous year, the costs of non-hedgeable risks are explicitly calculated under MCEV. The latter comprises a company's equity and the present value of its future net earnings from business in force, this being the present value of future profits (where profits are post-taxation shareholder cash flows from the in-force covered business and the assets backing the associated liabilities) calculated using financial and actuarial methods (see page 64 f.).

Embedded value for 2009 at €6,773m

The MCEV of total life reinsurance business increased to €6,773m (6,116m) in the past financial year. The revaluation of the previous year's figure in connection with the conversion from EEV to MCEV has resulted in a decline of €1,459m in embedded value as at 31 December 2008. This decrease contrasted with positive exchange-rate impacts and higher overall earnings of €1,616m (498m), due not only to a favourable capital market environment but also to a significant rise in the value added by new business totalling €562m (356m). The strong growth in the value added by new business is in part attributable to one-off new business opportunities created by the financial crisis. A presentation of MCEV is available on Munich Re's website.

Life

28.6% growth in premium income

With a gross volume of €6,796m, premium income in life reinsurance grew by 28.6% compared with the previous year. The growth was primarily driven by a number of major transactions we were able to realise with clients in North America, Asia and Continental Europe thanks to our financial solidity and acknowledged risk expertise – life reinsurance serving them as a capital substitute. On the other hand, the consequences of the global recession had a negative impact on individual areas of our clients' business.

We nevertheless expect fundamental growth impulses for our future new business to continue emanating from several factors: the restructuring of the European solvency regime (Solvency II), the continuing privatisation trends in provision for old age, long term care and disability, the need for asset protection, and the dynamic expansion of the insurance markets in Asia.

In **Germany**, a trend away from unit-linked life insurance products towards traditional annuity products with guarantees emerged in light of the financial crisis. Moreover, the share of single-premium business in Germany grew strongly. The slightly greater demand for pure risk products is gratifying from the reinsurance perspective, but it is reflected mainly in the companies' retentions, given the low average sums insured. Overall, the trend towards increasing retentions and a conversion of reinsurance treaties from coinsurance to risk-premium basis continued. Due to the financial crisis, solutions in the area of solvency relief and capital strengthening met with rising interest, enabling us to keep premium income in Germany stable overall at €0.7bn (0.7bn) in 2009.

International activities in life bear fruit despite crisis

In the **USA**, our subsidiary Munich American Reassurance Company (MARC) increased its gross premiums to €1.5bn (1.3bn), thus maintaining its position among the leading life reinsurers, even in the financial crisis. Despite the difficult market environment, MARC sees opportunities to further grow its market share, especially in the area of pure mortality covers, by offering attractive individual risk capacity and financial solutions tailored to clients' specific requirements. Although expenses for pure mortality covers had returned to normal after the previous year, the operating result was below expectations, predominantly due to a more conservative investment policy designed to stabilise future results.

Munich Reinsurance Company Canada Branch (Life), our unit in **Canada**, continues to dominate all segments of the Canadian life reinsurance market, having further strengthened its leading market position by creatively developing programmes to help its clients expand their business. Premium income rose to €1.6bn (0.8bn), particularly because we were able to take advantage of large-volume business opportunities in connection with the financial crisis. Likewise, the operating result was up on the previous year, mainly thanks to favourable claims experience. Altogether, our Canadian branch is well positioned to again produce good results in 2010.

With a gross premium volume of €0.8bn (0.9bn), our branch in the **United Kingdom** kept its premium income in original currency stable compared with the previous year, despite the difficult economic situation. Downward pressure on the prices of pure mortality covers persisted, but we succeeded in securing our strong market position and focused on expanding our client relationships. We also created the infrastructure necessary to provide innovative solutions in group business from 2010 onwards. In the field of longevity products, we conducted a comprehensive analysis of the market last year and laid the foundations for also writing this business selectively and profitably in future.

Our investments in the **Asian life insurance markets** bore fruit in 2009 and exceeded expectations, despite the economic crisis. With the help of newly developed insurance products, we succeeded in upping our premium and results in this field of business. We also managed to conclude a series of attractive treaties that improved our clients' solvency and balance sheet strength. Premium volume in the Asian markets came to €0.6bn (0.2bn) and played a significant role in determining the value added by new business in the Life Division.

We continued to expand our involvement in the region in 2009 and made selected investments with a view to exploiting the business opportunities even more strongly in the long run. Independent client surveys showed that in Asia, too, Munich Re is seen as the first choice in life reinsurance.

Our subsidiary Munich Reinsurance Company of Australasia (MRA), which writes life reinsurance business in **Australia and New Zealand**, increased premium income by 30% in original currencies, while maintaining satisfactory profit margins.

On the **African continent**, our subsidiary Munich Reinsurance Company of Africa (MRoA) continued to grow profitably, increasing its premium income by 40% to €105m. Despite its small size, the African market remains attractive for us and offers above-average opportunities for profitable growth.

Health

In recent years, the global health market has become one of the fastest-growing sectors of the economy in terms of both insurance and care provision. This trend will become even more pronounced in the future due to advances in medicine and increases in life expectancy. In order to maximise the opportunities this brings, Munich Re has pooled its specialists for international health primary insurance (outside Germany) and reinsurance business in a separate organisation under the new brand Munich Health.

More than 5,000 staff at 26 locations worldwide are now working even more closely together to offer their clients and partners all over the world top products and solutions. To best meet the often highly diversified needs of clients on a local level, Munich Health has established a decentralised organisation managed from four regional business hubs in Princeton, Abu Dhabi, Singapore and Munich. We are thus in a position to closely support and service our over seven million primary insurance and 400 plus reinsurance clients.

Besides risk expertise in the international health market, Munich Health has a broad spectrum of service providers and risk carriers. These extend from pure reinsurers and traditional primary insurers to full-range providers of integrated insurance and health-care services.

Since Munich Health will not be recognised as a separate segment until the first quarter of 2010, the following information for the financial year 2009 still relates exclusively to the activities of international health business managed from within reinsurance.

60% surge in premium income in 2009

In the year under review, premium income in this sector rose by around 60%, from €1.8bn to €2.9bn. This increase is partly attributable to a new multi-year quota share treaty in the North American market with a premium volume of €980m in 2009. The combined ratio showed a rise to 100.0% (99.1%), largely owing to start-up costs at our newly established companies DKV Salute (Italy) and DKV Globality (which pools our global business with expatriates).

The **USA** remains our largest single market, with a premium volume of €912m (848m) in the 2009 financial year. Despite the competitive environment, we succeeded in further improving the result margins in reinsurance business, enabling us to offset reductions in volume due principally to our withdrawal from unprofitable business.

Sterling Life Insurance Company was able to conclude its integration into Munich Re in 2009 and achieve its income targets for the financial year. Its premium income reached €695m, compared with €538m for the three quarters in 2008 following first-time consolidation as at 1 April. Sterling Life Insurance Company provides insurance benefits for seniors in the Medicare Advantage segment, the parameters of which are defined by the US administration. Given the planned health reform, the legal and regulatory framework remains uncertain. Back in June 2008, a law was passed that has made marketing to potential new clients more difficult. In addition, in the second quarter of 2009, the government's plans to cut the state budget for Medicare Advantage plans became more concrete – state reimbursement of expenses is to be reduced. This will lead to a significant decline in premiums in 2010.

Cairnstone, our US service company for employer stop loss products, is maintaining a stringent underwriting policy, which enabled it to surpass its result margin targets for 2009 and achieve a business volume of €29m (45m). Cairnstone changed its brand name in 2009, renaming itself Munich Re America Stop Loss Inc. with effect from 1 January 2010 – a step that is also intended to improve the company's market positioning.

In **Germany**, premium volume in the year under review amounted to €215m (236m). For statutory health insurance, 2009 was dominated by the introduction of the new Health Fund, leading to a reorganisation of financing as from 1 January 2009. The legislators simultaneously introduced a new insolvency code for statutory health insurers, which has increased their need for risk protection. At the same time, statutory health insurers are required to invest increasingly in healthcare management, a fact that could increase their need for new types of reinsurance solution. In addition, it is now possible for statutory health insurance providers to sell supplementary insurance, which opens up further market opportunities for such products.

Private health insurance, too, is beginning to show a greater need for reinsurance protection against large losses and catastrophe losses as new advances are made in medicine.

Strategic partnership with DAMAN extended

In the **Gulf region**, we managed to maintain premium income levels, despite the general recession, thanks to our business model combining reinsurance and risk management through our managed care service organisation MedNet. Similarly, our partnership with DAMAN National Health Insurance (DAMAN), Abu Dhabi, the first specialised health insurer in the United Arab Emirates, is continuing to exceed expectations. In 2009, the company had more than 1.8 million policyholders. The company's premium volume grew to around €309m (256m), with reinsurance premium revenue totalling €125m (75m). Besides reinsurance, we provide DAMAN with comprehensive services under a management agreement and hold a 20% share in the company's capital. Given the successful and profitable business development, our strategic alliance and partnership with DAMAN has been extended. The Gulf region – with its economic and population growth, the rise in chronic diseases and an increasing privatisation trend in the health sector – promises high growth in the medium to long term. Our premium income in the Gulf states climbed to €192m (143m) in 2009, currently representing 6.5% of the total premium in health business.

Since 2007, Munich Health has also been operating one of the first specialist health insurers in **India**, Apollo DKV Insurance Company Limited (renamed Apollo Munich Health Insurance Company Limited with effect from 12 January 2010), together with the Apollo Hospitals Group (Asia's largest chain of hospitals and pharmacies). The aim is to give new stimulus to heathcare provision and to the country's health insurance sector.

Other markets, in particular the United Kingdom, Italy, the Netherlands, China and other countries in Asia and on the Pacific Rim, form part of the reinsurance segment's overall portfolio. Our broad regional spread and the ability of the new Munich Health field of business to operate with different business models, depending on the market situation, enables us to limit the political and economic risks of our business.

Property-casualty

// Solid result of €1,827m
// Combined ratio of 95.3%

In **property-casualty reinsurance**, we posted a solid result founded mainly on the good profitability of our basic business and the low claims burden from natural catastrophes. Owing to the financial crisis, however, man-made claims increased significantly compared with the previous year. The falling prices for reinsurance protection in the last few years were succeeded in 2009 by improved price levels. Against the background of the financial crisis, we demonstrated our qualities as a reliable partner with a sound capital base and were able to consolidate Munich Re's positioning as one of the world's leading reinsurers.

Result

Combined ratio for 2009 at 95.3%

In 2009, we achieved an operating result of €2,989m (2,892m) and a consolidated result of €1,827m (1,695m), mainly owing to our good technical result. Expenditure for taxes on income for the financial year 2009 amounted to €857m. Although we recorded a considerable rise in major man-made losses, the combined ratio improved to 95.3% (99.4%) owing to significantly lower natural catastrophe losses.

Aggregate losses from natural catastrophes came to €196m (832m), representing 1.4 (6.2) percentage points of the combined ratio. These losses were far lower in 2009 than in 2008, owing to the general absence of major catastrophes and the benign hurricane season in the North Atlantic. Nevertheless, there was a large number of moderately severe natural catastrophes in 2009. Extensive damage was caused by the bushfires that struck the Australian state of Victoria at the beginning of February 2009, resulting in a burden on the result of around €97m before tax. Severe damage was also triggered chiefly in Spain and France by Winter Storm Klaus, with a loss burden of €83m, and by Windstorm Xystus, which was responsible for a claims burden of €79m in Central Europe.

At €962m, man-made major losses in 2009 were above the long-term average. In credit and surety business, defaults triggered by the financial crisis led to a claims burden of €510m. An incident at a Russian hydropower plant also caused a major loss.

Combined ratio by property-casualty division	2009	2008	2007	2006	2005
%					
Germany, Asia Pacific and Africa	100.1	106.5	106.0	94.2	90.6
Europe and Latin America	87.2	91.7	95.0	97.8	102.8
Global Clients and North America	88.8	101.4	95.8	91.9	129.9
Special and Financial Risks	112.6	99.0	83.8	81.1	110.5

The combined ratios recorded by all divisions, with the exception of Special and Financial Risks, were below the previous year's level. 0.4 (1.1) percentage points of the combined ratio were ascribable to retrocession cover for the whole reinsurance segment – business which is fully accounted for in the Special and Financial Risks Division.

In the Germany, Asia Pacific and Africa Division, the combined ratio reduced to around 100.1% (106.5%), primarily owing to our selective underwriting and the pleasing performance of natural-catastrophe business.

In the Europe and Latin America Division, the combined ratio for 2009 fell to a gratifying 87.2%, compared with 91.7% in the previous year, when claims experience had already been good. This improvement is mainly attributable to reductions in reserves for previous underwriting years. At the same time, the number of major losses was lower than the long-term average.

We registered a decline in the combined ratio of 12.6 percentage points to 88.8% in the Global Clients and North America Division. The previous year had been more heavily burdened by natural catastrophes (hurricanes and tornadoes in North America, Windstorm Emma in Europe), whereas in 2009 we were largely spared major natural catastrophe losses in North America. Global Clients and North America also benefited from reductions in reserves.

The combined ratio in the Special and Financial Risks Division was up by 13.6 percentage points to 112.6%, owing to the recession-related increase in losses in trade credit, surety and D&O business. By contrast, the result in industrial business and aviation and space reinsurance developed very favourably due to the unusually low frequency of major losses.

Premium

One-third of treaty business at differential terms or on private placement basis

The 2009 renewal negotiations were satisfying. On balance, stable or increased prices were achieved and attractive new business generated. The price level for offshore energy business in particular show a marked improvement, and natural catastrophe treaties (especially with US hurricane exposure) were written at considerably better rates. Agricultural business, which has produced profitable results for many years, was expanded. As in the past, we systematically refrained from writing business that did not meet our requirements for risk-commensurate prices and conditions. Because of inadequate original rates, we therefore scaled back casualty business in Germany, workers' compensation in the USA and business volume in China. Key to our cycle management is the agreement of differential terms, i.e. terms and conditions that are better than those obtained by other reinsurers. Our financial security and acknowledged risk expertise are being more and more frequently rewarded with a higher price level than that achieved by our competitors. In some cases, we have concluded exclusive agreements, or "private placements", where we are the sole reinsurer of our clients. Altogether, approximately one-third of our treaty business was written at a comparatively higher price level or on the basis of a private placement. While growth through acquisitions and new business led to a rise in gross premiums written, overall premium volume rose only slightly to €15.1bn (14.7bn) owing to our consistent cycle management.

The development of the euro against other currencies favourably impacted our premium income with €79m compared with the previous year.

Gross premiums written in property-casualty	2009	2008	2007	2006	2005
€m					
Germany, Asia Pacific and Africa	2,836	3,152	2,917	2,881	3,052
Europe and Latin America	3,378	3,868	3,861	3,526	3,296
Global Clients and North America	6,058	5,086	5,751	6,097	6,031
Special and Financial Risks	2,713	2,573	1,608	1,945	2,031

Gross premiums by class of business	2009	2008	2007	2006	2005
€m					
Liability	2,206	2,118	2,227	2,394	2,561
Accident	402	503	547	713	1,052
Motor	2,218	2,441	2,643	2,913	2,671
Marine, aviation, space	1,900	1,836	1,730	1,751	1,654
Fire	4,339	3,998	3,932	3,763	3,701
Engineering	1,536	1,457	1,286	1,239	1,299
Credit insurance	632	825	710	688	695
Other classes of business	1,848	1,561	1,149	1,090	914
Total	**15,081**	**14,739**	**14,224**	**14,551**	**14,547**

Trends and growth in selected markets and at our subsidiaries

In **Germany**, premium income dropped to €1,416m (1,555m). This was partly due to declines in the original rates obtained by primary insurers and higher cedant retentions. On top of this, we withdrew from business where our requirements with regard to risk-adequate prices, terms and conditions could not be realised. This is part of our consistent cycle management. The pressure on original rates in motor insurance, the class of business with the largest premium volume, persisted. Reinsurance premium volume also declined market-wide with lower margins, causing us to further reduce our motor business in 2009.

In **Greater China**, premium volume also fell. Since original terms and conditions deteriorated in the course of 2009, we refrained from writing business that did not meet our profitability requirements.

Our premium volume in **Japan and Korea** remained nearly constant at €554m (559m) with a marked improvement in the quality of the portfolio, which benefited from our financial strength in the renewals and systematic withdrawal from unprofitable business. The good result was also favoured by the fact that 2009 was another year with a low incidence of natural catastrophes and moderate earthquake activity in Japan. In primary insurance, the terms and conditions for Japanese fire business and engineering business are not yet satisfactory from our point of view. We therefore wrote a greater quantity of profitable natural catastrophe covers (earthquake/typhoon) in Japan while simultaneously withdrawing from proportional fire business. Besides this, we secured a rise in the number of treaties in the natural catastrophe sector written at differential terms. In addition, we supported Japanese insurers in expanding abroad through appropriate international reinsurance programmes.

Preparing for opening of Indian market

The current political and regulatory developments in **India** continue to give cause for hope that the market will be opened to international reinsurers. 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 relevant institutions in this connection.

We were also able to post further premium growth in **Australia and New Zealand**. Notwithstanding the financial-market turbulences, the capitalisation of Australia's insurance companies remained very solid, but there is demand for capital-intensive natural-catastrophe cover. We registered a significant increase in this area. The business of our primary insurer Great Lakes Australia is developing positively, and we are pursuing further expansion of its business in the Australian insurance market.

In the **United Kingdom**, growing competition in the reinsurance market and the effects of the economic crisis caused a marginal drop in our premium level by 1.3%. Our withdrawal from business where our pricing requirements could not be met was largely offset by new business in fire and an expansion of primary insurance business via managing general agencies (MGAs). We generated additional proportional motor business by supporting a strategic partner in expanding into selected European countries. As in previous years, our branch office in London, which operates in the area of individual-risk business (i.e. facultative business) on the local broker market, made a positive contribution to the overall result.

Münchener Rück Italia merged into Munich Reinsurance Company

In order to simplify organisational structures within Munich Re, we merged Münchener Rück Italia into Munich Reinsurance Company in January 2009. Guided by our strict profitability criteria, we withdrew from accident and engineering business, but still managed to increase our premium volume in **Italy** by 1.4% to €393m (388m). The rise in the combined ratio is attributable to the earthquake in L'Aquila, which required claims expenditure of €23m. Nevertheless, we are endeavouring to generate further profitable business in niche markets (e.g. art, marine and special engineering products).

In **Spain**, we managed to maintain our leading market position and to keep premium income constant at €448m (448m), despite the difficult market environment brought about by the economic crisis. Windstorm Klaus burdened the result, however, masking the improvements in portfolio quality.

We maintained our position as market leader in **Latin America**. Premium income showed a reduction to €606m (658m). Overall, the economic crisis did not have any major impact on premium volume, although development varied somewhat between markets. Our consistent, selective and profit-oriented underwriting policy, a more or less constant price level and the absence of major natural catastrophe losses helped us achieve an exceptionally positive combined ratio in Latin America. We easily surpassed our aim of obtaining an adequate share in the anticipated expansion of the **Brazilian** reinsurance market (which was deregulated in 2008) via our subsidiary Münchener Rück do Brasil. Indeed, we became market leader among the foreign reinsurers, with a premium volume of €126m (80m).

Münchener Rück do Brasil		2009	Prev. year
Gross premiums written	R$ m	**347**	**224**
Life and health	R$ m	25	2
Property-casualty	R$ m	322	222
Net earned premiums	R$ m	**147**	**52**
Life and health	R$ m	16	1
Property-casualty	R$ m	131	51
Loss ratio property-casualty	%	**83.0**	**63.6**
Expense ratio property-casualty	%	**37.1**	**33.1**
Combined ratio property-casualty	%	**120.1**	**96.7**
Result for the year	R$ m	**-23**	**5**
Investments	R$ m	**202**	**146**

In our **Global Clients and North American** Division, we posted growth in premium volume to €6,058m (5,086m). Especially thanks to our acquisition of the HSB Group, full consolidation of Midland and our increased shareholding in the Lloyd's syndicate MSP, we were able to expand our property business. Besides this, we took advantage of attractive growth opportunities involving selected products and existing client relationships and systematically withdrew from unprofitable business due to the pressure on reinsurance rates.

The new strategic approach we launched for **US business** two years ago is being pursued systematically and beginning to show the anticipated success. It focuses on a client-centric approach and the development of even closer partnerships with leading broker firms. Munich Re America remained committed to its consistently profit-oriented pricing and underwriting discipline. The combined ratio improved significantly to 93.7% (135.7%), thanks to our policy of underwriting only profitable business, the low burden from natural catastrophes, and a decrease in internal management expenses due to a broad-based cost-reduction programme.

Property business strengthened by US acquisitions

With its acquisition of **Midland** and the **HSB Group**, Munich Re advanced further with its entry into specialised primary insurance in niche segments of the US market and its expansion of property business. This put us in a position to complete our strategy for Munich Re America's realignment. The integration of Midland has been successfully accomplished, and its premium income totalled €871m. As at 31 March 2009, Munich Re acquired the HSB Group, one of the world's leading providers of specialist insurance and the inspection of engineering risks. The purchase price for the 100% stake was US$ 747m (€570.5m). The group's successful integration into Munich Re was largely concluded within a very short period by year-end. Premium income since first-time consolidation at 1 April 2009 totalled €458m. At €77.6m, the result for the financial year was very satisfying in light of the recession.

Munich Re America		2009	Prev. year
Gross premiums written	**US$ m**	**3,360**	**3,316**
Life and health	US$ m	318	515
Property-casualty	US$ m	3,042	2,801
Net earned premiums	**US$ m**	**2,677**	**2,240**
Life and health	US$ m	311	506
Property-casualty	US$ m	2,366	1,734
Loss ratio property-casualty	**%**	**63.4**	**97.6**
Expense ratio property-casualty	**%**	**30.3**	**38.1**
Combined ratio property-casualty	**%**	**93.7**	**135.7**
Result for the year	**US$ m**	**314.5**	**–503.2**
Investments	**US$ m**	**13,474**	**14,394**

Munich Reinsurance Canada Non-Life Group – Munich Reinsurance Company of Canada (MROC) and Temple Insurance Company – continued its pattern of producing very good results. Whilst in-force business in the market's highly competitive environment was managed profitably, we made further progress with the extension of our activities in specialised insurance via Temple Insurance Company, in particular.

Munich Reinsurance Canada Non-Life Group		2009	Prev. year
Gross premiums written	Can$ m	**414**	**429**
Property-casualty	Can$ m	414	429
Net earned premiums	Can$ m	**295**	**293**
Property-casualty	Can$ m	295	293
Loss ratio property-casualty	%	**57.2**	**50.0**
Expense ratio property-casualty	%	**32.9**	**31.7**
Combined ratio property-casualty	%	**90.1**	**81.7**
Result for the year	Can$ m	**76.0**	**86.2**
Investments	Can$ m	**1,510**	**1,545**

A very satisfactory result was posted by our Swiss subsidiary **New Re**, which relocated from Geneva to Zurich on 1 January 2010. 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. The decline in premium volume triggered by this withdrawal was offset by the expansion of new fields of business. All in all, premium volume climbed to Sfr 1,518m (1,124m). New Re benefited from the low frequency of major losses, its combined ratio thus improving to 89.4% (102.0%).

New Reinsurance Company[1]		2009	Prev. year
Gross premiums written	Sfr m	**1,518**	**1,124**
Life and health	Sfr m	577	515
Property-casualty	Sfr m	941	609
Net earned premiums	Sfr m	**1,465**	**1,066**
Life and health	Sfr m	578	503
Property-casualty	Sfr m	887	563
Loss ratio property-casualty	%	**67.8**	**82.4**
Expense ratio property-casualty	%	**21.6**	**19.6**
Combined ratio property-casualty	%	**89.4**	**102.0**
Result for the year	Sfr m	**205.8**	**46.0**
Investments	Sfr m	**4,387**	**4,004**

[1] Financial statements in accordance with national accounting law.

In **marine reinsurance**, where total premium income amounted to €1.3bn, our Watkins Syndicate at Lloyd's in London generated premium revenue of €361m (372m). Since the 2009 financial year, we have reported the business of the syndicate in the reinsurance segment. The expansion of our international network of marine underwriting agencies is making good headway – for instance via the activities of Köln.Assekuranz and of Roanoke in the USA. Given the high natural catastrophe losses in 2008, we were able to exploit business opportunities, especially in the energy sector, where increased prices and positive business performance produced a satisfying result. The primary insurance and reinsurance markets are continuing to develop differently in certain areas. While the reinsurance market remained technically stable, the primary insurance market continued to be subject to pressure on original rates, in particular in cargo business. In reinsurance business exposed to natural hazards and major losses, significant improvements in prices, terms and conditions were achieved in 2009. The recession led to initial declines in premium income, but the loss ratios are developing positively as expected. For 2010, we anticipate a clear decline in premium, above all in cargo business. We have recorded a decrease in premium volume in offshore energy business, since a number of policyholders have refrained from purchasing cover for hurricane damage in the Gulf of Mexico due to the strong rise in original premiums. This trend is likely to continue in 2010.

Special and financial risks business

We continued to extend our leading position in **agricultural reinsurance**, where 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 are applying our vast experience and expertise in this business to other regions with a high potential for profitable growth. As in the previous year, premium volume and the result in agricultural insurance were satisfying in 2009.

The market for **aviation and space** risks was impacted by major losses in the year under review. The space business market remained characterised by overcapacity, in spite of several satellite losses. Our position as market leader and the conclusion of long-term treaties, however, enabled us to largely avoid the considerable pressure on rates. In aviation business, on the other hand, the increase in rates for airlines and non-proportional covers that started at the end of 2008 was maintained. This trend became even more pronounced following the accidents involving Colgan Air and Air France in 2009. In the general aviation segment, however, rates saw ongoing pressure. Having reduced our market share in previous years through stringent cycle management, we were able to grow aviation business profitably in 2009. Premium volume in aviation and space business correspondingly grew to €607m (535m). We again posted a gratifying technical result of €78m (41m).

Our medium- to long-term assessment of the aviation market remains positive. We therefore again increased our share in the Global Aerospace Pool to 44.96% (37.46%) in underwriting year 2009. 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%.

Measures for limiting risk in credit and surety business taking effect

In our **financial risks** segment, credit and bonding reinsurance is one of our core businesses, where we reinsure default risks related to the sale of goods and services worldwide or accepted via bonds. It is a segment closely linked to macroeconomic trends. Due to the recession, the number of insolvencies continued to rise markedly worldwide in 2009. Together with our clients, we therefore implemented measures for limiting the risks in our portfolios early on and introduced significant improvements in prices, terms and conditions. Nevertheless, we were obliged to abandon unprofitable business, with our premium volume in this market environment dropping to €632m (825m). We recorded a technical result of –€492m (12m) in credit and surety, mainly owing to claims payments in connection with the crisis-related insolvencies of several Korean shipyards. No further burdens are expected from this specific complex of losses. For 2010, we are proceeding on the assumption that, despite a rising number of insolvencies in credit business, there will be a slight recovery, thanks to extensive remedial measures in the underlying business.

Our **Risk Trading Unit** places insurance risks on the capital and retrocession markets. We provide this unit's services primarily for our clients but we also use them for our own purposes when laying off insurance risks is opportune from the risk management point of view. In 2009, we carried out a client transaction in the first half of the year (IANUS, US$ 70m; €50m) to cover the Turkish earthquake and European windstorm scenarios. In another client transaction involving a volume of over US$ 225m, Earthquake California capacity was placed with investors. Moreover, Munich Re provided advice in a Multiple-Catastrophe Mexico transaction with a volume of US$ 290m.

With Munich Re Capital Markets GmbH, a subsidiary of Munich Reinsurance Company and organisational component of the Risk Trading Unit, we can place catastrophe bonds with investors in the EU and Switzerland ourselves. We have in the meantime become one of the main European investors in insurance-linked securities (ILS), which allows us to systematically exploit further market opportunities. We are consequently in a position to cover the whole value chain in this promising area. The Risk Trading Unit achieved a satisfactory technical result in 2009.

We offer tailored solutions for industry and major clients

We offer our clients in direct **industrial and major project business** a wide range of products, customised solutions and services based on our recognised industry- and risk-specific knowledge. We will in future operate the business under the Munich Re Risk Solutions brand through our experts in Munich, London, Paris, the USA, and Singapore. Our specialist knowledge in identifying, assessing and structuring insurance solutions allows us to create value in a highly dynamic, globalised and innovative environment and to set ourselves apart from our competitors. We build on our ability to combine substantial capacity with proven financial strength and capacity for innovation, and to place these at the disposal of our clients and business partners, such as brokers. Despite significant investment in the global expansion of these activities, the result developed very favourably in the 2009 financial year, partly because the burden from major and accumulation losses was below average.

Primary insurance

- // Growth of 5.3% in overall premium volume to €19.1bn year on year; increase of 19.2% in international business
- // Combined ratio of 93.1% again better than our long-term target
- // Investment result of €4.6bn
- // Consolidated result totalling €375m significantly higher than in previous year
- // ERGO to drive growth with its new brand strategy

Key figures		2009	2008	2007	2006	2005
Overall premium income[1]	€bn	**19.1**	**18.1**	**18.3**	**17.7**	**18.4**
Gross premiums written						
Life and health	€m			11,647	11,606	12,330
Life	€m	6,314	6,053			
Health	€m	6,048	5,840			
Property-casualty[2]	€m	5,154	5,105	5,639	5,147	5,242
Loss ratio property-casualty[2]	%	**60.2**	**58.4**	**58.6**	**55.8**	**58.4**
Expense ratio property-casualty[2]	%	**32.9**	**32.5**	**34.8**	**35.0**	**34.7**
Combined ratio property-casualty[2]	%	**93.1**	**90.9**	**93.4**	**90.8**	**93.1**
Operating result[3]						
Life	€m	221	350			
Health	€m	222	153			
Property-casualty[2]	€m	483	488			
Consolidated result						
Life and health	€m			358	319	594
Life	€m	30	–12			
Health	€m	82	16			
Property-casualty[2]	€m	263	152	626	726	585

1 Primary insurance premium income comprises the following: in the life primary segment, it includes not only gross premiums written but also savings premiums for unit-linked life insurance and capitalisation products in accordance with the statutory accounting guidelines applicable in the insurer's home country. In the property-casualty and health primary insurance segments, it comprises the gross premiums written.
2 Including legal expenses insurance.
3 Not available for the financial years 2005–2007, since IFRS 8 was applied for the first time in the financial year 2009.

With the transfer of travel insurer ERV and of almeda (formerly Mercur) to ERGO on 1 January 2009, our primary insurance segment now corresponds to the business managed by ERGO. Besides this, the Watkins Syndicate is now reported in the reinsurance segment. ERGO is active in nearly all branches of life, health and property-casualty insurance. Approximately 74% of gross premiums written derives from Germany, the remaining 26% stemming from international business, in particular from Europe. Altogether, around 91% is transacted in euros.

Marketing

New brand strategy to strengthen marketing

In primary insurance, we use multiple sales channels. ERGO has almost 22,000 full-time, self-employed insurance agents representing its brand insurers and also works with brokers and strong cooperation partners. In addition, it collaborates with the subsidiaries of the Italian banking group UniCredit both in Germany and in several countries of central and eastern Europe. The Group has stepped up its international activities under the ERGO brand name. In future, it will offer life and property-casualty insurance under this brand in Germany as well, with health insurance pooled under the DKV brand and legal expenses insurance under D.A.S. Through its travel insurer ERV, ERGO has more than 17,000 partners in the tourist industry in Germany, its main sales partners being travel agents and tour operators. You will find details on ERGO's new brand strategy on page 60.

Result

Consolidated result of €375m

In 2009, business development remained impacted by the financial crisis. While the results in the first half of the year still suffered from the effects of the capital market upheavals, the picture was more positive in the further course of the year, thanks to the continued good underwriting in property-casualty business and an easing of the strain from the capital markets. The operating result totalled €926m, a decline of 6.6% compared with the previous year (€991m). In the period under review, the technical result amounted to €854m (1,332m) and the consolidated result for the primary insurance segment totalled €375m (156m), 140.4% higher than in the previous year. The result for the ERGO subgroup came to €173m (73m).

Investments improved significantly in the year under review, a fact reflected in an increased investment result. At the beginning of the year, however, we had to make high write-downs of the derivatives we use in life insurance to hedge against a prolonged low-interest-rate phase, because interest rates have risen and volatilities have fallen – a welcome development per se, which will improve our long-term economic results. In addition, it became more and more clear in the first quarter of 2009 that the financial crisis was spreading to the real economy, prompting us to critically review the business plans of our international companies and, in some cases, adjust them downwards. In the first quarter of 2009, we therefore made further write-downs of €57m for impairments of goodwill, in particular for BACAV. Compared with the previous year (€175m), however, these impairments were significantly lower.

Premium

Overall premium growth of 5.3%

In the financial year 2009, we wrote total premium income of €19.1bn (18.1bn) in primary insurance, a rise of 5.3%. Growth was especially apparent in international business, where it was driven by changes in the consolidated group: the new Austrian subsidiary BACAV had not yet been fully consolidated in the previous year, and ERGO Daum Direct was not included in the figures until the second quarter of 2008. If these companies had been part of ERGO in the corresponding period last year, our growth would have totalled 2.5%. Although our premium volume in primary insurance largely stems from the eurozone, our income felt the impact of strong negative changes in exchange rates, especially the Polish zloty and Turkish lira. Whereas ERGO Hestia in Poland grew by a robust 20.1% in the domestic currency, its premium reduced by 2.6% in euros. At €13.9bn (13.8bn), overall premium income from Germany was up 1.0% on the previous year. Gross premiums written in 2009 totalled €17.5bn (17.0bn). Unlike overall premium income, gross premiums written do not include the savings premiums of €1,580m (1,132m) from unit-linked life insurance and capitalisation products.

Life

The consolidated result in life insurance for the past financial year amounted to €30m (–12m).

We value the life, health and personal accident insurers with their long-term liabilities on the basis of Market Consistent Embedded Value (MCEV) Principles. MCEV comprises a company's equity and the present value of its future net earnings from business in force. The latter is the present value of future profits (where profits are post-taxation shareholder cash flows from the in-force covered business and the assets backing the associated liabilities) calculated using financial and actuarial methods (see page 64 f.). In contrast to the market-consistent EEV published in the previous year, the costs of non-hedgeable risks are explicitly calculated under MCEV.

Embedded value of €3,155m in 2009

The MCEV of life reinsurance business increased to €3,155m (1,726m) in the financial year 2009. The revaluation of the previous year's figure in connection with the conversion from EEV to MCEV Principles resulted in a decrease of €60m. Total MCEV earnings increased to €1,329m (–2,461m), reflecting not only the positive trends on the capital markets last year but also our higher operating result. The value added by new business improved to €96m (–85m). A presentation of MCEV is available on Munich Re's website.

Premium growth of 9.9% mainly due to international business

Overall premium income in life insurance was up 9.9% to €7.9bn (7.2bn) in 2009. In international business, premium showed significant growth of 53.7%, reaching a total of €2.0bn. The substantial rise is partly due to the fact that we expanded our stake in BACAV, Austria, as at 30 September 2008 and that the company was only included in the previous year's figures for one quarter. In Germany, we recorded premium income of €5,854m (5,858m), representing a decrease of 0.1%. Gross premiums written in Germany and other countries were up 4.3% to €6.3bn (6.1bn). The reason for the less pronounced increase is that gross premiums written, unlike overall premium income, do not include the savings premiums from unit-linked life insurance and capitalisation products. In the latter in particular, we generated strong single-premium business.

German new business improved by 10.7% to €1.6bn, compared with the previous year, mainly owing to the positive development of single-premium business. The decline in regular-premium business was assignable to a basic underlying effect, i.e. a major boost to new business in early 2008 as a result of the fourth and last subsidisation stage for Riester policies. For the same reason, the annual premium equivalent (APE) of €466m was down 17.1% on the previous year: it includes only 10% of the strong single-premium result.

In the 2009 financial year, ERGO consolidated its presence in Austria, bringing together under the roof of ERGO Austria International Holding the brands BACAV, acquired in 2008, and Victoria Volksbanken Versicherung. The group's activities in central and eastern Europe are also united under the umbrella of the holding company. In addition to developing an IT platform, the group aims to generate new products as well.

In the first quarter of 2009, ERGO and the Indian HERO Group mutually agreed to abandon their plans for a joint-venture company for life insurance in India. The HERO Group has postponed its planned activities in this area indefinitely. We have confidence in the long-term potential of the Indian life insurance market, despite the global economic crisis, and will pursue our plans to enter the market.

Health

Embedded value of €1,971m for 2009

In the health insurance segment, the consolidated result for the year under review rose to €82m (16m). In the financial year 2009, MCEV climbed to €1,971m (1,783m). The revaluation of the previous year's figure in connection with the conversion from EEV to MCEV Principles resulted in a rise of €17m. Total MCEV earnings reduced to €168m (224m). The value added by new business decreased to €36m (40m). A presentation of MCEV is available on Munich Re's website.

Premium growth mainly in international business

Since the beginning of 2009, premium volume in health climbed by 3.6% to €6.0bn (5.8bn). ERV and almeda (formerly Mercur) have been included in this segment since 1 January 2009 rather than in the property-casualty segment. The previous year's figures have been adjusted accordingly. In international business, we recorded growth of 12.7% in the past financial year. Premium increases were particularly robust in Spain, mainly due to the operations of DKV Seguros, which began providing healthcare for the Denia region in Spain by taking over hospital operator Marina Salud in February 2009. In Germany, premium volume for 2009 totalled €4.93bn (4.85bn), representing growth of 1.7% compared with 2008. Our premium in supplementary health business rose by 5.6%, while in comprehensive health insurance premium income was up by 1.0%. These figures reflect not only the impact of the German health reform on comprehensive health business but also the effect of the economic crisis on travel insurance in particular, where premium fell to €390m (395m).

Property-casualty

Combined ratio at a good level of 93.1%

The consolidated result in property-casualty insurance totalled €263m (152m). At 93.1%, the combined ratio was higher than for 2008 (90.9%) but was nevertheless still good. This was primarily due to German business, whose combined ratio remains less than 90%. International business, by contrast, mirrored the significant deterioration in the claims situation in ERGO's core markets owing to the difficult economic situation, which increased the combined ratio to over 100%.

In the year under review, premium volume increased to €5.2bn (5.1bn), 1.0% up on the previous year. As mentioned above, ERV and almeda (formerly Mercur) have been recognised in the health primary insurance segment since 1 January 2009, and the Watkins Syndicate is now reported in reinsurance. The previous year's figures have been adjusted accordingly. In our international business, we posted a premium volume of €1.99bn (2.00bn) for 2009, a decline of 0.4% against the previous year. While there was growth in premium income generated by the South Korean company ERGO Daum Direct, which has been part of our consolidated group since April 2008, there were also strong decreases due to changes in exchange rates, especially in Poland and Turkey. In German business, our premium income totalled €3.2bn (3.1bn), climbing by a modest 1.9%. This increase was largely driven by commercial and industrial business, where we posted 4.5% growth in premium to €752m (719m). In our target lines of commercial property and liability business, we recorded year-on-year increases of 2.8% and 3.1% respectively. The performance of personal lines business, by contrast, was impacted by the highly competitive class of motor business. Although we endeavoured to avoid being caught up in the ongoing price competition, our premium nevertheless suffered a decline of 1.3%. In personal accident insurance, we posted a year-on-year increase of 3.1%. Legal expenses insurance showed a rise of 2.6% to €940m (917m), mainly thanks to international business.

Investment performance

- // Marked recovery on the financial markets over the course of the year
- // At 86.4%, proportion of investments in fixed-interest securities and loans remains a determining factor
- // Investment result of €7.9bn up 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 investors, both institutional and private.

Munich Re's investments

Investment principles

Our **investment strategy** 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 appropriate return, our asset managers paying strict attention to the risk tolerance of each company. As far as possible, we reduce currency risks by matching our expected liabilities with assets in correlated currencies. 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 145; our approach to asset-liability management is explained on page 121.

Our investment strategy is committed to the principle of sustainability. We aim to invest at least 80% of the market value of our equities and interest-bearing securities in the paper of companies that are included in a sustainability index or satisfy generally recognised sustainability criteria. We use the services of oekom research, an independent sustainability rating agency to advise us in this area.

Liquidity

Our **liquidity** is ensured at all times by means of detailed, Group-wide liquidity planning. As a rule, Munich Re generates significant liquidity from its premium income, from regular investment income and from maturities. 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), there are no refinancing requirements.

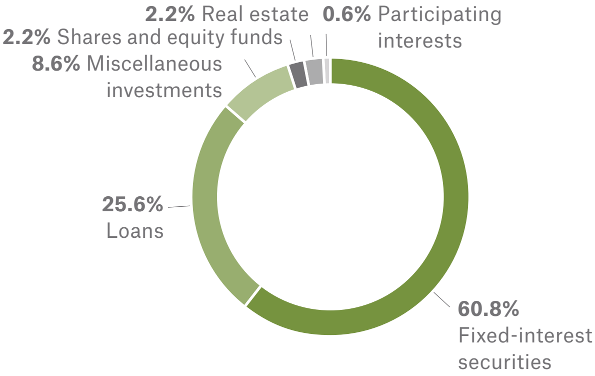
Significant developments in the financial year 2009

With the capital markets recovering, we achieved an investment result of €7.9bn (5.9bn), which represented a significant increase of 33.2% on the previous year, when the result had been impacted by capital market upheavals, particularly the slump in global stock markets. These had necessitated high write-downs of €4.7bn on our equity holdings, whereas in 2009 – with the general improvement in the stock markets and our significantly reduced equity portfolio – our write-downs on equities were markedly lower at €218m. In addition, our result from the disposal of equities in 2009 amounted to €887m (137m).

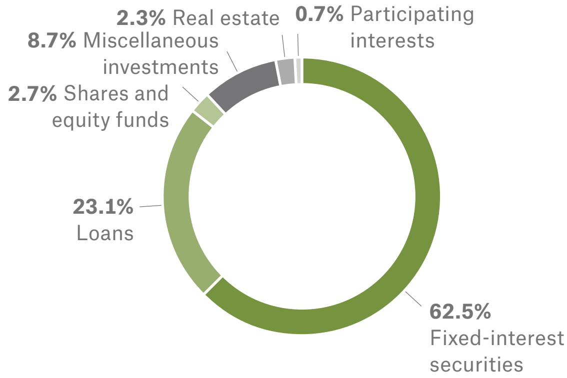
The bond markets also recovered, and therefore risk spreads fell in the course of the year across all asset classes. The market value of our fixed-interest securities available for sale therefore increased, contributing to the rise in the value of our investments by €7.2bn or 4.1% to €182.2bn. In addition, particularly in primary insurance, we post long-term interest-bearing 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 €6.2bn or 15.3%. 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.

Distribution of investments by type

2009



2008



Investment result Having made systematic reallocations from equities to interest-bearing securities, we generated higher **regular interest income**. Despite the current low interest rate level, regular income from loans and fixed-interest securities categorised as "available for sale" rose by €442m or 7.4%. Conversely, dividend income from our markedly reduced equity portfolio and regular income from associates fell by €739m or 76.7%.

Investment result	2009	2008	2007	2006	2005
€m					
Regular income	7,629	7,859	8,110	7,834	7,649
Write-ups/write-downs	–1,122	–2,847	–1,032	–865	–748
Net realised capital gains	1,612	2,208	2,803	2,559	4,511
Other income/expenses	–236	–1,304	–628	–556	–594
Total	**7,883**	**5,916**	**9,253**	**8,972**	**10,818**

Investment result by type of investment	2009	Prev. year	Change
	€m	€m	%
Real estate	253	219	15.5
Investments in affiliated companies	–18	–21	14.3
Investments in associates	–123	27	–
Mortgage loans and other loans	1,984	1,576	25.9
Other securities	5,663	5,023	12.7
Deposits retained on assumed reinsurance and other investments	150	199	–24.6
Investments for the benefit of life insurance policyholders who bear the investment risk	441	–562	–
Expenses for the management of investments and other expenses	467	545	–14.3
Total	**7,883**	**5,916**	**33.2**

In the period under review, the net balance of **write-ups and write-downs** on our investments was –€1,122m (–2,847m), of which –€283m (–509m) was attributable to the fourth quarter. In the previous year, we had had to absorb substantial write-downs on our equity portfolio. Furthermore, write-downs on our fixed-interest securities "available for sale" and loans in 2009 were down by €418m to €213m. In the previous year, we made relatively high write-downs on Lehman Brothers securities in the wake of their insolvency, and already recognised impairment losses of around €280m in the fourth quarter of 2008 for various sections of our US portfolio, commercial mortgage-backed securities, Alt-A and subprime home equity loans. However, there was a countervailing effect in the financial year 2009 from higher write-downs totalling €366m (–489m) on swaptions used by our life primary insurers to protect themselves against reinvestment risks in low-interest-rate phases.

The revaluation of the whole portfolio of fixed-interest securities categorised as "available for sale" led to write-downs of €139m (478m) in 2009. In this connection, we made write-downs totalling approximately €52m on our structured-credit portfolio, with mortgage-backed securities and collateralised debt obligations being particularly affected. To take account of the risk of non-payment and capital reductions in respect of participation certificates, dormant holdings and similar banking-sector equity instruments, we booked write-downs of around €110m on such investments, €75m of which was apportionable to fixed-interest securities available for sale.

Nevertheless, we cannot rule out further write-downs if the difficult economic situation persists. This applies particularly to the tier 1 and upper tier 2 instruments in our bank exposure (which are equity-related from the issuer's perspective) and to the participation certificates, which have already been partially written down in value. Our total exposure to such securities as at the reporting date was €602m at market values. This is equivalent to only 0.3% of our whole investment portfolio.

In the financial year 2009 we made net write-downs of €311m (4,876m) on our non-fixed-interest securities available for sale. The balance from write-ups and write-downs on derivative financial instruments burdened the investment result by –€413m (2,842m). As well as write-downs on swaptions, improvements in share prices led to our posting losses in value on derivative financial instruments employed to hedge our equity investments against falling prices. Besides this, in the second half of the year, we hedged a portion of our corporate bonds against the risk of falling market values as a result of rising risk spreads. Owing to the slight decline in risk spreads in the second and third quarters, we recorded net impairments of around €36m on derivatives used to hedge against default risks (credit default swaps).

The extent of the improvements compared with the previous year are inadequately reflected, owing to the special features of IFRS accounting regulations. Whereas changes in the value of derivative financial instruments are generally recognised with impact on profit or loss, such treatment is not necessarily accorded to the related underlying business. Thus, recoveries in the value of equity instruments and changes in the value of our corporate bonds that we have hedged against the risk of rising risk spreads are only recognised in equity, with no effect on profit or loss, unless they classify as hedge accounting.

In the year under review, our **net realised gains on disposal** were down on the previous year at €1,612m (2,208m), although this was due to the fact that in 2008 we realised particularly high gains on the disposal of derivative financial instruments. In particular, the gains on non-fixed-interest securities available for sale and derivatives with non-fixed-interest underlying business were €1,015m lower than in the previous year, totalling €844m, with €429m of this reduction apportionable to the fourth quarter. However, in 2009 we also disposed of blocks of shares whose sale led to the release of high previously unrealised gains. Some of these blocks had already been hedged prior to the financial crisis. Capital gains totalling €107m were realised by reducing Munich Re's stake in the Admiral Group from 15.1% to 10.2%. In the previous year, we had generated markedly higher gains on disposal as a result of a major hedging in conjunction with an ongoing reduction of our equity portfolio. We realised net gains of €779m (44m) on disposals in our portfolio of fixed-interest securities available for sale. In an environment of falling risk spreads and low risk-free interest rates, we generated considerable gains on pfandbriefs and government bonds in particular, as we restructured the portfolio. We used some of the proceeds to systematically build up our portfolio of corporate bonds.

In the financial year 2009, we generated a result of €441m (–562m) from investments for the benefit of life insurance policyholders who bear the investment risk. We post this figure in the investment result under "other income/expenses".

Structure of investment classes

Investment mix[1]	Reinsurance			
€m	Life and health		Property-casualty	
	31.12.2009	Prev. year	31.12.2009	Prev. year
Land and buildings, including buildings on third-party land	464	399	848	696
Investments in affiliated companies	26	35	49	59
Investments in associates	119	110	212	202
Loans	124	257	214	417
Other securities held to maturity	–	–	–	–
Other securities available for sale				
Fixed-interest	11,252	11,057	44,573	42,837
Non-fixed-interest	411	390	1,827	1,842
Other securities at fair value through profit or loss				
Held for trading				
Fixed-interest	4	6	546	627
Non-fixed-interest	1	1	20	23
Derivatives	108	204	166	269
Designated as at fair value through profit or loss				
Fixed-interest	–	–	–	–
Non-fixed-interest	–	–	–	–
Deposits retained on assumed reinsurance	5,330	5,288	1,346	1,269
Other investments	277	124	754	268
Investments for the benefit of life insurance policyholders who bear the investment risk	–	–	–	–
Total	**18,116**	**17,871**	**50,555**	**48,509**

[1] After elimination of intra-Group transactions across segments.

The **carrying amount of investments** showed an increase of €7.2bn or 4.1% since the beginning of the year, due largely to the inclusion of the investments of the HSB Group, consolidated for the first time as at 31 March 2009, and to the rising market values of our fixed-interest securities as a consequence of lower risk spreads. Net unrealised gains on our fixed-interest securities therefore also showed an increase. An opposite effect derived from our dividend payment of €1.1bn. In addition, we continued to make substantial investments in fixed-interest securities and loans, favouring these to some extent over our equity portfolio. This mainly took the form of switches into corporate bonds. Our loan investments are almost all held by our life and health primary insurers.

The majority of our investments are in the European area. 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 regional investment allocation.

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. We did not expand our portfolio in the period under review.

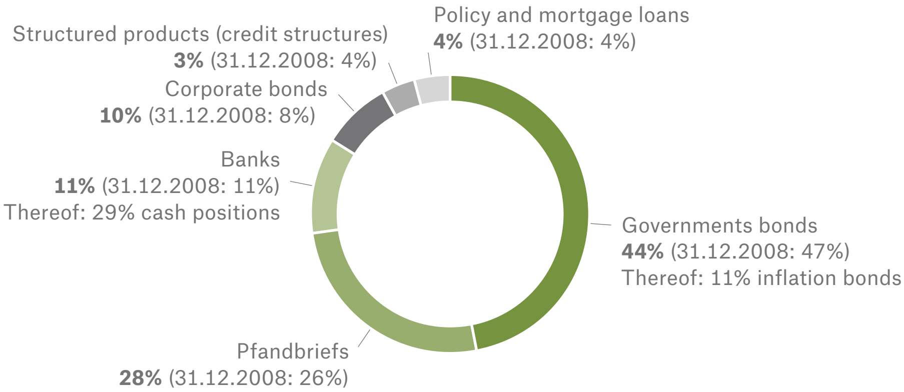
	Primary insurance						Asset management		Total	
	Life		Health		Property-casualty					
	31.12.2009	Prev. year	31.12.2009	Prev. year	31.12.2009	Prev. year	31.12.2009	Prev. year	31.12.2009	Prev. year
	1,775	1,874	641	612	312	315	46	61	4,086	3,957
	7	9	19	30	67	89	10	12	178	234
	190	257	106	106	141	312	55	48	823	1,035
	29,853	25,911	14,247	11,695	2,184	2,145	–	1	46,622	40,426
	83	138	–	–	1	5	–	–	84	143
	36,658	36,609	11,882	12,602	5,117	4,680	84	23	109,566	107,808
	1,913	3,126	1,055	558	812	762	21	21	6,039	6,699
	50	62	–	–	–	–	–	–	600	695
	3	3	1	3	–	–	–	–	25	30
	285	1,177	32	225	5	40	–	–	596	1,915
	372	482	–	–	–	–	–	–	372	482
	20	–	–	–	–	–	–	–	20	–
	118	85	1	1	3	3	–	–	6,798	6,646
	633	966	70	128	341	220	265	286	2,340	1,992
	4,025	2,873	1	1	–	–	–	–	4,026	2,874
	75,985	**73,572**	**28,055**	**25,961**	**8,983**	**8,571**	**481**	**452**	**182,175**	**174,936**

At the reporting date, the market value of our **equity portfolio (including investments in affiliated companies and associates)** was only €5.2bn (6.2bn). At 31 December 2009, our economic equity exposure amounted to 2.8% (1.6%). Expressed as a percentage of adjusted equity, the volume of investments in equities – minus derivatives, policyholders' bonuses and deferred taxes – is 5% ("equity gearing"). We thus only benefited to a small extent from the sometimes significant price gains in 2009. Given the volatile capital market environment, however, we preferred to deploy our financial capacity to cover insurance and reinsurance risks rather than speculate on cyclically fragile stock market rallies.

Our investment portfolio is chiefly made up of **fixed-interest securities and loans**, which totalled €157bn at 31 December 2009, making up around 86.4% of our investments at carrying amounts. This represents an increase of 0.9 percentage points compared with the start of the year and a rise of 12.1 percentage points compared with 31 December 2007.

In 2009, our investments in loans grew markedly by €6.2bn or 15.3% to €46.6bn (40.4bn). Most of these were in pfandbriefs, in securities for which public institutions are liable, and in variable-rate bonds with a minimum coupon. In connection with life insurance contracts, the latter instruments help to achieve the contractually agreed, guaranteed rate of interest. A large proportion of these investments were consequently made by our life and health primary insurance companies. At the same time, the share of investments in fixed-interest securities available for sale in our total investment portfolio increased by €1.8bn to €109.6bn (107.8bn).

Fixed-interest securities and loans, includig short-term items, on a market-value basis[1]



[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 44% 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; approximately 49% of this is apportionable to German and US issuers. While our exposure towards Portuguese, Italian, Irish, Greek and Spanish issuers of such bonds and instruments amounts to around 16%, we have no such investments in Dubai. Additionally, around 28% of our investments are in securities and debt instruments with top-quality collateralisation, mainly German pfandbriefs. Over the course of the year, we cautiously expanded our portfolio of credit-exposed fixed-interest securities. Particularly in the first half-year, we took advantage of the extremely pronounced widening of risk spreads compared with government bonds to prudently improve our position and secure higher interest income. We built up our portfolio of corporate bonds selectively as the year progressed. As at the reporting date, these accounted for approximately 10% of our portfolio of interest-bearing investments. As stated, we have hedged a portion of these bonds against the risk of rising risk spreads and corresponding losses in market value. Moreover, in the second half of the year, we increased our portfolio of asset- and mortgage-backed securities by around €0.5bn. Taking into account disposals in the first half-year, however, we posted a marked overall decrease of €0.8bn to €5.3bn in credit structures. At year-end 2009, around 88% of our structured-products portfolio had an AAA rating.

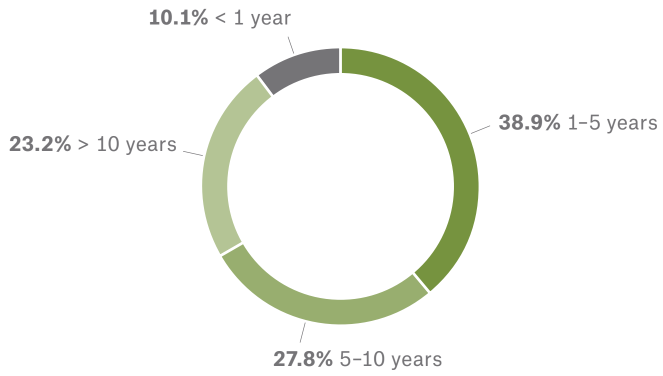
Approximately 11% of our portfolio of fixed-interest securities and loans, which includes short-term items, was invested with banks at the balance sheet date. A small portion of our bank exposure, around 3%, consists of dormant holdings, participation certificates and other quasi-equity instruments. Another 7% is in subordinated bonds with limited maturities.

As protection against the risks of future inflation and the rise in interest rates typically associated with this, we hold bonds worth approximately €7.8bn (6.5bn) for which the interest and redemption amounts are linked to the rate of inflation (inflation-indexed bonds). In this way, we also compensate to some degree for the risks arising from the inflation-related increase in our claims payment obligations. As at 31 December 2009, these inflation-indexed bonds made up 4.2% of our portfolio of fixed-interest securities and loans at market values.

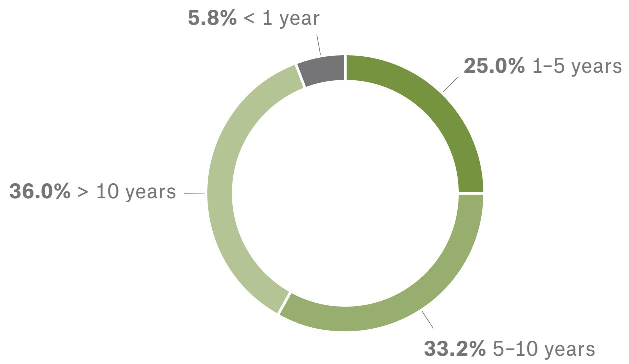
Our entire portfolio of interest-bearing investments has a good rating structure. This is described in more detail on pages 226 to 235 in the notes to the consolidated financial statements.

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 forms the greater part of our primary insurance operations, long-term investments are predominant in that segment, whereas the maturities of interest-bearing securities in reinsurance vary more widely. For life primary insurance, the risk of contracts lapsing prematurely has to be taken into account as well as the usual long period for which provisions must be posted. The diverse maturity structure is also apparent in the duration (i.e. in the average capital commitment) of our bond portfolios, which was 5.9 years at the balance sheet date.

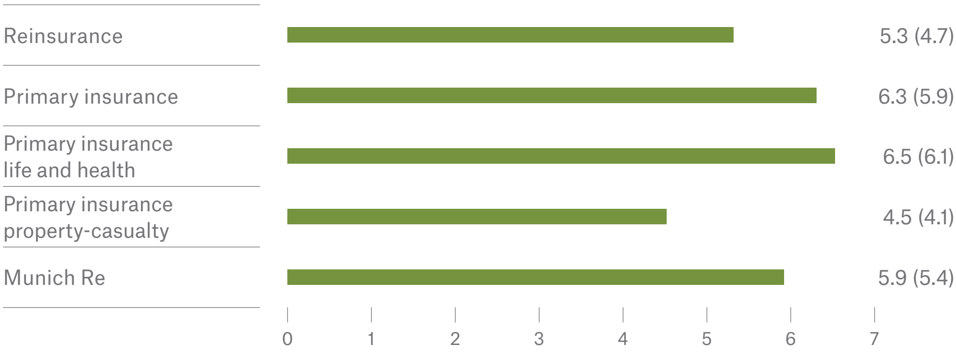
Maturities of fixed-interest securities and loans in reinsurance



Maturities of fixed-interest securities and loans in primary insurance



Duration of fixed-interest securities and loans, including short-term items, as at 31 December 2009 (in years)[1]



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

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.

In 2009, we saw an overall rise in the level of risk-free interest rates. Risk spreads on fixed-interest securities, which were still relatively high initially, developed in the opposite direction, with some marked declines across all major asset classes by the end of 2009. Particularly our corporate bonds and pfandbriefs benefited from the falling risk spreads. That is why net unrealised gains on our fixed-interest securities available for sale also rose significantly by €1.9bn to €3.3bn over the year (see table on page 229).

Valuation reserves not recognised in the balance sheet	Valuation reserves	Fair value	Carrying amount	Valuation reserves	Fair value	Carrying amount
€m	31.12.2009	31.12.2009	31.12.2009	Prev. year	Prev. year	Prev. year
Land and buildings[1]	1,722	8,280	6,558	1,730	8,000	6,270
Associates	186	982	796	169	1,189	1,020
Loans	1,287	47,909	46,622	626	41,052	40,426
Other securities	2	86	84	1	144	143
Total	**3,197**	**57,257**	**54,060**	**2,526**	**50,385**	**47,859**

[1] Including owner-occupied property.

There were comparable developments in our loans recognised at amortised cost, the valuation reserves of which increased by €0.7bn to €1.3bn.

Moderate interest-rate increases in the area of long-term investments enhance the return on our new, largely fixed-interest investments, which means that the current development with regard to especially low-risk securities benefits us in the long term. This applies especially to our life primary insurers, for whom it is particularly important to generate – at reasonable risk – regular income which comfortably exceeds the interest rates guaranteed to their clients.

Overall, our off-balance-sheet valuation reserves (excluding owner-occupied property) rose by €0.7bn to €2.9bn. Taking policyholders' future bonuses, deferred taxes and minority interests into account, 34% of these valuation reserves are attributable to shareholders.

Third-party investments

Total assets under management		31.12.2009	31.12.2008
Third-party investments[1]	€bn	7.9	7.3
		2009	2008
Group asset management result	€m	19	36

[1] Previous year adjusted owing to a change in valuation methodology.

MEAG MUNICH ERGO AssetManagement GmbH is the asset manager of Munich Re and ERGO. 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 via investment funds increased to €2.0bn (1.8bn).

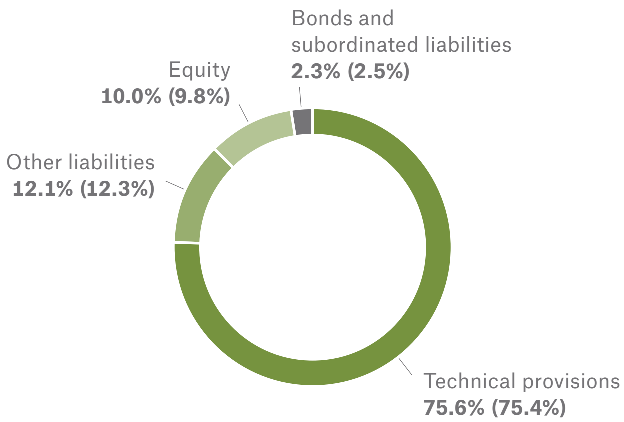
MEAG's assets under management for institutional clients rose to €5.9bn (5.5bn). The result decreased to €19m (36m). The assets managed by PICC Asset Management Company Ltd. (PAMC), Shanghai, 81% of which belongs to PICC People's Insurance Company of China, and 19% to MEAG, reached €18.8bn (11.0bn).

Financial position

Analysis of our capital structure

Munich Re's capital structure 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 (75.6% of the balance sheet total). Equity (10.0% of the balance sheet total) and bonds classified as strategic debt (2.3%) are the most important sources of funds.

Capital structure as at 31 December 2009 (prev. year)



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. Whereas in property insurance a major portion of the provisions is generally paid out within two years, in life or liability insurance substantial amounts may still be 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 reduced slightly compared with the previous year. As part of our active capital management, we bought back and retired outstanding bonds with a nominal value of around €268m, 94% of which comprised subordinated bonds. In addition, we repaid a bank loan equivalent to around €123m on schedule in July 2009. A detailed analysis of the structuring of this type of funding is provided in the section on strategic debt on page 128 f.

The economic parameters having stabilised sufficiently in autumn 2009, we decided at the beginning of October to resume our share buy-backs after a seven-month interval. By the next Annual General Meeting on 28 April 2010, we aim to buy back shares with a value of up to €1bn. By 28 February 2010, we had repurchased 6.0 million shares worth €648m. Including the dividends for the financial years 2006–2008, this means we have paid out a total of €7.8bn to our shareholders since November 2006.

Despite this return of capital, our equity increased by €1,171m in 2009. Also, equity's share of total capital rose 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 involved investments with a volume of €12.7bn (11.9bn).

In addition, there were **contingent liabilities**, which are described in the notes to the financial statements (see page 295). Off-balance-sheet financing does not play a significant role for Munich Re.

Asset-liability management

The structure of our technical provisions and other liabilities is the basis for Munich Re's investment strategy, the main focus of which is asset-liability management: our 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 insurance, 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 232 ff. of the notes to the financial statements.

Capital management

Through active capital management, we ensure that Munich Re's capital 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 161 f. in 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. At the balance sheet date on 31 December 2009, our revenue reserves under German commercial law accounting amounted to €2,049m. Through share buy-backs of up to €1bn by the 2010 Annual General Meeting, we are consistently pursuing the share buy-back programme announced in 2007. By the end of December 2009, a total of 3.2 million Munich Re shares with a volume of €350m had been repurchased. In the interests of our shareholders, we will carefully weigh up the benefit of further buy-backs against the advantages of comfortable capitalisation, also with a view to opportunities for organic and possibly external growth. After completion of the 2009/2010 share buy-backs, the revenue reserves shown as at 31 December 2009, calculated in accordance with German commercial law, will decrease to €1,399m. In addition, subject to the approval of the Supervisory Board and the Annual General Meeting, we intend to pay our shareholders a dividend of €5.75 per share for the financial year 2009 from Munich Reinsurance Company's net retained profits.

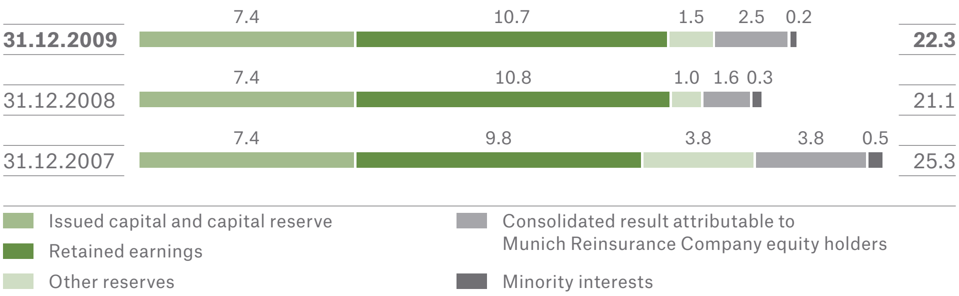
Essentially, we see efficient and transparent capital management – always geared to what is feasible – as an appropriate means of achieving our goal of being recognised as a reliable partner in the capital markets. This should guarantee our ability to raise capital quickly and easily in the capital markets,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

The available capital should not only be adequate but also 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. These guidelines and systems are constantly monitored, and adjusted where necessary. 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 inherent 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 154 ff. in the risk report. The risk report also provides information on our economic equity (see page 161 f.).

Group equity

Development of Group equity in €bn



Compared with the end of 2008, our equity increased by €1.2bn or 5.5% to €22.3bn in the year under review. The most important changes in equity were due to the following:

// The consolidated profit attributable to Munich Reinsurance Company equity holders rose by 62.1% to €2.5bn. The previous year's profit of €1.6bn, net of the dividend payment for 2008 (€1,073m), was transferred to retained earnings.

// Within the framework of the share buy-back programmes announced in May 2008 and October 2009, we bought back shares to the value of approximately €0.4bn in 2009, which we offset against retained earnings.

// Net unrealised gains were €490m higher than at the beginning of the year. In particular owing to the decrease in risk spreads for corporate bonds and pfandbriefs, net unrealised gains on our fixed-interest securities in the "available for sale" category rose further.

// Our equity is affected by changes in the exchange rates of foreign currencies against the euro (see explanations on page 88 f.). At the reporting date of 31 December 2009, our reserve for currency translation adjustment showed a slight reduction of €51m to €1,245m compared with the previous year, mainly as a result of two opposite effects: the rise due to the appreciation in the pound sterling and Canadian dollar was marginally exceeded by the minor depreciation in the US dollar.

Changes in Group equity and in the valuation reserves not recognised in the balance sheet	31.12.2009	31.12.2008	31.12.2007	31.12.2006	31.12.2005
€bn					
Group equity	22.3	21.1	25.3	26.3	24.3
Valuation reserves not recognised in the balance sheet, including those apportionable to minority interests and policyholders (before tax)	3.2	2.5	0.8	1.9	2.6

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 2009, Munich Reinsurance Company's share capital of €587.7m was divided into 197,401,624 registered, no-par-value, fully paid shares. The shares are endowed with full voting and dividend rights, with the exception of the 5,491,447 shares held by Munich Re itself at 31 December 2009 (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).

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.

Restrictions on voting rights or the transfer of shares

The listed registered shares are subject to transfer restrictions. The issuing of restrictedly transferable registered shares by Munich Reinsurance Company 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 the Company's consent, which, according to Article 3 para. 2 of Munich Reinsurance Company'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.

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.

Statutory regulations and provisions of the Articles of Association regarding appointment and dismissal of members of the Board of Management and concerning amendments to the Articles of Association

The legal parameters for the appointment and dismissal of members of the Board of Management are specified in the Company's co-determination agreement, Articles 13 and 16 of the Articles of Association, Sections 84 and 85 of the German Stock Companies Act, and Sections 121a para. 1 and 7a of the German Insurance Control Act. Munich Re's co-determination agreement and Articles of Association have taken over the legal tenets of the German Co-Determination Act. 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.

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 the Company'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 (the authorisations relating to Munich Reinsurance Company are listed below). 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, the Company'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 Reinsurance Company and has been regulated in Article 14 of the Articles of Association.

Powers of the Board of Management with particular regard to the option of issuing or buying back shares

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 on our website):

// The Annual General Meeting of 22 April 2009 authorised the Company under agenda items 5 and 6, pursuant to Section 71 para. 1 item 8 of the German Stock Companies Act, to buy back shares until 21 October 2010 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 sales 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. The Board of Management availed itself of this authorisation by its resolution of 1 October 2009. By 31 December 2009, a total of 3.2 million shares had been purchased for an overall price of €350m. As part of the 2008/2009 share buy-back programme, 0.6 million own shares were acquired between January and March 2009 for an overall price of €56.5m. As announced in April 2009, these shares and the 7.1 million shares already repurchased in 2008, as well as 1.3 million shares acquired using put options, were retired in a simplified process.

// 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 new 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.

// 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 21 April 2014 by an amount of up to €280m by issuing new shares against cash or non-cash contribution (Authorised Capital Increase 2009). In accordance with the above-mentioned provisions of the Articles of Association, it may exclude subscription rights. The shares issued overall on the basis of this authorisation subject to the exclusion of shareholder subscription rights may not exceed 20% of the existing share capital at the time this authorisation is exercised for the first time.

// 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 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.

Significant agreements which take effect, alter or terminate upon a change of control following a takeover bid, and resultant implications

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 Reinsurance Company's long-term incentive plan for members of the Board of Management, senior management, and top executives in Munich Re's international organisation, which is explained in detail in the remuneration report, provides for special exercise options in the event of a change of control.

Compensation agreements concluded with members of the Board of Management or employees for the event of a takeover bid

There are no compensation agreements with members of the Board of Management or employees for the event of a takeover bid.

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 financial resources 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	31.12.2009	Prev. year
€m		
Subordinated bonds of Munich Reinsurance Company, Munich	4,693	4,902
Senior notes of Munich Re America Corporation, Princeton[1]	276	302
Bank borrowing of Munich Reinsurance Company, Munich	174	–
Subordinated bonds of Bank Austria Creditanstalt Versicherung AG, Vienna	67	60
Subordinated bonds of HSB Group Inc., Delaware	30	–
Bank borrowing of Munich Re America Corporation, Princeton	–	180
Subordinated bonds of The Midland Company, Cincinnati	–	17
Other	62	79
Total	**5,302**	**5,540**

Munich Reinsurance Company has three subordinated bonds outstanding. The subordinated bond with an original volume of €1.5bn issued by Munich Reinsurance Company in June 2007 (€1,349m outstanding) is a perpetual bond, but callable by us from ten years after the date of issue. The terms of the Munich Reinsurance Company subordinated bonds issued in 2003 are limited. These subordinated bonds with original nominal values of €3.0bn (€2.9bn outstanding) and £300m will mature in 2023 (euro subordinated bond) and 2028 (pound sterling subordinated bond) and are callable by us for the first time on 21 June 2013 and 21 June 2018 respectively.

In 2009, we reduced our strategic debt by buying back and retiring outstanding bonds with a nominal value of around €268m, of which subordinated bonds account for 94%. The bank borrowing of Munich Re America Corporation was transferred to Munich Reinsurance Company in January 2009.

Debt leverage down 1.6 percentage points

As at 31 December 2009, our debt leverage was 19.2%, down 1.6 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 14.9 (10.5), 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 2009.

Debt leverage		31.12.2009	Prev. year
Strategic debt	€m	5,302	5,540
Group equity	€m	22,278	21,107
Total	**€m**	**27,580**	**26,647**
Debt leverage	%	19.2	20.8

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 €1,838m and the debt leverage amounts to only 7.6%.

Group solvency

Munich Re 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 BaFin, which is also responsible for the 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. Munich Re's eligible capital is more than two-and-a-half times higher than the legal requirement.

Adjusted solvency		31.12.2009	Prev. year
Eligible capital of the Group	€bn	21.2	19.9
Adjusted solvency ratio	%	268.5	263.9

The change in the adjusted solvency ratio from 263.9% in the previous year to 268.5% in 2009 is mainly due to the increase in Group equity, which was chiefly attributable to the improvement in the consolidated result.

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 explicitly refers to Munich Re's very strong capitalisation.

Financial strength ratings for Munich Re

Rating agency	Rating	Outlook
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 28 February 2010 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	
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 Hartford Steam Boiler Group	A+	AA–		
The Princeton Excess and Surplus Lines Insurance Company	A+			AA–
Sterling Life Insurance Company	A–			
Temple Insurance Company	A+			

Primary insurance group	A. M. Best	Fitch	Moody's	S&P
DAS Legal Expenses Insurance Company Limited				A
D.A.S. Österreichische Allgemeine Rechtsschutz-Versicherungs-AG				A
D.A.S. Rechtsschutz-Versicherungs-AG				A+
DKV Deutsche Krankenversicherung Aktiengesellschaft		AA–		AA–
Europäische Reiseversicherung AG		A+		
Hamburg-Mannheimer Sachversicherungs-Aktiengesellschaft				AA–
Hamburg-Mannheimer Versicherungs-Aktiengesellschaft		AA–	Aa3	AA–
ERGO DIREKT Lebensversicherung AG[1]				A+
STU ERGO Hestia S.A.				BBBpi
Victoria Lebensversicherung Aktiengesellschaft		A–	Aa3	A+
Victoria Versicherung Aktiengesellschaft				AA–
Vorsorge Lebensversicherung Aktiengesellschaft		A+		

1 Formerly KarstadtQuelle Lebensversicherung AG.

Bonds and notes issued

The bonds and notes issued by our Group are rated as follows:	Identification number	A. M. Best	Fitch	Moody's	S&P
Munich Reinsurance Company 6.75% until 2013, thereafter floating, €2,900m[1] Subordinated bonds 2003/2023	WKN: 843278 ISIN: XS0166965797 Reuters: DE016696579= Bloomberg: MUNRE	a+	A	A2	A
Munich Reinsurance Company 7.625% until 2018, thereafter floating, £300m Subordinated bonds 2003/2028	WKN: 843449 ISIN: XS0167260529 Reuters: DE016726052= Bloomberg: MUNRE	a+	A	A2	A
Munich Reinsurance Company 5.767% until 2017, thereafter floating, €1,349m[2] Subordinated bonds 2007/perpetual	WKN: A0N4EX ISIN: XS0304987042 Reuters: DE030498704= Bloomberg: MUNRE	a	A	A3	A
Munich Re America Corporation 7.45%, US$ 397m[3] Senior notes 1996/2026	CUSIP-No.: 029163AD4 ISIN, Reuters: – Bloomberg: AMER RE CORP MUNRE	bbb+	A+	A2	A–
HSB Group Inc. LIBOR +91 BP, US$ 76m[4], Subordinated bonds 1997/2027			Not rated		
The Midland Company LIBOR +350 BP, US$ 24m[5] 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[6] Subordinated registered bonds 1998/perpetual			Not rated		
Bank Austria Creditanstalt Versicherung AG 6% until 2010, thereafter floating, €12m[7] Subordinated registered bonds 2001/perpetual			Not rated		

1 In the first half-year 2009, the issuer bought back bonds with a nominal value of €100m.
2 In the first half-year 2009, the issuer bought back bonds with a nominal value of €151m.
3 The issuer bought back notes with a nominal value of US$ 17m in the second quarter 2009 and notes with a nominal value of US$ 7m in the third quarter.
4 In the third quarter of 2009, HSB Capital I, Delaware, was dissolved. The bonds it had issued were replaced by bonds of the HSB Group Inc., Delaware, in the amount of the liabilities outstanding, with unchanged terms and conditions.
5 In the second quarter of 2009, the issuer redeemed bonds with a nominal value of US$ 24m.
6 ERGO AG holds bonds with a nominal value of €3m; the volume outstanding has been reduced accordingly.
7 ERGO International AG holds bonds with a nominal value of €3m; 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 Munich Re's **cash flow**. We generally first collect the premiums for the risks assumed and do not make payments until later, in the event of a loss. 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 the entities consolidated.

Consolidated cash flow statement	2009	Prev. year
€m		
Cash flows from operating activities	8,654	8,424
Cash flows from investing activities	–5,460	–5,578
Cash flows from financing activities	–2,483	–2,982
Cash flows for the financial year	**711**	**–136**

In the consolidated cash flow statement, the consolidated profit of €2,564m is used as the starting point for determining the **cash inflows from operating activities**. The consolidated result is adjusted by €5,335m to take account of the higher technical provisions. In reinsurance, the provisions for future policy benefits rose, partly due to new business. There was also an increase in provisions for future policy benefits at Munich Re's primary insurers, as they expanded their portfolios and wrote new business. The technical provisions for life primary insurance where the investment risk is borne by the policyholders (unit-linked life insurance) grew as a result of the pleasing development of the business in force. The net gains on the disposal of investments – which in adjusting the consolidated profit have to be deducted from the cash flows – are essentially attributable to the disposal of securities available for sale. The negative balance from write-ups and write-downs (due especially to derivatives with which our life primary insurers protect themselves against reinvestment risks in low-interest-rate phases) 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 €3,806m. On 31 March 2009, through its subsidiary Munich-American Holding Corporation, Munich Re acquired 100% of the share capital of HSB Group Inc. for a total price of €570.5m. The purchase price has been reduced by the cash of €31.1m held. The acquisition added investments of €888.8m and technical provisions of €147.6m to Munich Re's books. On 1 December 2009, we acquired 50% of the share capital of WFB Stockholm Management AB (WFB) – formerly Fastighets AB Bangardsposten – based in Stockholm for a total of €67.3m. The purchase price has been reduced by the cash of €31.4m held. In addition, €14.3m of the purchase price had no impact on cash in 2009. As a consequence of the acquisition, investments of €187.3m were transferred to Munich Re's Group portfolio.

The **cash outflows for financing activities** stem in particular from share buy-backs of €399m and the dividend payment of €1,076m in 2009.

Overall in the year under review, cash – which encompasses cash with banks, cheques and cash in hand – increased by €717m (including currency effects) to €3,082m.

Other success factors

Beyond financial performance, we also aim to secure Munich Re's long-term economic success with other factors.

These include:
// Being the first "port of call" for clients in connection with all risk matters
// Firm commitment to devising innovative coverage concepts for new and complex risks
// Corporate responsibility towards employees, society and the environment
// Efficient business processes for managing our Group and identifying or avoiding risks

Clients and client relationships

Munich Re has different client bases in reinsurance and primary insurance. In reinsurance, we work together with over 4,000 corporate clients from more than 160 countries – not only traditional insurers but also the insurance subsidiaries of industrial companies (so-called captives).

By contrast, our primary insurers service some 40 million policyholders in over 30 countries in Europe and Asia. The products and services we offer therefore differ accordingly.

Reinsurance

Clients benefit from financial strength and risk knowledge

As reinsurers, we aim to deploy our extensive risk knowledge to develop individual solutions for our clients to meet their complex needs. We therefore provide companies wishing to cede insurance risks with the full range of underwriting products. In so doing, we do not shy away from new or complex risks and regularly assume a pioneering role in the development of new coverage concepts. Our clients thus benefit from a unique combination of financial strength and risk knowledge. In line with their specific needs, we offer them not only risk transfer products but also consulting and other services, giving precedence to a holistic view of client relationships. Our client management is geared to providing our clients with optimum solutions for all risk transfer requirements and intensifying cooperation with them. In addition, we constantly strive to enhance our service and, to this end, draw on the findings and suggestions obtained from client surveys.

Proximity to our clients is important to us: with branches and subsidiaries around the world, we ensure that they can always find us where and when they need us. And by combining international know-how with in-depth knowledge of local conditions, we are always in a position to propose individual solutions.

As a special service for our clients, we staged more than 100 seminars and workshops on topics related to insurance, reinsurance and risk management in 2009, both in Munich and at our many offices and subsidiaries around the world. Our two scholarship programmes, the "Alois Alzheimer Scholarship – Development programme for high potentials" and the "Horst K. Jannott Scholarship – Management programme for future executives", also foster close collaboration with our cedants. More than 540 former scholarship holders from all over the world are registered in the Munich Re Alumni Network, established at the end of 2007.

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, the 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.

Unified broker sales force for ERGO's different brand products since 2009

ERGO addresses clients via the full spectrum of distribution channels: through agents and brokers, direct selling or cooperation partners. An effective, cross-brand sales platform strengthens our competitive position. It simplifies and accelerates sales and administration processes and supports agents in servicing clients. Its functionalities are being gradually expanded and extended to further user groups. Since January 2009, a unified ERGO broker sales force has been providing the products of the different brands in a comprehensive and quickly available range from one source.

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 ISO 9001, for which regular on-the-spot checks are made in addition to the extensive audit and claims controlling that is carried out.

Research and development

Thoroughly understanding risks – that is the basis of Munich Re's business model. This requires, in particular, constantly analysing known risks for significant changes in their structure or occurrence probability and identifying new risks at an early stage.

Reinsurance

Structural or economic change processes, such as those resulting from climate change, new legislation, more complex supply chains or outsourcing, offer new business opportunities. Our Special Enterprise Risks (SER) unit investigates alterations in the transfer needs of our clients and uses the findings to develop new products. A good example is an innovative insurance solution for covering the risk of a possible performance deterioration in photovoltaic modules. The new product offers module producers a greater degree of business certainty and allows the purchasers of photovoltaic modules, such as the operators of solar parks, to finance photovoltaic installations more easily and with increased flexibility.

Innovative solutions that benefit our clients also regularly emerge in other divisions. Here are two examples from the past year:

The Insurance4renewables initiative of the Global Clients and North America Division demonstrates how the challenges of climate change can be taken up and translated into business. Together with partners RSA Insurance Group (RSA) and CarbonRe, with support from the Global Environment Facility (GEF) and the United Nations Environment Programme (UNEP), Munich Re offers tailor-made products for projects connected with renewable energy in developing markets, substantially supporting their advance.

In designing a policy for Employment Practice Liability Insurance, Munich Re and the recently acquired HSB Group have demonstrated their successful cooperation in research and development. This jointly developed innovative product covers small and medium-sized companies in the USA against lawsuits brought by employees or clients on the grounds of discrimination or harassment.

Organisationally, too, Munich Re is adjusting the structure of its research and development to the constantly changing business environment. An enhanced knowledge management strategy, for example, has linked the activities of more than 700 experts more closely to the business we write. In cross-divisional projects, knowledge management comes up with concrete solutions for our clients and carries out excellence initiatives for underwriting and claims management. Munich Re has also invested in a state-of-the-art online platform to ensure that our first-class expertise continues to be effectively used internally and externally and to optimise interdisciplinary cooperation and information exchange with clients.

Primary insurance

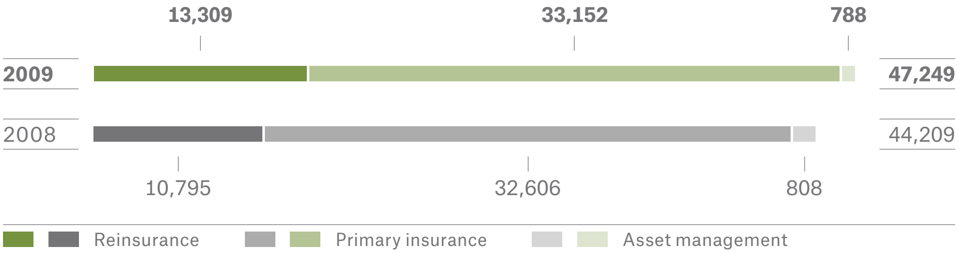
In primary insurance, the emphasis lies on analysing and forecasting demographic trends. After all, these trends constitute important parameters for calculating policy durations and thus for structuring products. Besides this, demographic change is affecting social security systems and consequently influencing our clients' need for private provision.

ERGO's life insurers 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

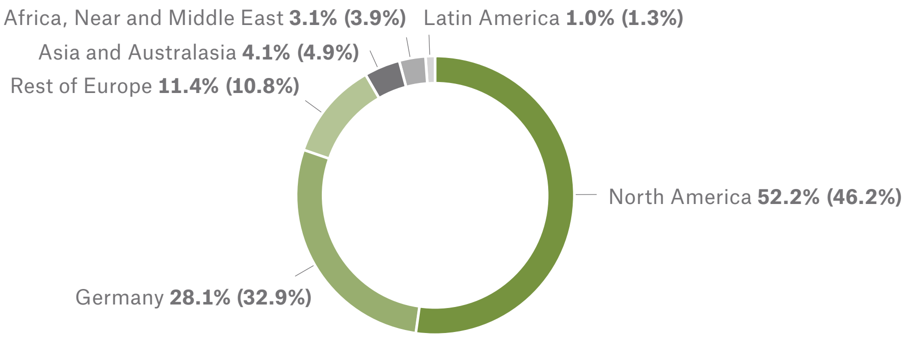
In our human resources work, we focus firmly on a corporate and leadership culture that rewards performance, promotes individual responsibility and facilitates personal development. Our primary aim is to win the best talent and optimally deploy our staff throughout all fields of business, operating regions and subsidiaries. Joint succession planning at top management level is well established. And a forward-looking platform is in place for Munich Re's Group job market. Advertisements are placed globally on all the Group's intranet and internet online job markets and on over 70 job portals. This enables us to make known on an ongoing basis our requirements for high-performing, interdisciplinarily networked and highly competent specialists.

Staff by field of business

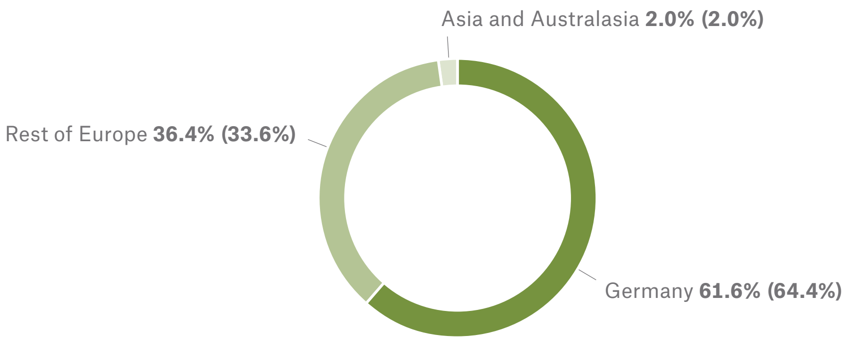


The rise in the number of staff in the Group is largely attributable to international acquisitions in the reinsurance group. Particularly worth mentioning in this regard is the acquisition of US specialty insurer HSB Group (around 2,600 employees).

Reinsurance: Staff by region at 31 December 2009 (prev. year)

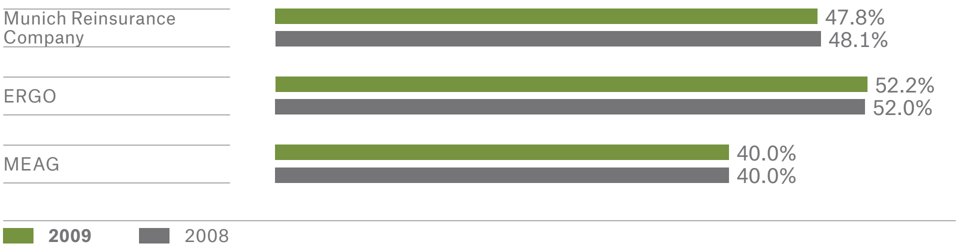


Primary insurance: Staff by region at 31 December 2009 (prev. year)

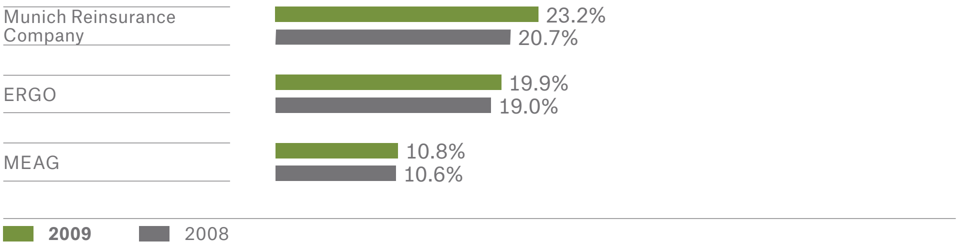


Length of service at main Group companies in Germany	Munich Reinsurance Company		ERGO		MEAG	
in %	2009	2008	2009	2008	2009	2008
Less than one year	7.8	3.9	1.6	2.6	4.8	8.4
Up to five years	17.2	18.7	9.6	9.2	38.1	33.2
Up to ten years	29.5	31.0	20.3	23.4	38.3	44.1
Up to 20 years	27.1	24.7	41.0	38.2	15.0	10.9
Over 20 years	18.4	21.8	27.5	26.6	3.9	3.5

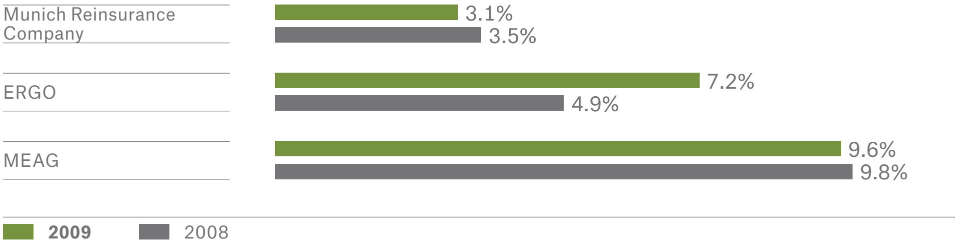
Percentage of female staff at main Group companies in Germany



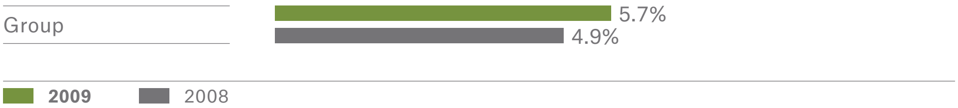
Percentage of female staff in management and senior positions at main Group companies in Germany



Overall staff turnover at main Group companies in Germany



Percentage of trainees (Germany)



Reinsurance

Internationally standardised HR tools

In 2009, we transferred significant HR tools to units in our international organisation: our performance management system, our process for developing future candidates for top management, and our competence model, which translates our cultural guiding principles into concrete action requirements.

2009 also saw the extension of our employee survey on the leadership performance of our managers to the international organisation. By monitoring leadership throughout the Group by means of surveys and establishing a consistent dialogue between managers and staff worldwide, we underscore our ambitious requirements for management performance at Munich Re.

We give high priority to the qualifications and personal development of our staff. Expenditure on specialist and personal training measures rose by around 22% in 2009, totalling some €8.9m (7.3m). An average of €2,462 (2,069) was invested in training measures per employee. We support the enhancement of skills and excellence in business-specific functions by means of competence profiles, curricula and consistent quality assurance. The career development of our specialists is also of central importance to us.

Systematic succession planning remains a critical success factor. We invest consistently in training, programmes for students and trainees, and our business-specific training programme for engineers. In addition, as part of Munich Re's repositioning, we have sharpened our employer value proposition. The main aspects of this are interdisciplinary competence, a wide range of jobs, personal development opportunities and a value-based corporate culture. With this clear profile, even greater focus on the relevant target groups and attractive graduate trainee programmes, we are positioned to compete globally for the best talent.

Our medium- and long-term HR planning is conducted with the operational units and is an important basis for our HR work, which is closely geared to business requirements. Our remuneration models and incentive systems are systematically linked to agreed objectives and based on financial results. Company pensions are a central component of our human resources policy, as are the arrangements we offer to help staff combine career and family.

Engagement Index of 82% indicates staff satisfaction

A measure of the quality of our HR work is the Engagement Index, the result of a survey on staff satisfaction, commitment and motivation performed at our Munich location at the end of 2008. Munich Re achieved a positive overall result of 82%. This rating exceeds both the TP-ISR German National Norm (74%) and the TP-ISR Global Financial Service Companies Norm (78%).

Primary insurance

In 2008, we launched the project "Continuous improvement of our competitive position", through which ERGO aims to save €180m in office and personnel expenses by 2010. The requisite agreements were concluded with the relevant co-determination bodies in 2009. In an immediate action programme, we also initiated and partially realised the personnel measures necessary to achieve the savings target. These can take a socially acceptable form, without forced redundancies.

We successfully implemented the initiative "ERGO – one entity": on 1 October, all desk staff except those working in the sales offices of the brand companies were transferred to ERGO Versicherungsgruppe AG. In negotiations with the co-determination bodies and the German union ver.di, we also agreed on a Staff Council structure that meets the requirements of an integrated company and will be realised at the Staff Council elections scheduled for 2010.

Asset management

At MEAG, employee motivation and skills are enhanced by ongoing qualification and HR development measures. We attach importance not only to the acquisition of key qualifications but also to extending professional knowledge – through seminars and an intensive exchange of experience and expertise across units. As a result of our successful strategic HR planning and development, management positions at MEAG can nearly always be filled internally. As usual, the staff turnover rate at MEAG was higher than in the rest of the Group, reflecting the high degree of internationalisation customary in the asset management sector, as well as the low average age and the company's comparatively small size.

We have set up a single company – MEAG Property Management GmbH – to manage our German real estate portfolio, which was previously divided between three regional companies. At the new company, based in Munich, we have centralised all non-tenant-related services in order to exploit efficiency gains. Tenant-related services continue to be provided by offices in Düsseldorf and Hamburg as well. The preconditions for realising the new organisation were largely created through mutual agreements with staff.

Corporate responsibility

Munich Re is convinced that long-term success is only possible if we take due account of economic, ecological and social requirements in our operations. This fundamental understanding is anchored in our mission statement and given concrete expression in our guiding principles for corporate responsibility. In this area, we concentrate in particular on

// the development of new, needs-based products and solutions,
// an investment policy based on sustainability criteria,
// open dialogue with our stakeholders, and
// active responsibility towards employees, society and the environment.

Principles of UN Global Compact as guidelines

To make our understanding of corporate responsibility values more clearly visible inside and outside our Group, Munich Re joined the United National Global Compact in August 2007. Its ten principles offer us important action guidelines for anchoring corporate responsibility even more firmly in the processes relating to our core business.

A significant role in this connection is played by corporate governance. We fulfil all the recommendations of the German Corporate Governance Code and comply with corporate governance rules in all the markets in which we operate.

Our actions are also guided by our own codes of conduct, implemented by the reinsurance group in 2006, by MEAG in 2007, and by ERGO in 2008. Each code specifies our rules for legally impeccable conduct, based on ethical principles, and describes our understanding of the relevant values. They contain regulations that are binding on all employees, in particular for dealing with conflicts of interest.

Given that we manage substantial investments worldwide, we carry substantial responsibility in the area of asset management. In April 2006, Munich Re became the first German company to sign the UN Principles for Responsible Investment (PRI), which we played a prominent role in helping to establish. Our globally binding General Investment Guidelines (GIG) in place since 2005 specify that our investments in shares, corporate bonds, bank bonds and government bonds must meet certain sustainability requirements. We invest at least 80% of the market value of these investments in assets that are included in a sustainability index like the Dow Jones Sustainability or satisfy generally recognised sustainability principles. In addition, we have tightened our sustainability criteria for corporate and bank bonds since 2007. We are convinced that taking account of such criteria in our investments will have a favourable impact on risk and return in the long term.

Munich Re shares included in sustainability indices since 2001

The various indices we are listed in show that Munich Re is an attractive investment for investors who follow a socially responsible investment (SRI) approach. Since 2001, for instance, our shares have featured in the Dow Jones Sustainability Index (the world's leading sustainability index) and the FTSE4Good.

Although as a service provider Munich Re places comparatively little burden on the environment, our business is inextricably linked with ecological issues such as climate change. The growing number and greater intensity of weather-related natural catastrophes mean a rising trend in loss amounts as well. A particular focus of our commitment is therefore on climate protection: we have long been contributing our specialist knowledge to numerous organisations and associations concerned with global warming. We have been analysing aspects of climate change for over 35 years, with a view to counteracting its impact. This knowledge is incorporated into our investment policy, risk management and product development in insurance and reinsurance.

As an internationally operating group, Munich Re also accepts its responsibility towards the communities in which we live and work. The focal points of our social commitment are the active promotion of science and the support of socially disadvantaged youngsters and people in need. In addition, we have established ourselves as a patron of the arts and culture. The foundations we have set up play an important part, and they contribute substantially to sustainable development throughout the world.

Reinsurance

Munich location carbon-neutral since 2009

Preserving our natural resources is a contribution to value-based management, as our economic success is inseparably linked with protecting people, the environment, and physical resources. Our Group-wide activities are focused on reducing greenhouse gas emissions. In 2007, we adopted a carbon-neutrality strategy for reinsurance, and we have already reached the first milestone: since 2009, business activities at our Munich location have been carbon-neutral. All our international reinsurance operations will follow suit by 2012. To achieve this, we are pursuing a fourfold strategy:

1) Increasing our energy efficiency: Reducing carbon emissions by 10% per employee
2) Using green electricity
3) Investing in renewable energy projects: Compensating for carbon emissions and achieving carbon credits
4) Making up for inevitable emissions through the purchase and/or retirement of emission credits

Munich Re has had an ISO 14001-certified environmental management system in place at its Munich head office since 2000. Our Munich and Milan offices have been using only green electricity since 2008.

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, since 2008 we have been collaborating with the London School of Economics and Political Science (LSE) to advance research into the economic consequences of climate change. And since its foundation in 1922, the Munich University Society has been housed on Munich Re premises. In the field of culture, our sponsorships include the pan-European Gustav Mahler Jugendorchester, which we have supported since 2002.

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.

The Schinzler Foundation The Schinzler Foundation is our platform for corporate volunteering. It supports staff worldwide in their voluntary work in various areas of society, to the benefit of numerous projects in Germany, Latin America, Africa and Asia.

Primary insurance

ERGO also practises social responsibility in many areas, continuing the long tradition of many of its companies. It is guided by the principle of sustainability, reflecting the long-term character of our business. As insurers, we give a promise of cover for the future, thereby supporting people in managing their lives.

Consequently, ERGO’s help is geared mainly to those assuming responsibility for themselves and others, and on offering assistance to those suffering hardship. We focus above all on the areas of education and science, health, music and social projects.

This commitment takes many different forms, of which the following are just a selection.

Education and science As a member of the Association for the Promotion of German Science and Humanities, ERGO helps promote Germany as a scientific location.
In addition, we sponsor gifted students, e.g. in the NRW scholarship programme.

The Hamburg-Mannheimer foundation "Jugend & Zukunft", set up in 1999, is dedicated to encouraging young people to shape their own futures. Its "Job Locomotive" project supports socially deprived youngsters in developing career perspectives and in starting training and work.

Health A further aim of ERGO's social commitment is to promote health and to increase fitness through sport.

Via the DKV brand, we sponsor the German Hygiene Museum in Dresden. This all-round museum for human sciences makes clear the importance of a responsible approach to life and health. On a more active note, the DKV Bridge Race in Cologne motivates thousands of people to take part in sport each year. In past years, ERGO staff have done the bridge race as a sponsored run, with ERGO donating three euros to a social project for each completed kilometre.

Music Through its involvement in the sponsorship of the Düsseldorfer Tonhalle e.V., ERGO supports the "Junge Tonhalle", a musical experience for young people. The "3-2-1 Ignition" project is a series of classical concerts for young people in a relaxed atmosphere, designed to improve classical music's image and give youngsters a new form of access to this type of music.

Social From our work in insurance, we know only too well that 100% protection is not possible. ERGO and its staff are therefore glad to help in supporting such social projects as the Madeleine Schickedanz Children's Cancer Foundation. The "victorianer helfen" association collects for social institutions and projects nationally and internationally. Over 5,000 staff are members of the association and donate a few cents of their salaries and commissions each month.

The client call-centre of DKV Seguros in Spain is staffed solely by colleagues with a physical disability – a project supported by the company's own foundation, Fundación Integral. Inspired by this idea, ERGO Hestia in Poland has followed suit.

Asset management

In 2009, Munich Reinsurance Company and MEAG set up the RENT project (Renewable Energies and New Technologies). Its remit is to investigate the potential of strategic investments in renewable energies and new technologies, e.g. in the areas of increasing efficiency and storing energy.

In June 2009, MEAG added a new investment fund called MEAG FairReturn to its product range – a mixed fund investing largely in Europe and managed according to sustainability criteria.

When it comes to new construction projects and acquisitions, MEAG attaches great importance to high ecological standards, a fact which has received due recognition. In 2009, for example, three construction projects in Cologne and Munich were awarded the European Commission's GreenBuilding eco label and included in its programme for energy-efficient and sustainable building design.

Security and availability

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

Meeting these objectives requires professional risk management in all operational and central units. Central responsibility for the coordination and monitoring of the relevant activities lies with Group Security and Continuity Management (GSCM), a unit 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), GSCM ensures that the relevant processes and guidelines are implemented, updated and complied with throughout the Group. It reports to the GSCM committee of the Board of Management. 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 Munich Re employees, geared to developing the security culture as a cornerstone of a successful protection concept.

Risk report

Risk governance and risk management system

Risk management organisation, roles and responsibilities

Remit and objectives Risk management is a key part of our corporate management. Its purpose is not only to safeguard the Group's financial strength, enabling us to meet 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.

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 decentralised structures in all units of the Group. It is headed by the Group Chief Risk Officer (Group CRO), who, like the decentralised CROs at individual companies, is supported by interdisciplinary teams of highly qualified staff. Our extensive documentation, guidelines and instructions ensure that staff in our risk management structure and the Group as a whole are sufficiently informed about our risk strategy, organisation and processes.

This guarantees that our risk management covers all units and the Group's total exposure. The resultant transparency enables the risks incurred to be actively controlled.

Risk governance The Chief Risk Officer is a permanent member of the Group Committee, the Board of Management committee for strategic issues and the body responsible for decisions in matters concerning the whole Group (see also page 31).

Risk topics for the Group as a whole are dealt with by the Group Risk Committee, which comprises the members of the Group Committee plus other specialists from insurance and reinsurance. We adopt a similar approach at business-segment 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. ERGO IRM supervises risk management at ERGO and is supported 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.

New segment Munich Health (MH) from first quarter of 2010

From the first quarter of 2010, the new Munich Health segment (MH) will feature in Munich Re's risk reporting. Since early 2009, all of MH's strategic and risk issues have been addressed by the Munich Health Board. A Munich Health risk committee will also be set up in 2010 to deal with risk issues.

Determining the risk strategy Munich Re operates worldwide, turning risk into value. The assumption of risks is therefore an essential part of our business strategy. The risk strategy defines the extent of the risks we have incurred for our clients and shareholders. The development of the risk strategy is embedded in the annual planning cycle, and hence in our business strategy. The risk strategy is approved by the Board of Management and discussed regularly with the Supervisory Board.

Munich Re's risk strategy takes into account the interests of both clients and shareholders. Its objectives are:
- to maintain our financial strength, thereby ensuring that our liabilities to our clients can be met,
- to protect and increase the value of our shareholders' investment,
- to safeguard Munich Re's reputation.

The risk strategy is determined by setting a risk appetite defined by a series of risk limits. The risk appetite is based on the capital and liquidity available and earnings volatility, and provides a term of reference for the Group's operating divisions.

The risk limits are:
- overall portfolio limits: based on Munich Re's overall risk portfolio and designed to protect our capital and limit the likelihood of an economic loss for the year;
- supplementary limits: to limit losses that can arise out of individual risk types or accumulations, such as natural hazards, terrorism and pandemics, and to limit market and credit risks that could endanger Munich Re's survival.
- other limits: designed to preserve Munich Re's reputation and thus protect its future business potential. They encompass limits for individual risks that, though they would not necessarily threaten the Company's existence, could cause lasting damage to the confidence of clients, shareholders and staff.

The risk appetite laid down ensures that an appropriate balance is maintained between business opportunities and risks incurred. The terms of reference set out in the risk strategy have especially proved their worth in the financial crisis.

Implementation of strategy and the risk management cycle The risk appetite defined by the Board of Management is reflected in our business planning and integrated into the management of our operations. 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, derivatives or other forms of risk relief.

Our **implementation of risk management at operational level** embraces the identification, measurement, analysis and assessment of risks, and the resultant risk reporting, limitation (reduction to a level we have defined as appropriate) and monitoring. With these processes, we endeavour to consider all significant risks.

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

Constant refinement of our risk measurement tools

We are constantly refining our **risk measurement** tools, which are 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 a number of levels, including Group, segment, legal entity and risk type. We regularly perform outside-in benchmarking of our risk-model results and participate in industry surveys to constantly challenge and refine our risk measurement tools. We also continually compare our model with the current status of Solvency II and take part in the Quantitative Impact Studies. We explain the results of our internal risk model on page 155 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 limitations of capital fungibility. They are based on the analyses prepared in the central risk management units for reinsurance, ERGO and asset management. Besides this, IRM is responsible for checking and validating the analyses of downstream units, working closely with many units and experts within, and in some cases outside, the Group. This provides us with a quantitative and qualitative assessment that considers possible interdependencies between risks.

Risk limitation is derived from the risk strategy. Based on the defined risk appetite, limits and budgets and any risk-reducing measures required are decided on and implemented. Various units in the Group work hand in hand to comply with the specified risk limits, whilst simultaneously taking account of the interests of the business. If a business unit identifies attractive business that exceeds its risk limits, the competent risk management departments and IRM analyse the potential impact of the business on the Group portfolio and the risk appetite of the Group as a whole. Taking these results and the expected earnings from the business into consideration, we devise a solution that enables the business to be accepted in our books if appropriate.

Quantitative **risk monitoring** based on indicators is carried out at central points, e.g. at MEAG for investments (cf. also page 24 f. of the magazine section). We monitor qualitative risks on a decentralised or centralised basis, depending on their significance and classification.

Control and monitoring systems

Uniform worldwide system for managing risks

In 2009, we continued with the Group-wide project launched in 2008 to enhance our internal risk-control system (ICS) aimed at harmonising and coordinating more closely the various control and monitoring systems in place in the Group. The ICS being introduced at Munich Re is a uniform worldwide system for managing risks across all risk dimensions that both meets Group management needs and satisfies local legal and regulatory requirements (cf. our comments on the Minimum Requirements for Risk Management – MaRisk – on page 82). The Board of Management has Group-wide responsibility for the ICS and it falls structurally under the responsibility of the CRO. Munich Re’s organisational structure ensures the separation required by MaRisk between functions that are not reconcilable, up to and including Board level.

Using a holistic risk management approach, risks and the related controls across all risk dimensions and areas of the Group were identified, analysed and assessed and improvements and control procedures defined. We focused on significant risks, key processes and controls, and important units in our international organisation.

By systematically linking risks and processes and determining the relevant risk control points, we were able to clearly identify even cross-divisional risks and controls. Staff from our specialist departments were involved throughout and were thus able to feed their knowledge and experience directly into the ICS. Their involvement also enabled us to make the need for risk controls and risk management clearer. In this way, we have been able to build a stronger foundation for a uniform understanding of risk and improve our awareness of risk and the need for controls. The ICS will in future be reviewed by Internal Audit as part of the internal audit plan at least annually to evaluate its effectiveness and assess the need to adapt it to take account of changes in parameters.

The ICS is being implemented in stages and will be fully operational in 2012.

Besides risks in our operational units, the ICS and risk management also covers risks in the compliance and accounting areas. The risks in our operations comprise investment risks, underwriting risks and operational risks.

Appropriate internal controls for accounting risks

We use the ICS to ensure that appropriate internal controls are set up and maintained for accounting risks, enabling us to guarantee that financial reporting is reliable and, in particular, that our published financial statements are correct.

The consolidated financial statements are produced centrally in Munich on the basis of the IFRS accounts for individual entities and subgroup financial statements. Underwriting transactions and general business are in principle accounted for through the companies included in the consolidated financial statements, while the accounting for investments is carried out predominantly by MEAG, with the exception of certain units where it is performed by external service providers.

Munich Re applies carefully defined materiality thresholds to ensure that internal controls are appropriate. Significance, risk experience and compliance are taken into account in determining the thresholds. All risks significant from a Group perspective for financial reporting are integrated into the ICS in accordance with uniform criteria.

By means of an accounting manual and regular circulation of information on changes required, Munich Re ensures that uniform rules are applied throughout the Group for the treatment, valuation and disclosure of all items in the balance sheet and income statement. Any amendments are subject to a stringent procedure as regards timing, responsibilities and circulation of information. A standardised “enforcement” process is used to ensure that the companies included implement and comply with the accounting regulations.

The consolidated financial statements are prepared using a fast-close procedure in a central system. Subgroup accounts are produced as an integral part of the consolidated financial statements for the Group as a whole. Clearly documented instructions and controls are in place for the closing process (consolidation and reporting).

Transactions are posted at the companies included in the consolidation using a standard general ledger (for insurance and reinsurance) in place throughout most of the Group, with harmonised basic data, standard processes and posting rules, and a standard interface for delivery of data from companies to the Group or subgroup. The rules for access to accounting systems are clearly defined using systems of authorisation.

Dual control is applied throughout the process of producing individual company and consolidated financial statements. System and accounting checks are in place at every stage of the closing process. Any errors are analysed, followed up and corrected.

Risk reporting

Internal risk reporting provides management with regular information on the risk situation, both as regards the individual risk categories (ongoing) and the entire Group (quarterly). This ensures that faint signals and negative trends are identified in sufficient time for countermeasures to be taken. Responsibility for risk reporting lies with IRM, whilst Group Reporting attends to related annual-report requirements deriving from the accounting standards 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 continued existence or reputation of the Group or of individual companies. Taking account of 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 competent risk management units, e.g. Group IRM or ERGO's IRM. Specifically, we have identified the following categories from which significant risks can arise.

Underwriting risk: Property-casualty insurance Underwriting risk is defined as the risk of insured losses in property-casualty business (insurance and reinsurance) being higher than our expectations.

Significant risks in property-casualty insurance are the premium and reserve risks. Premium risk is the risk of future claims payments relating to insured losses that have not yet occurred being higher than expected. The reserve risk is the risk of technical provisions raised to cover losses that have already been incurred being insufficient.

Premium risk Primary responsibility for controlling the premium risk lies with operational management. Managers of operations grant underwriting authorities and lay down internal processes with the intention of ensuring that a high level of quality is maintained; in doing so, they take account of both the specific exposures in their business and the competence of each member of staff.

This operational responsibility is increased or limited by instructions and procedures, which define the activity of each underwriting unit and recognise the particular characteristics of the insurance or reinsurance business concerned.

In particularly critical areas, the underwriting authorities granted to the operating units are restricted, minimum standards prescribed to ensure transparency, and quality assurance and risk management processes laid down.

For the natural hazard and terrorism scenarios, budget capacities compatible with the risk strategy are allocated to each underwriting unit. Before business is accepted, risk data must be recorded and the potential loss quantified in accordance with mandatory rules and the business may only be written if sufficient budget capacity is available.

In order to prevent Munich Re's risk appetite for a single risk being exceeded, mandatory procedures ensure that the channels through which we might be involved in a large individual risk are checked before it is written to ascertain the size of our overall participation.

Generally unwanted exposures may only be accepted after submission to the committees responsible.

Due to the diversity and complexity of Munich Re's business, it is not possible to produce a set of rules for acceptance that would fully cover all relevant risks. The training of operational underwriters is therefore of prime importance. This is achieved through organised training, provision of IT systems for risk assessment and pricing, circulation of information papers and underwriting recommendations, and working groups set up to prepare underwriting knowledge for transmission to underwriters.

Reserve risk The estimation of liabilities is fraught with uncertainty. This is due to the fact that the settlement of claims that have arisen before the balance sheet date is dependent on future events and developments. Unforeseen loss trends resulting from court decisions, changes in the law, differences in loss adjustment practice, medical and long-term care, and economic factors such as inflation can have a considerable effect on loss experience.

We calculate the reserves for losses and claims settlement costs in accordance with actuarial practice based on substantiated assumptions, methods and assessments. The assumptions are updated and reviewed regularly from a variety of perspectives, for example by actuaries in our Reserving Department, underwriters, claims staff, the Chief Financial Officer and the Board of Management.

Consistency through Group-wide reserving rules

Application of Group-wide reserving rules guarantees a consistent procedure. In addition, internal audits are carried out Group-wide to provide a continuous check of both compliance with reserving rules and the appropriateness of the reserves.

Further information on underwriting risk can be found in the notes to the consolidated financial statements under (38) Risks from insurance contracts in the property-casualty segment.

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.

Controlling pandemic scenarios and longevity risks through budgets

In life insurance and reinsurance, biometric and lapse risks are especially relevant. Mortality and disability are the most significant biometric risks. For pandemic scenarios and longevity risks, budgets derived from the risk strategy are allocated to the operational units.

The assessment of our business on an embedded-value basis is based on biometric actuarial assumptions, which are regularly reviewed and adapted to include new findings, in particular relating to our own experience and expected future developments.

Of importance for health primary insurance are the biometric risk, the lapse risk and the benefits risk for long-term policies. However, if there are permanent changes in the biometric actuarial assumptions, i.e. assumptions regarding mortality and morbidity development, there is generally the possibility of a premium adjustment. For short-term health primary insurance business, on the other hand, the primary risk is a sudden increase in expenses due to exceptional one-off events, e.g. pandemics.

Depending on the contract structure, the risks of health primary insurance are reflected in the generally short-term contracts for health reinsurance.

The remarks on underwriting guidelines and limits (see "property-casualty" section) also apply to life and health reinsurance business. In primary insurance, regular reviews of the actuarial assumptions by actuaries and the requisite amendment of rating rules ensure that risk and process management are adequate.

Further information on underwriting risk can be found in the notes to the consolidated financial statements under (37) Risks from insurance contracts in the life and health segment.

Market risk We define market risk as the risk of economic losses resulting from changes in values in the capital markets. This includes equity risk, interest-rate risk, property risk and currency risk. We also include in market risk the risk of changes in credit risk spreads, inflation rates and implicit volatilities (cost of options). Fluctuations in market prices affect not only our investments but also our underwriting liabilities, especially in life insurance. Due to the long-term interest-rate guarantees given in some cases and the variety of options granted to policyholders in traditional life insurance, the amount of the liabilities is highly dependent on the capital markets.

Control of market risks by means of suitable limit and early-warning systems and through our asset-liability management

We deal with market risks by means of suitable limit and early-warning systems and through our asset-liability management, which is described on page 121. We limit the deviations in actual investments from those investments that are economically required to cover underwriting liabilities with minimum market risk (referred to as the replicating portfolio). A breakdown of investments by type can be found on page 114 f.

Applying stress tests, sensitivity and duration analyses, we simulate market fluctuations and devise strategies for counteracting them where necessary.

The investments we make in our operations must meet the requirements of our General Investment Guidelines, which lay down the Group-wide minimum standards for operational investments. Furthermore, we take account of associated restrictions for investments resulting from our risk strategy.

A detailed presentation of the economic risk capital for market risks can be found on page 159 f.

Credit risk We define credit risk as the financial loss that Munich Re could incur as a result of changes in the financial profile of a counterparty, issuer of securities or other debtor with liabilities to our Group.

In addition to credit risks arising out of investments and transactions with suppliers and clients, we actively assume credit risk through the writing of insurance and reinsurance business. This includes trade credit reinsurance and surety business, financial reinsurance (life and non-life) and the granting and insurance of loans. Credit risks can also arise through reinsurance, risk transfers to the capital markets and other financial transactions.

Monitoring and control of credit risks through our Group-wide cross-balance-sheet counterparty limit system

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 appetite 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 basis for the exposure figure is 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.

To take account of other country risks besides credit default, our Group Development function also prepares a specific country rating in addition to the pure default rating. This is not included in the limit calculation, but has to be considered in underwriting and investment decisions. It covers political, economic and security-related country risks, thus permitting an additional comprehensive assessment of country risks, which are relevant in different ways for the individual fields of business. Beyond this, we monitor and – if necessary – limit our accumulations in certain sectors and regions.

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 (such as minimum ratings and capital requirements), and issues appropriate limits. With this system, we achieve a broad and high-quality spread of our retrocessions in the reinsurance market.

The credit exposure on capital market placements, such as our catastrophe bonds, is generally reduced by the deposit of first-class collateral or the integration of suitable hedging mechanisms.

We control the credit risk in our fixed-interest investments by selecting issuers of suitable quality and respecting counterparty limits. We set very high standards for issuers, which are also reflected in our Group-wide investment principles. There are additional limits on investments in structured products according to their risk profile.

The remarks on underwriting guidelines and limits (see "property-casualty" section) also apply to credit risks incurred through insurance business. Responsibility for the issue of underwriting guidelines and credit limits lies with IRM.

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 and disagreements with business partners.

Through our comprehensive internal control system, we identify and mitigate these risks (see page 147 ff.). It is our declared corporate aim, which we consistently pursue, to make employees aware of the potential risks and to establish an appropriate risk culture. This includes willingness to learn from mistakes and to recognise them as opportunities for improvement.

Liquidity risk Our objective in managing liquidity risk is to ensure that we are in a position to meet our payment obligations at all times.

In general, our insurance and reinsurance business continuously generates significant liquidity, as premium income is usually received some time before claims and other benefits are paid to our clients.

In addition, at Munich Re we attach particular importance to
// prudent, real-time cash-flow management,
// a balanced investment structure aligned with our financial obligations with investment primarily in asset classes that take due account of security, liquidity and ability to realise at market prices and
// frequent simulation of the impact of particular burdens on our liquidity.

We optimise the availability of liquidity in the Group through internal funding and a cash pool fed by Group companies, whilst complying with regulatory requirements through stringent rules of access to the pool and ensuring that every unit is able to meet its payment obligations.

Management of the liquidity risk in the framework of our overall risk strategy

We also manage liquidity risk in the framework of our overall risk strategy, with the Board of Management defining limits for liquidity risk, on which minimum liquidity requirements for our operations are based. These risk limits are reviewed annually and compliance with the minimum requirements continuously monitored. The management of liquidity risk includes taking account of:

- // known and expected payment obligations through regular, detailed liquidity planning at individual entity level and a central cash flow reporting system;
- // short-term margin and collateral obligations arising out of derivative positions where companies make use of such instruments;
- // unexpectedly high payments resulting, for example, from accumulation losses that far exceed normal loss expectations.

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 its operating environment. The existing and new potential for success in the Group and the segments in which it operates creates strategic risks, which generally arise early on and can lead to a significant long-term reduction in corporate value.

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 implementation. The Strategy Committee comprises members of the Group Committee, and hence the CRO, plus the CEOs of the business segments and the Head of Group Development. As a result, strategic decision-making processes are intermeshed with risk management. IRM is additionally involved in the operational business planning and in the processes for mergers and acquisitions.

Reputational risk Reputational risk is the risk of a loss resulting from damage to the Group's public image (for example with clients, shareholders or other parties).

We monitor 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, our reaction is decided on by the Reputational Risk Committee, which was set up specifically for this purpose, with a view to ensuring that operational risks are not accompanied by reputational risks. The Committee is made up of experts from various units and is headed by the Compliance Officer. Rules of procedure regulate the functions and work of the Committee. Our Code of Conduct comprises the main rules and principles for legally correct and responsible behaviour by employees.

Economic risk capital

Overview of the risk situation

Munich Re's risk situation in 2009: manageable and under control

We use our central risk management to assess our risk situation on the basis of qualitative and quantitative factors. Throughout the entire period under review, Munich Re's risk situation was manageable and under control. In the interests of our clients and shareholders, our carefully implemented, modern risk management processes combined with our solid level of 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 very well so that we are fully aware of the implications of taking them (see below), there are a large number of other risks to which Munich Re – like every other undertaking – is exposed. The incidence of these risks is not planned and their occurrence probability and impact are generally difficult to estimate. We therefore attach great importance to closely monitoring our environment and our own Group to identify even these risks in good time and to take suitable measures to avert loss or damage.

On page 149 ff., we provide several examples of the above-mentioned risks and how we deal with them.

Internal risk model

Managing business using our own integrated risk model

Munich Re manages 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 meet its commitments even after extreme loss events.

The Munich Re Group's risk model specifies the distribution of the available financial resources over a one-year time horizon. It is based on separately modelled distributions for the risk 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, in both the reinsurance and the primary insurance segments. We also consider (tail) interdependencies between the segments, which take account of the fact that the different risks cannot be seen completely independently of each other but are interconnected in certain ways. Altogether, compared with a situation where the risks are assumed to be independent, this results in a lesser diversification effect, which is reflected in an increased capital requirement.

A key figure calculated using the internal model is our **economic risk capital (ERC)**. By economic risk capital, we mean the amount of available financial resources that Munich Re needs, with a given risk appetite, to cover unexpected losses in the following year.

To determine Munich Re's economic risk capital, 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 Munich Re which, given unchanged exposures, will be statistically exceeded once every two hundred years at most. It represents the future 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 degree of security.

The distribution of economic losses between the individual legal entities in Munich Re 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 Munich Re's capital requirements, restrictions of capital fungibility resulting from legal or regulatory requirements are therefore explicitly taken into account.

Economic risk capital (ERC)	31.12.2009				Prev. year				Change
€bn	Group	Reinsurance	Primary insurance	Segment diversification	Group	Reinsurance	Primary insurance	Segment diversification	Group
Property-casualty	7.6	7.5	0.5	–0.4	8.0	7.8	0.6	–0.4	–0.4
Life and health	3.7	3.2	0.9	–0.4	4.0	3.5	1.1	–0.6	–0.3
Market	6.8	4.0	5.3	–2.5	5.4	4.3	3.7	–2.6	1.4
Credit	3.1	2.4	0.7	–	2.7	2.1	0.7	–0.1	0.4
Operational risk	1.5	1.3	0.5	–0.3	1.4	1.0	0.4	–	0.1
Subtotal	**22.7**	**18.4**	**7.9**	**–3.6**	**21.5**	**18.7**	**6.5**	**–3.7**	**1.2**
Diversification effect	–5.3	–4.9	–1.2	–	–5.0	–5.5	–1.3	–	–0.3
Total	**17.4**	**13.5**	**6.7**	**–2.8**	**16.5**	**13.2**	**5.2**	**–1.9**	**0.9**

Slight rise of €0.9bn in economic risk capital

The table shows Munich Re's economic risk capital and risk categories as at 31 December 2009. Over the past year, the economic risk capital rose slightly by €0.9bn. The following contributory factors worked in different directions:

- The economic risk capital for the **property-casualty** risk category decreased by around €0.4bn. This was primarily the result of the substantially reduced exposure to the "Storm Europe" scenario compared to the previous year and a further improvement in the modelling of external retrocession covers.
- The risk capital for **life and health business** fell by some €0.3bn, mainly due to higher interest rates in the USA and Canada and an improved modelling of lapse-sensitive life reinsurance business, factors which offset portfolio growth and currency translation effects.
- The economic risk capital for **market risks** rose by around €1.4bn as a result of an increased equity-backing ratio (after taking derivatives into account) and an improved modelling of both the volatility risks and the increase in capital-market credit risk spreads in primary insurance.
- The economic risk capital for **credit risks** was up by around €0.4bn. This is due partly to an increase in the volume invested in fixed-interest securities and partly to a higher percentage of investments in corporate bonds.
- As last year, we used scenarios to determine the economic capital requirement for **operational risk**. The scenarios were prepared by various expert teams and will be annually reviewed and refined as part of the ICS review (see page 147 ff.).

The table also makes clear the **diversification effects** we achieve through our broad spread across the different risk categories (underwriting, market and 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 €0.3bn, as the discount for restrictions in capital fungibility has reduced owing to the improved capitalisation. The diversification effect between the insurance and reinsurance segments has risen substantially, since besides the aforementioned effect, the total capital requirement for the insurance and reinsurance segments has increased owing to the improvement in capital fungibility.

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. On the basis of these models, the impact of various events on Munich Re's portfolio is calculated and represented in mathematical terms in the form of a stochastic model. These models form the basis for the ERC calculation for the "large and accumulation losses" category, which apart from natural hazard scenarios includes man-made losses, and for the limits and budgets for accumulation losses.

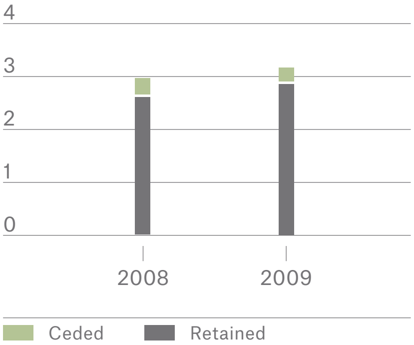
The exposures of the reinsurance segment are updated for the quarterly ERC calculations, and the data is used to adjust the stochastic models for natural hazards. The current limit utilisation – also referred to as budget consumption – is determined by a bottom-up process. In view of the higher degree of stability of its portfolio, ERGO's exposure is only updated annually.

Largest natural catastrophe exposure for Munich Re in "Atlantic Hurricane" scenario

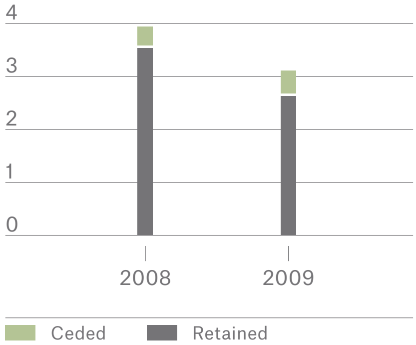
The largest natural catastrophe exposure for Munich Re is the €2.9bn currently retained for the "Atlantic Hurricane" scenario (value at risk for a 200-year return period). Our exposure to European windstorms has been quantified at €2.7bn using the scenarios we have drawn up.

The diagrams below show our estimated exposure to the two peak scenarios for a return period of 200 years.

Atlantic Hurricane
Aggregate VaR
(return period: 200 years)
€bn (before tax)



Storm Europe
Aggregate VaR
(return period: 200 years)
€bn (before tax)



Whilst the exposure in the Atlantic Hurricane scenario is almost unchanged, there is a clear decrease in the Storm Europe scenario, which is due to the non-renewal of a substantial part of our portfolio.

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)	31.12.2009				Prev. year				Change
Property-casualty €bn	Group	Re-insurance	Primary insurance	Segment diversi-fication	Group	Re-insurance	Primary insurance	Segment diversi-fication	Group
Basic losses	4.2	4.1	0.5	–0.4	3.8	3.7	0.5	–0.4	0.4
Large and accumulation losses	6.9	6.8	0.2	–0.1	7.5	7.4	0.3	–0.2	–0.6
Subtotal	**11.1**	**10.9**	**0.7**	**–0.5**	**11.3**	**11.1**	**0.8**	**–0.6**	**–0.2**
Diversification effect	–3.5	–3.4	–0.2	–	–3.3	–3.3	–0.2	–	–0.2
Total	**7.6**	**7.5**	**0.5**	**–0.4**	**8.0**	**7.8**	**0.6**	**–0.4**	**–0.4**

Claims costing in excess of €10m at Group level are classified as large losses. Accumulation losses are losses affecting more than one risk (or more than one line of business). We classify all other losses as basic losses.

The significant reduction in the economic risk capital for **large and accumulation losses** is mainly due to the above-mentioned decrease in the peak risk "Storm Europe". In addition, we have further refined the modelling of our external retrocession covers. In the case of basic losses, the annual readjustment of the models has resulted in an increased requirement for economic risk capital, especially for credit reinsurance. Besides this, currency translation effects have also led to a slight rise.

For **basic losses**, we calculate the risk of subsequent reserving being required for existing risks within a year (reserve risk) and the risk of an underrating (premium risk). To achieve this, we use analytical methods that are based on standard reserving procedures but take into account the one-year time horizon. The risk arising out of large and accumulation losses is depicted using the above-mentioned models, the models for large man-made losses being calibrated on the basis of historical claims experience.

As a global risk carrier, we can diversify our portfolio through the broadest possible mix and spread of individual risks, significantly reducing the volatility of total claims payments and substantially increasing the value added by all divisional units.

Life and health In life and health business, the risk modelling takes account of adverse developments with both short- and long-term effects on the risk drivers that influence the value of our business.

In addition to the simple risk of random fluctuations resulting in higher claims expenditure in a particular year, the adverse developments with a short-term impact that we model notably include the risk of above-average claims that could arise on the occurrence of rare but costly events such as pandemics.

However, particularly the products of life primary insurance and reinsurance, and a large part of our health primary insurance business, are characterised by their long-term nature and the distribution of results over the duration of the policies. We show the value of business in force and value sensitivities for such long-term portfolios in the notes to the consolidated financial statements under (37) Risks from insurance contracts in the life and health segment. For these portfolios it is, in particular, adverse developments of risk drivers with a long-term impact and changes in the forecast mortality and disablement trends in the insured portfolio that would be most likely to cause a fall in value (trend risks). The value sensitivities disclosed in the notes to the financial statements (37) reflect the impact of a defined change in the assumptions for a specific risk driver. The risk modelling, on the other hand, stochastically depicts simultaneous changes in assumptions for value sensitivities.

Market risks Market risks are established using a scenario-based simulation calculation. The scenarios are calibrated on the basis of long historical time series. This risk category can be broken down further into the subcategories “equity risks”, “general interest-rate risks”, “specific interest-rate risks”, “property risks” and “currency risks”. The general interest-rate risk includes implicit volatility risks and inflation risks.

Economic risk capital (ERC)	31.12.2009				Prev. year				Change
Market €bn	Group	Reinsurance	Primary insurance	Segment diversification	Group	Reinsurance	Primary insurance	Segment diversification	Group
Equity risks	3.8	2.1	1.7	–	2.4	1.1	1.4	–0.1	1.4
General interest-rate risk	4.0	3.1	4.5	–3.6	3.6	3.4	3.2	–3.0	–
Specific interest-rate risk	2.2	1.5	1.3	–0.6					
Property risks	1.8	1.0	0.8	–	1.5	1.0	0.6	–0.1	0.3
Currency risks	2.3	2.2	0.1	–	2.3	2.2	0.1	–	–
Subtotal	**14.1**	**9.9**	**8.4**	**–4.2**	**9.8**	**7.7**	**5.3**	**–3.2**	**4.3**
Diversification effect	–7.3	–5.9	–3.1	–	–4.4	–3.4	–1.6	–	–2.9
Total	**6.8**	**4.0**	**5.3**	**–2.5**	**5.4**	**4.3**	**3.7**	**–2.6**	**1.4**

Equities The market value of our investments in equities, including participating interests, was €5.2bn (6.2bn) on 31 December 2009. At this date, on a market-value basis and before taking derivatives into account, the ratio of equities to total investments amounted to 2.8% (3.5%).

The equity-backing ratio after consideration of derivatives, which is relevant for the risk calculation, rose from 1.6% to 2.8%. This is the main reason for the increase in the equity risk..

Interest-rate risk As the interest-rate risks arising out of general movements in interest rates (general interest-rate risk) and those relating to the spreads for specific bonds (specific interest-rate risk) are disclosed separately for the first time, a direct comparison of the risk figures with the previous year is not possible. The sensitivity of our provisions to inflation, inherent in the general interest-rate risk, was again analysed and adjusted in the financial year.

In the primary insurance segment, however, the increase in interest-rate risks is primarily the result of more refined modelling of the risks in implicit interest-rate volatilities and the credit risk spreads.

In reinsurance, the interest-rate risk on fixed-interest investments in units of **modified duration** (interest-rate sensitivity) is around 5.3, whereas the modified duration of liabilities is approximately 4.9. The sensitivity of available financial resources (see next section) to a parallel increase in all interest-rate curves by one basis point (DV01) amounts to approximately –€13m. Were such a parallel shift in the interest-rate curves to occur, the available financial resources would change by the given amount.

In primary insurance, the modified duration is 6.3 for fixed-interest investments and 6.8 for liabilities. This exposure to falling interest rates derives mainly from the long-term options and guarantees in life insurance business. These risks were reduced substantially by the extensive interest-rate risk hedging programme first implemented in 2005. The sensitivity of available financial resources (see next section) to a parallel increase in all interest-rate curves by one basis point (DV01) amounts to approximately €6m. The different exposure in reinsurance and primary insurance thus has the effect of reducing our interest-rate risk at Group level.

Credit risks Munich Re determines these using a portfolio model, taking into account changes in value owing to rating migrations and the default of debtors. The model is calibrated over one credit cycle.

The market value of our investments in fixed-interest securities and loans as at 31 December 2009 was €158.8bn, representing 85.8% of the market value of Munich Re's total investments. These securities thus made up the bulk of the portfolio. A detailed presentation of our fixed-interest securities and loans, including short-term investments, on a market-value basis can be found in the investment performance section on page 116. Ratings for these investments are provided in the notes to the consolidated financial statements under (5) Loans, (6) Other securities held to maturity, (8) Other securities available for sale and (9) Other securities, at fair value through profit or loss.

Our sophisticated limit system and our well-established administration systems have served us well overall – even during turbulent financial markets – and enable us to manage our investments efficiently and successfully.

Our provisions ceded to reinsurers and retrocessionaires were assigned to the following rating categories as at 31 December 2009:

Ceded share of technical provisions according to rating	31.12.2009	Prev. year
in %		
AAA	11.0	16.1
AA	29.8	53.8
A	53.1	23.4
BBB and lower	1.2	0.9
No rating available	4.9	5.8

The shifts are mainly due to the change in rating of a few reinsurers/retrocessionaires.

Available financial resources

Available financial resources

Comparison of economic risk capital and available financial resources

We compare the economic risk capital, which equates to Munich Re's capital requirement, with the available financial resources which can be used to cover losses that exceed expectations. The available financial resources are calculated as the sum of the economic equity and the available hybrid capital. The economic equity is based essentially on Munich Re's IFRS equity, supplemented by various economically appropriate adjustments.

The valuation reserves include post-tax adjustments to items that are not valued at fair value under IFRS, in particular to land and buildings and loans. We perform various valuation adjustments for property-casualty and life and health. In property-casualty, we discount the reserves that under IFRS are not discounted from a strict economic perspective or at all, adjusting them for the resultant tax effects, and add on a risk margin derived in accordance with economic principles. In the case of business for which we show a Market Consistent Embedded Value (MCEV), we regard the embedded value 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 and other intangible assets are included in the Group's IFRS equity. As they might not retain their value following a severe loss event, we deduct them when calculating available financial resources. We treat loss carry-forwards in deferred tax items in the IFRS balance sheet in the same way.

Available financial resources	31.12.2009	Prev. year	Change
€bn			
IFRS equity	22.3	21.1	1.2
Valuation reserves	0.9	0.9	–
Value adjustments for property-casualty and life and health	5.2	2.9	2.3
Goodwill and other intangible assets	–4.6	–4.7	0.1
Tax effects and other	–0.2	–0.6	0.4
Economic equity	**23.6**	**19.6**	**4.0**
Hybrid capital	4.8	5.0	–0.2
Available financial resources	**28.4**	**24.6**	**3.8**

Increase of €3.8bn in available financial resources

The table shows Munich Re's available financial resources as at 31 December 2009. Compared to the previous year, economic equity rose by approximately €4.0bn, of which some €2.6bn was attributable to the consolidated result. The dividends and share buy-backs (–€1.5bn) and other changes in IFRS equity (€0.1bn) are also reflected in the changes in economic equity. Finally, the valuation adjustments for property-casualty and life and health were some €2.3bn higher, primarily because of the rise in the Group's Market Consistent Embedded Value (MCEV). Compared with the previous year, adjustments for goodwill and other intangible assets showed a change of €0.1bn, and those for taxes and other items a change of €0.4bn, while hybrid capital was down by €0.2bn. These effects combined resulted in an increase of €3.8bn in the available financial resources.

The **economic capital buffer** is the amount by which the available financial resources exceed the economic risk capital. The economic solvency ratio is the ratio of the available financial resources (less announced but not yet completed capital measures such as the 2009/2010 share buy-back and dividend payment for the 2010 financial year) to the economic risk capital. Over the course of the time, the situation has developed as follows:

Economic solvency ratio components	31.12.2009	Prev. year
€bn		
(A) Economic equity	23.6	19.6
(B) Available financial resources	28.4	24.6
(C) Available financial resources after dividend and share buy-back	26.7	23.5
(D) Economic risk capital (ERC)	17.4	16.5
(B) minus (D): Economic capital buffer	**11.0**	**8.1**
(C) divided by (D): Economic solvency ratio	**153%**	**142%**

The **economic solvency ratio** of 153% reflects Munich Re's capital strength. Munich Re's economic risk capital, which produces the solvency ratio described above, corresponds to 1.75 times the capital that is likely to be necessary under Solvency II.

In calculating RORAC (see definition on page 68), the factor "additional available economic equity" is also relevant. It is the difference between the economic equity and the economic risk capital and amounted to €6.2bn (3.1bn) at 31 December 2009.

Regulatory solvency requirements

We report on regulatory solvency requirements in the "Group solvency" section on page 129 of the management report.

Selected risk complexes

Overarching accumulation risks

Effects of the financial crisis An example of overarching accumulations is the impact of the worldwide financial crisis.

On the insurance side, current indications are that Munich Re is potentially exposed mainly via the liability classes directors' and officers' liability (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 be several years before there is final clarity regarding the extent of the losses. At the turn of the year 2009/2010, we had received isolated provisional notifications from our liability reinsurance clients. We have taken these into account through appropriate allocations to IBNR reserves.

The upheaval in the international financial markets caused by the financial crisis is impairing economic recovery, with the related rise in insolvency rates leading to higher claims costs for the year in credit reinsurance. We expect a further increase in insolvencies in 2010. Both we and our cedants took account of this for the 1 January 2010 renewals by adapting our underwriting policy and conditions. We are withdrawing totally from some areas of credit reinsurance. We have tightened up our criteria and analysis processes for large transactions in life and non-life that involve substantial credit or liquidity risk.

Our exposure to credit risk on the investment side in 2009 was relatively low, though even we are not immune to the crisis due to our high investment volume. Our exposure to the financial sector – at market value – amounted to around €73bn at year-end. Much of our exposure (around 45%) is to the German financial sector. We took various measures during the year to counter the risk arising out of such exposure, including the introduction of tools for monitoring and limiting sector accumulations. The limits in our Group-wide counterparty limit system for certain banks were also subjected to a critical review and continuously monitored taking account of current market indicators.

Pandemic A further example of an overarching accumulation risk is a major pandemic. Like other companies in the insurance industry, Munich Re would be exposed 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 Nathan pandemic bond programme.

No noticeable impact from swine flu so far

We were well prepared for the swine flu in autumn/winter 2009/2010. In recent years, we had already developed scenarios to quantify the pandemic risk, which are based on experience with Spanish flu (1918), Asian flu (1957) and Hong Kong flu (1968). We take into consideration parameters such as infection rates, duration of illness, excess mortality, etc. together with selection effects that produce a lower average mortality in the insured portfolio than among the population as a whole. So far, we have not observed any noticeable impact. Assumptions as to the further progress of swine flu are, of course, subject to uncertainty. Changes in the severity of the illness, the supply and effectiveness of medication and vaccinations and, notably, a mutation of the virus may have a considerable impact on future developments.

Climate change

Whilst we are in a position to adequately assess the known risks in our portfolio on the basis of current knowledge, scientific research into climate change is complex and the political and regulatory environment in which we operate is developing dynamically, so that we must remain vigilant with regard to the identification and representation of new or emerging risks. We adopt a multidisciplinary approach, using and combining the experience and expertise of our scientists, 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. However, changes in the physical environment and new regulations resulting from climate change also open up many business opportunities. Applying the knowledge of this topic we have accumulated over decades, we exploit these opportunities – for example, through new insurance products for renewable energy technologies.

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, including systematic trend research, using Munich Re's knowledge management, and regular structured discussions in our "emerging risks think tank". To ensure that emerging risks are understood, a group of experts reports on the issues involved from various perspectives. They derive conceivable scenarios and analyse their possible impact on Munich Re. Of particular significance are interdependencies between different risks and other aspects related directly or indirectly to emerging risks. 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 class actions.

Legal and supervisory risks

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 April 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 in other countries. We have received requests to provide information in connection with these investigations and are cooperating fully with the authorities. Munich Re entities have been named together with several other insurers and brokers as defendants in a number of PSA-related class actions by US policyholders. Munich Re denies any wrongdoing and will defend itself against the accusations in the appropriate manner.

In late 2004, the US Securities and Exchange Commission (SEC) and the Office of the New York State Attorney General initiated inquiries into 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.

In November 2009, the Spanish antitrust authority (CNC – Comisión Nacional de la Competencia) imposed fines on various insurers and reinsurers, including Munich Re's Spanish branch (Münchener Rückversicherungsgesellschaft, Surcursal España y Portugal), for alleged collusion restricting competition in Spanish decennial liability business (compulsory insurance for guarantee claims in respect of contract works). In December 2009, Munich Re's Spanish branch lodged an appeal against the CNC's decision in the expectation that the next higher instance will arrive at a different assessment of the facts.

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 aware that the plaintiffs' attorneys are trying hard to repel the tort reform initiatives. We are currently still being affected by late-reported claims – in some cases for high amounts – for asbestos-related diseases and similar liability complexes. Though the total number of asbestos claims is declining, the number of severe cases of mesothelioma and other types of cancer has remained relatively constant in recent years.

Outlook

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, notably the adoption of the Solvency II Directive in early 2009 and the draft implementation measures published by the Committee of European Insurance and Occupational Pensions Supervisors (CEIOPS) at year-end. Nevertheless, there are still considerable uncertainties regarding the future calibration of Solvency II.

Summary

In accordance with the prescribed processes, 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. During the whole of 2009, risk exposures were regularly quantified and compared with the risk appetite. Since exposure was always within the appetite, we assess Munich Re's risk situation as manageable and under control.

Prospects

- // Economic environment still difficult, despite further signs of recovery; challenges for the Group but also opportunities thanks to financial strength and know-how
- // Sharpened positioning in reinsurance; ERGO driving growth in primary insurance with new brand strategy
- // After systematic reallocation of investments from equities to interest-bearing instruments, expected return on investment below 4%
- // Adherence to long-term result target of 15% on risk-adjusted capital (RORAC) after tax over the cycle
- // Consolidated result of over €2bn envisaged for 2010
- // Dividend proposal for 2009: €5.75 per share

Predictions about the forthcoming development of our Group are based primarily on planning figures, forecasts and expectations. Consequently, the following assessment of Munich Re's development merely reflects our incomplete assumptions and subjective 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 global economic recession seems to have bottomed out, but there is still great uncertainty as to whether the recovery will be sustained. Neither the job market nor the trend in real incomes has turned around yet. The demand for primary insurance and reinsurance therefore remains subdued. Even if the downturn has come to an end, it will take some time for economic performance to return to its pre-crisis level and for companies to again invest more and also insure this investment. Given the rising unemployment rate and economic uncertainty, consumers are reducing their expenditure on private provision. All the following prognoses are subject to considerable uncertainty in view of the difficulty involved in estimating future development, in particular if they go beyond the current financial year 2010.

Opportunities despite difficult economic situation

Yet even in this taut economic situation, there are opportunities open to us in various areas. We aim to take advantage of our global market and business presence and our strong capitalisation to expand into new areas and broaden those in which we already operate. We have responded to the steady shift in demand trends in insurance and reinsurance by repositioning ourselves in reinsurance. Our new Munich Re brand highlights our sharpened value proposition in offering clients tailor-made insurance solutions. We see positive aspects for the medium term in primary insurance as well, particularly in life and health, and we exploit these with a streamlined new brand architecture. The general public's need for care and provision is rising and increasingly has to be financed privately. In property-casualty insurance, we anticipate growth especially in international business.

Economic parameters

Macroeconomic parameters are likely to improve further in 2010, which should also have positive implications for insurance demand and for expected returns on investments.

Economy

Moderate macroeconomic recovery expected for 2010

After the sharp downturn in the global economy, the first signs of a recovery began to emerge towards the middle of 2009, a trend that is expected to continue in 2010. The industrial countries will probably show moderately positive growth. More momentum will come from the emerging economies, especially China and India. It is to be feared that despite any economic upturn, the steep rise in unemployment will persist, particularly in the developed economies, with a weakening effect on private consumption. The high level of household debt in a number of countries, including the USA, should also contribute to consumer reluctance. The recovery of the German economy depends mainly on the recovery in export demand. With the expected return of global demand, prices for consumer goods and raw materials will rise again. The international increase in public debt, which in some cases has been pushed to historic proportions by economic programmes and the support for the financial markets, is likely to affect countries' economies in the medium to long term.

Capital markets

For the capital markets, 2010 will be a year of transition, in which the after-effects of the crisis and reduction in monetary and fiscal policy stimuli will need to be absorbed. In this environment, we anticipate a modest increase in the yield levels of long-term government bonds. Higher-risk investments should be subject to high volatility again in 2010, reflecting the remaining uncertainty about the economy, the stability of the financial system, and a withdrawal – with minimum impact on the market – from the expansive monetary policy practised thus far.

At present, we see no signs of a further weakening of the US dollar. Following the very accommodating monetary policy pursued by the United States until now, we anticipate that 2010 will bring some initial tightening measures that should strengthen the dollar. In addition, a reduction in the US trade deficit could contribute to a positive development of the US currency.

Insurance industry

The anticipated global economic recovery should also have a favourable effect on the insurance industry in 2010. In most of the developed markets, slight growth in premium income is therefore expected. Economic development in the emerging countries should be somewhat more positive. In individual areas of life, health and personal accident insurance, delayed effects of the crisis are to be feared, such as the consequences of higher unemployment. Likewise, individual segments of property-casualty insurance could continue to suffer in the short term from the impact of the financial crisis. It cannot be ruled out, for instance, that a significant portion of the losses in professional indemnity insurance will not occur until a later stage. Other segments such as credit and surety business, however, should benefit directly from an economic upswing and record lower losses. For life insurance, the development of interest-rate and return levels is a crucial success factor. Although demand for life insurance cover should pick up again as the prospects for the economy improve, the profitability of the business could suffer in the long term if the financial crisis triggers a prolonged phase of low interest rates.

Risk-adequate terms and conditions still essential

The improved capital situation is having a significant effect on prices, terms and conditions in the international insurance and reinsurance markets. Accordingly, the renewals at the beginning of the year showed a slight weakening of prices. In a number of segments that were hit more severely by the crisis, a further improvement in terms and conditions is expected. As a general principle, primary insurers and reinsurers must continue to ensure – in the interests of clients – that pricing remains risk-adequate.

Risks

Although the prospects for the economy have brightened considerably, the outlook remains comparatively uncertain. The durability of economic recovery is still unclear. A repeated slump or even extended period of stagnation with deflationary consequences cannot yet be completely ruled out. Furthermore, the implications of the massive government and central bank interventions and the reactions they provoke are difficult to estimate. For instance, a misguided monetary policy that, in the event of a sustained economic recovery, results in a higher rate of inflation in the medium term constitutes a significant risk for the insurance industry. Further risks may derive from the long-term impact of the crisis – for example in the form of subdued future growth potential. The implications for international trade, in particular as regards protectionist restrictions, remain unclear. Geopolitical threats, for instance in the Middle East or in eastern and southern Asia, are also still a significant risk for the insurance industry.

It remains to be seen whether and to what extent future political decisions will affect the insurance industry's business activity. Business fields with a link to social insurance, e.g. private health insurance, are subject to political risk. Moreover, the planned tightening of supervisory regulations in the financial services industry also harbours risks for the industry. There are concerns that the changes –mainly geared to banking – could be transferred indiscriminately to the insurance sector. Conceivable in this context are exaggerated capital requirements, excessive reporting obligations, and restrictions for individual types of business.

Unexpectedly fierce price competition in the insurance markets is another risk scenario. It could be aggravated by a recession-related drop in demand or politically induced restrictions on business activity. Keeping a clear focus on profitability before growth and on the efficiency of management systems will remain critical to the insurance industry's performance.

Munich Re's development

Reinsurance

Reinsurance continues to hold considerable promise for the future, with a wide variety of earnings possibilities in the long term. Although the economic strains for primary insurers and their customers have an impact on reinsurers' growth and profit perspectives, reinsurance has gained in importance owing to the after-effects of the financial crisis, as its capital-relief function is in demand. At the same time, Munich Re sees a steady shift in demand trends in insurance and reinsurance, which is why we have sharpened our positioning. Our objective is to leverage insurance solutions individually for clients. Even more so than in the past, Munich Re will offer its clients specialist consulting services also for tasks such as balance-sheet management, risk modelling or asset-liability management – for instance to prepare for the restructured European supervisory regime (Solvency II). Clients can thus optimise their risk management, save risk capital or increase their return on investment with the same risk capital. A further focus is on devising innovative coverage concepts for new and complex risks. In addition, we aim to expand our client base in areas where risk expertise is the crucial success factor, i.e. in business with insurance pools or in public-private partnerships and specialist primary insurance niche segments.

Good growth opportunities in life reinsurance

Life reinsurance offers good growth potential in the short and long term. We will strengthen this segment further given its relatively low volatility and its importance as a component of diversification in our business portfolio. Over the short to medium term, we see unbroken demand among our clients for solutions to strengthen their capital base. Reinsurance is an efficient and flexible option for increasing solvency and is therefore much sought after at present, for instance in the form of large-volume quota share treaties. We anticipate that medium-term impulses for new business will derive from the implementation of Solvency II, a revived privatisation trend in provision for old age, long term care and disability in the developed markets, the need for asset protection, and the dynamic expansion of the Asian life insurance markets. However, the development of our primary insurance clients' new business is temporarily coming under pressure because of declines in demand as a result of the economic crisis. We offer our clients extensive and individualised consulting services spanning the whole value-added chain.We are proceeding on the assumption that for 2010 there will be growth to around €7bn in gross premiums written. A relapse of the economy into a severe recession could curb this growth, adversely affecting investment results as well as disability and suicide rates, with a respective downward impact on the result. As things stand at present, significant burdens from the ongoing flu pandemic appear less probable, since the disease has been very moderate in most cases, in spite of its rapid spread.

We are adhering to our objective of doubling the value added by new business in the period 2006 to 2011. On the basis of MCEV Principles, this objective corresponds to a value added by new business of €330m for the year 2011. Given the good results of recent years, we are at present confident of being able to achieve good results that exceed this target in future.

There are a host of growth avenues in the international healthcare markets, in particular due to advances in medicine and improved life expectancy. In Germany, the opportunities offered will be utilised by DKV, firmly integrated in the ERGO group of companies. Outside Germany the connections between our Group's health insurers and the ERGO subsidiaries for other classes of business are less close. Munich Re has therefore housed its health specialists from primary insurance and reinsurance under the roof of the new brand **Munich Health**. This separate organisation combines health primary insurance outside Germany and reinsurance business in Germany. Munich Health covers large stretches of the value chain, with services ranging from risk assessment and risk management to healthcare support and involving much more than just the assumption of risks. In this context, opportunities and risks will derive for our reinsurance business and for our health insurance subsidiary Sterling Life from the expected fundamental US healthcare reform.

In 2010, gross premium volume for **health** business in the reinsurance segment is likely to be a good €3bn. The gross premiums written by Munich Health also include health primary insurance premiums and should total around €4bn in 2010. In our external reporting for 2009, Munich Health was still recognised partly in the life and health reinsurance segment and partly in health primary insurance.

In **property-casualty reinsurance**, which is influenced by cycle-oriented market developments, Munich Re will adhere to its clear, profit-oriented underwriting policy and accept risks only at commensurate prices, terms and conditions.

Renewals at 1 January 2010: Munich Re's stability, global presence and diversification pay off

At 1 January 2010, treaty business with a volume of around €7.9bn was up for renewal. Compared with earlier estimates, the capital markets recovered more quickly than expected. Primary insurers' and reinsurers' balance sheets have thus gained significantly in strength. Especially the capacity made available by reinsurers has increased. Besides this, there is greater pressure on primary insurance costs, which also has an impact on reinsurance costs. This combination of reduced, highly price-sensitive demand and increased supply is exerting pressure on prices worldwide. Only individual segments such as credit, aviation and some natural catastrophe covers have not followed this trend, owing to high claims expenditure in 2009 or general market trends.

In view of the softening market and sometimes no longer adequate prices, we refrained from writing various blocks of business due to our strict cycle management and clearly result-oriented underwriting policy. Of the total business up for renewal, 14.6% (around €1.2bn) was not renewed. In most cases, this concerned individual treaties which, owing to the deterioration in prices, were no longer attractive and thus did not meet our profitability criteria. We were able to compensate for the reduction in premium through strategic growth or profitable niche business on the one hand and opportunistic new business on the other. Overall, new business written accounted for around €700m. The renewals resulted in a reduction in premium of some €530m (–6.7%) on balance.

The renewal of natural catastrophe business in particular shows a heterogeneous picture. While risks and markets not affected by losses in the past year recorded significant price reductions of up to 10%, business that had been affected by specific claims in 2009 showed price increases that were quite substantial in some cases. In this context, it is necessary to take into consideration that US natural catastrophe business in the previous year had been characterised by a very high profitability level, due to the influence on prices of the prior-year claims and reduced capacity. This business is therefore still attractive, despite the decline in prices.

An overall analysis clearly shows that by consistently focusing on the profitability of our portfolio, we were able to buck the international trend, keeping price levels fairly constant at –0.3% compared with the previous year and also maintaining the quality of our portfolio. In this market environment, Munich Re's stability has paid off. Thanks to our global presence and broad diversification, we are in a position to offset falling prices in individual markets and segments with rising prices in others.

For the forthcoming renewals at 1 April 2010 (Japan and Korea) and 1 July 2010 (parts of the US market, Australia and Latin America), a premium volume of around €2.5bn will be up for renewal. We expect that here, as in the January renewals, markets will move sideways at best, with a slight downward tendency. An exception will be segments affected by specific losses. There is as yet no indication of a clear trend reversal.

For 2010, we project gross premiums written of €15bn in property-casualty reinsurance. Over the market cycle as a whole, we reckon with a combined ratio of around 97% of our net earned premiums, based on an expected average major-loss burden from natural catastrophes of 6.5%. Since we were affected by very severe accumulation loss events at the end of February 2010, i.e. the earthquake in Chile and Winter Storm Xynthia over Europe, we will only be able to achieve our target if random major losses remain below expectations in the further course of the year. Uncertainties result not only from the random incidence of major individual losses but also from the fact that recession-related exceptional burdens cannot be disregarded in view of the still difficult economic situation.

Measures against climate change open up growth opportunities

Measures to counter climate change offer us good business opportunities in property-casualty reinsurance. In cooperation with industrial insurance broker Marsh and photovoltaic producer Signet Solar, Munich Re has launched an innovative insurance solution to cover the risk of a performance deterioration in photovoltaic modules. It is a solution that covers the warranty given for Signet Solar modules over a period of 25 years, guaranteeing performance of at least 90% in the first ten years and at least 80% in the remaining 15. Designed specifically to meet the needs of the photovoltaic industry, this cover is of importance in financing the use of such technology. The energy project Desertec, in which we belong to a consortium of companies, also offers major business potential. Its aim is to produce sufficient power to meet around 15% of European electricity requirements and a substantial portion of the power needs of the producer countries. Desertec is intended to trigger a large number of infrastructure projects in the energy sector in southern Europe, the Middle East and North Africa. On 30 October 2009, a limited company was set up to serve as the planning entity. The insurance of such major construction projects throughout the world is already part of the core business handled by Munich Re's engineering experts. These increasingly include projects for generating renewable energy. Munich Re is actively promoting Desertec not just to pursue its own business interests but, more importantly, to make an essential contribution to reducing CO_2 emissions in Europe and thus curbing global warming.

In 2010, reinsurance (including health reinsurance written by Munich Health) should post **gross premiums** in the range of €25–26bn overall, provided that exchange rates remain stable and the cyclical losses in premium income for primary insurers and their impact on reinsurance keep within reasonable bounds and can be offset by additional business.

Uncertainties concerning the consolidated result in reinsurance (including Munich Health's reinsurance business) are naturally high at the start of the year with regard to major losses and capital market developments.

Primary insurance

Munich Re has acquired further shares in ERGO Versicherungsgruppe AG from Bayerische Hypo- und Vereinsbank AG (HVB) via an investment company. This acquisition increases its direct and indirect holdings in ERGO's share capital to 99.69%. At ERGO's next Annual General Meeting on 12 May 2010, a squeeze-out resolution is therefore to be adopted. ERGO's minority shareholders will receive appropriate cash compensation for their shares.

New ERGO brand strategy to strengthen franchise

ERGO has modified its brand strategy with the aim of gearing itself even more strongly to the needs of its clients and winning new ones in order to generate more growth. The trigger for its revised strategy was the need for action regarding the brand Karstadt-Quelle Versicherungen following the insolvency of Arcandor's Karstadt and Quelle operations. In future, ERGO will market life and property-casualty insurance under the ERGO brand in Germany as well. KarstadtQuelle Versicherungen has already been renamed ERGO Direkt Versicherungen. Health insurance will be pooled under the DKV brand and legal expenses insurance under D.A.S., with travel insurance continuing to be represented by the ERV brand. By focusing its brand presence, ERGO is making its all-round offering more visible. The brands Victoria and Hamburg-Mannheimer will be withdrawn from the market. Implementation will take place in the further course of 2010.

We expect that premium development in the segments will continue to be varied in the coming year, with a positive trend overall.

In **life insurance**, our total premium income should amount to nearly €8bn, somewhat below last year's level, with gross premiums written totalling around €6bn. We project that there will be a moderate decline in premium revenue in our international business. In Germany, we are planning for premium to remain more or less constant. Our German new business should show a slight increase both in regular-premium and single-premium income in 2010.

In the **health** primary insurance segment (including Munich Health's international primary insurance business), we aim to grow our premium income to a good €6bn. We should achieve growth especially in comprehenseive health cover, given that we had to raise premiums appreciably at the beginning of 2010 to take account of the increases in healthcare costs. From 2010 onwards, international business will be reported in the Munich Health field of business.

In **property-casualty insurance**, we expect slight premium growth to a good €5bn, stemming from both German and international business. In Germany, we expect an increase even though market premium as a whole is likely to decline somewhat. 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[1] (including Munich Health's primary insurance business outside Germany) should be in the range of €19–20bn in 2010, i.e. above last year's €19bn. We project that gross premiums written will range between €17bn and €18bn (last year: €17.5bn).

The **consolidated result** for the primary insurance segment (including the health primary insurers in the Munich Health field of business) should develop positively in 2010. For the ERGO sub-group, we expect a consolidated result of around €350–450m (last year: €173m). We anticipate a slight increase in the results for 2011.

Investments

In 2009, the global economy continued to suffer from the consequences of the financial crisis. In the first quarter of the year, the situation further deteriorated in the international capital markets. The stock markets slumped worldwide, while the yields on government bonds and risk spreads for corporate bonds stayed at their historic lows or highs. A capital market rally was triggered by numerous economic programmes and political emergency measures in the further course of the year. Nevertheless, there is still considerable uncertainty regarding the durability of the recovery and future prospects.

Even though there has been less bad news of late and the economic and early indicators are slowly stabilising, we can by no means assume that the crisis is over. Economic forecasts are thus subject to exceptional uncertainty. The development of Munich Re's investment strategy is therefore based on various scenarios, enabling us to respond flexibly to future trends and keeping us protected from extreme situations. Overall, we essentially aim to maintain our relatively cautious risk profile.

To achieve stable results in these still difficult times for the capital markets, we plan to increase our investment in real assets. By broadly diversifying our assets, we also protect ourselves more effectively from the impact of potential inflation. We are therefore considering the possibility of prudently expanding our share of equities and commodities. Furthermore, we are looking to invest in renewable energy, thereby keeping our options open in various scenarios and ensuring that we can participate in a potential recovery of the capital markets. It is this prudent investment policy that has helped us weather the crisis, particularly in the past two years.

We further expanded our portfolio of fixed-interest investments in the financial year 2009, especially by increasing our positions in corporate bonds, nearly all of which have a minimum rating of BBB–. We do not plan to further expand this portfolio in 2010.

Besides this, we raised our investments in inflation-indexed bonds with the aim of further hedging the inflation sensitivity of our liabilities. At present, we see no indicators for an immediate rise in inflation in 2010. We are nevertheless preserving the option of moderately expanding our portfolio of indexed bonds in 2010. We marginally reduced our large portfolio of government bonds compared with the previous year.

[1] Primary insurance premium income comprises the following: In the life primary segment, it includes not only gross premiums written but also savings premiums for unit-linked life insurance and capitalisation products in accordance with the statutory accounting guidelines applicable in the insurer's home country. In the property-casualty and health primary insurance segments, it comprises the gross premiums written.

We intend to continue managing interest-rate risks by gearing the periods to maturity in our bond portfolio to match the periods of our liabilities. However, in order to profit from the currently steep yield curve, we will extend durations, particularly of our government bonds. For our life insurers, moreover, the hedging programme we adopted mainly against falling interest rates will be further adjusted and refined in the current year.

In the area of alternative investments, we intend to invest more strongly in renewable energy and new technologies. Given adequate profitability prospects, we envisage investing a sum of around €2.5bn over the coming years. We do not plan to actively expand our relatively small investment volume in hedge funds and private equity, which had a market value of around €485m at 31 December 2009 and investment commitments of some €1,025m at 31 December 2009.

In previous years, we strongly cut back our investment in real estate and kept it more or less constant at a market value of €5.5bn in 2009. Real estate thus accounts for a share of 3.0% of Munich Re's investments at market value. We see the present market situation as an opportunity to further expand and internationally broaden our portfolio in order to hedge against inflation and improve the diversification of our portfolio. For 2010, we anticipate that real estate prices will remain at the same level.

We do not expect any significant increase in capital market interest rates for 2010; regular income from fixed-interest securities and loans is therefore likely to be relatively low. We have also considerably reduced the proportion of our investments in equities compared with previous years. Our exposure to impairments is thus marginal, but so is our opportunity to realise capital gains. As things stand at present, we therefore project lower investment results overall for the coming years, with a return on investment of below 4% and a particularly significant decrease for reinsurance business.

Munich Re (Group)

We are fundamentally interested in further strategic acquisitions if the purchase prices reflect the difficult economic situation and risks, thus enabling us to create attractive added value. This was not, incidentally, the case in the projects recently looked at by us, so that we did not submit any offers or the offers we made did not meet the sellers' expectations. Whilst state support schemes have brought a certain amount of stability, they also suppress the self-regulating mechanisms of the market, adversely impact the structure of competition, and curb private demand for capital owing to growing government debt. We trust that a gradual withdrawal of state aid will lead to a strengthening of the necessary consolidation trends on the supply side.

We are proceeding on the assumption that the Group's **gross premiums** written for 2010 will be in the range of €41–43bn (total consolidated premium), provided that exchange rates remain stable compared with those at the end of 2009.

Consolidated result of over €2bn aimed at for 2010

We are adhering to our long-term objective of a 15% return on our risk-based capital (RORAC) after tax across the cycle, although it will be much more difficult to achieve this in a low-interest environment. We are aiming for a **consolidated result** of over €2bn for 2010. This target remains achievable despite the claims burdens from the earthquake in Chile and Winter Storm Xynthia, although the further development of major losses in relation to the expected annual average will naturally be a significant factor. For 2011 we anticipate an increase in results.

From November 2006 and up to the Annual General Meeting 2009, Munich Reinsurance Company carried out share buy-backs with a total volume of €4bn. After concluding the 2008/2009 share buy-back programme as planned, we had originally proposed to carry out further share buy-backs totalling over €1bn for each of the following two twelve-month periods preceding the 2011 Annual General Meeting, but then put them on hold from April onwards owing to the uncertainties resulting from the economic crisis. In our estimation, the economic environment has now stabilised and our buy-back programme was resumed on 1 October 2009 after a seven-month break. By the Annual General Meeting on 28 April 2010 at the latest, we aim to buy back shares for a total purchase price of up to €1bn. By the end of February 2010, we had bought back a total of 6.0 million Munich Re shares with a volume of €648m. Depending on the market conditions, the capital market environment and the further development of the Group parent company's retained earnings, we would consider further share buy-backs of up to €1bn for the twelve-month period from May 2010 to April 2011. A decision on further buy-backs will have to be taken in due course, after weighing the options of organic and external growth.

Dividend proposal of €5.75 per share for 2009

But for the time being, our shareholders can look forward to the dividend for 2009, which – subject to the approval of the Annual General Meeting – will amount to €5.75 per share, thus exceeding the previous year's high level. For the financial year 2010 and beyond, our intention is to again pay our shareholders an annual dividend depending on the result for the year.


€4.7bn
Operating result
€41.4bn
Gross premiums written
€2.6bn
Consolidated result
€22.3bn
Equity
10.0%
Equity-to-premium ratio
€12.95
Earnings per share
62.4%
Growth in result
58%
Share of business written in reinsurance
42%
Share of business written in primary insurance
9.5%
Growth in premium income
€182.2bn
Investments

MUNICH RE 2009

Consolidated financial statements

Back four

A back four, with two full backs and two central defenders, is the most widely used defensive formation in football. The way it is deployed nowadays makes the game considerably quicker and more dynamic.

Notes to the consolidated financial statements

Other information

Consolidated balance sheet as at 31 December 2009[1]

Assets	Notes	31.12.2009			Prev. year	Change		Opening balance sheet prev. year
		€m	€m	€m	€m	€m	%	€m
A. Intangible assets								
I. Goodwill	(1)		3,477		3,547	–70	–2.0	3,135
II. Other intangible assets	(2)		1,718		1,801	–83	–4.6	1,126
				5,195	**5,348**	**–153**	**–2.9**	**4,261**
B. Investments								
I. Land and buildings, including buildings on third-party land	(3)		4,086		3,957	129	3.3	3,972
Thereof: Investment property held for sale	(17)		90		16	74	462.5	78
II. Investments in affiliated companies and associates	(4)		1,001		1,269	–268	–21.1	1,241
III. Loans	(5)		46,622		40,426	6,196	15.3	35,502
IV. Other securities								
1. Held to maturity	(6)	84			143	–59	–41.3	200
2. Available for sale	(8)	115,605			114,507	1,098	1.0	118,724
3. At fair value through profit or loss	(9)	1,613			3,122	–1,509	–48.3	1,299
			117,302		117,772	–470	–0.4	120,233
V. Deposits retained on assumed reinsurance	(10)		6,798		6,646	152	2.3	8,206
VI. Other investments	(11)		2,340		1,992	348	17.5	4,833
				178,149	**172,062**	**6,087**	**3.5**	**173,977**
C. Investments for the benefit of life insurance policyholders who bear the investment risk				**4,026**	**2,874**	**1,152**	**40.1**	**2,178**
D. Ceded share of technical provisions	**(12)**			**4,983**	**5,251**	**–268**	**–5.1**	**5,623**
E. Receivables								
I. Current tax receivables			700		919	–219	–23.8	751
II. Other receivables	(13)		10,070		8,395	1,675	20.0	8,623
				10,770	**9,314**	**1,456**	**15.6**	**9,374**
F. Cash at bank, cheques and cash in hand				**3,082**	**2,365**	**717**	**30.3**	**2,511**
G. Deferred acquisition costs	**(14)**							
Gross			8,604		8,506	98	1.2	8,388
Ceded share			76		107	–31	–29.0	86
Net				**8,528**	**8,399**	**129**	**1.5**	**8,302**
H. Deferred tax assets	**(15)**			**5,025**	**5,708**	**–683**	**–12.0**	**4,659**
Thereof: Deferred tax assets relating to disposal groups	(17)			5	–	5	–	3
I. Other assets	**(16)**			**3,654**	**4,041**	**–387**	**–9.6**	**3,383**
Thereof: Owner-occupied property held for sale				13	–	13	–	–
Total assets				**223,412**	**215,362**	**8,050**	**3.7**	**214,268**

Equity and liabilities	Notes	31.12.2009		Prev. year	Change		Opening balance sheet prev. year
		€m	€m	€m	€m	%	€m
A. Equity	**(18)**						
I. Issued capital and capital reserve		7,388		7,388	–	–	7,388
II. Retained earnings		10,667		10,843	-176	-1.6	13,553
III. Other reserves		1,473		1,036	437	42.2	3,858
IV. Consolidated result attributable to Munich Re equity holders		2,521		1,555	966	62.1	–
V. Minority interests		229		285	-56	-19.6	495
			22,278	**21,107**	**1,171**	**5.5**	**25,294**
B. Subordinated liabilities	**(19)**		**4,790**	**4,979**	**-189**	**-3.8**	**4,877**
C. Gross technical provisions							
I. Unearned premiums	(20)	6,946		6,421	525	8.2	5,719
II. Provision for future policy benefits	(21)	100,862		98,205	2,657	2.7	94,933
III. Provision for outstanding claims	(22)	46,846		45,503	1,343	3.0	44,560
IV. Other technical provisions	(23)	10,146		9,253	893	9.7	10,484
Thereof: Provision for deferred premium refunds relating to disposal groups	(17)	-1		–	-1	–	-172
			164,800	**159,382**	**5,418**	**3.4**	**155,696**
D. Gross technical provisions for life insurance policies where the investment risk is borne by the policyholders	**(24)**		**4,117**	**2,970**	**1,147**	**38.6**	**2,308**
E. Other accrued liabilities	**(25)**		**3,206**	**2,982**	**224**	**7.5**	**2,793**
F. Liabilities							
I. Bonds and notes issued	(26)	276		302	-26	-8.6	341
II. Deposits retained on ceded business	(27)	2,176		2,086	90	4.3	2,231
III. Current tax liabilities		3,134		2,791	343	12.3	2,634
IV. Other liabilities	(28)	10,114		9,931	183	1.8	10,981
Thereof: Amounts due to banks relating to disposal groups	(17)	–		19	-19	-100.0	19
			15,700	**15,110**	**590**	**3.9**	**16,187**
G. Deferred tax liabilities	**(15)**		**8,521**	**8,832**	**-311**	**-3.5**	**7,113**
Thereof: Deferred tax liabilities relating to disposal groups	(17)		6	–	6	–	1
Total equity and liabilities			**223,412**	**215,362**	**8,050**	**3.7**	**214,268**

[1] Previous year's figures adjusted pursuant to IFRS 3.62 (see "Consolidation") and to IFRS 8 and IAS 8 (see "Changes in accounting policies").

Consolidated income statement for the financial year 2009[1]

Items	Notes	2009			Prev. year	Change	
		€m	€m	€m	€m	€m	%
Gross premiums written		**41,423**			**37,829**	**3,594**	**9.5**
1. Earned premiums	(29)						
Gross		41,227			37,277	3,950	10.6
Ceded		1,701			1,553	148	9.5
Net			39,526		**35,724**	**3,802**	**10.6**
2. Income from technical interest	(30)		5,794		**4,804**	990	**20.6**
3. Expenses for claims and benefits	(31)						
Gross		33,163			29,893	3,270	10.9
Ceded share		771			1,177	–406	–34.5
Net			32,392		**28,716**	**3,676**	**12.8**
4. Operating expenses	(32)						
Gross		10,586			9,344	1,242	13.3
Ceded share		405			288	117	40.6
Net			10,181		**9,056**	**1,125**	**12.4**
5. Technical result (1–4)				**2,747**	**2,756**	**–9**	**–0.3**
6. Investment result	(33)						
Investment income		13,575			20,148	–6,573	–32.6
Investment expenses		5,692			14,232	–8,540	–60.0
Total			7,883		5,916	1,967	33.2
Thereof: Income from associates			–123		27	–150	–
7. Other operating income	(34)		688		707	–19	–2.7
8. Other operating expenses	(34)		803		741	62	8.4
9. Deduction of income from technical interest			–5,794		–4,804	–990	–20.6
10. Non-technical result (6–9)				**1,974**	**1,078**	**896**	**83.1**
11. Operating result				4,721	3,834	887	23.1
12. Other non-operating result	(35)			–472	–347	–125	–36.0
13. Impairment losses of goodwill	(35)			117	175	–58	–33.1
14. Finance costs	(35)			304	361	–57	–15.8
15. Taxes on income	(36)			1,264	1,372	–108	–7.9
16. Consolidated result				**2,564**	**1,579**	**985**	**62.4**
Thereof: Attributable to Munich Reinsurance Company equity holders				2,521	1,555	966	62.1
Attributable to minority interests	(18)			43	24	19	79.2
	Notes			€	€	€	%
Earnings per share	(53)			**12.95**	**7.74**	**5.21**	**67.3**

[1] Previous year's figures adjusted pursuant to IFRS 3.62 (see "Consolidation") and to IFRS 8 and IAS 8 (see "Changes in accounting policies").

Statement of recognised income and expense

€m	2009	Prev. year
Consolidated result	**2,564**	**1,579**
Currency translation		
Gains (losses) recognised in equity	–51	–39
Included in the income statement	–	–
Unrealised gains and losses on investments		
Gains (losses) recognised in equity	2,205	–1,465
Included in the income statement	–1,690	–1,326
Change resulting from valuation at equity		
Gains (losses) recognised in equity	15	–19
Included in the income statement	–	–
Change resulting from cash flow hedges		
Gains (losses) recognised in equity	–2	3
Included in the income statement	–	–
Actuarial gains and losses on defined benefit plans	–78	–53
Other changes	–28	33
Income and expense recognised directly in equity	**371**	**–2,866**
Total recognised income and expense	**2,935**	**–1,287**
Thereof:		
Attributable to Munich Reinsurance Company equity holders	2,885	–1,318
Attributable to minority interests	50	31

Group statement of changes in equity

	Equity attributable to Munich Reinsurance Company equity holders	
€m	Issued capital	Capital reserve
31.12.2007 as originally recognised	588	6,800
Adjustments pursuant to IAS 8	–	–
Status at 31.12.2007	588	6,800
Allocation to retained earnings	–	–
Consolidated result	–	–
Income and expense recognised directly in equity	–	–
Currency translation	–	–
Unrealised gains and losses on investments	–	–
Change resulting from valuation at equity	–	–
Change resulting from cash flow hedges	–	–
Actuarial gains and losses on defined benefit plans	–	–
Other changes	–	–
Total recognised income and expense	–	–
Change in shareholdings in subsidiaries	–	–
Change in consolidated group	–	–
Dividend	–	–
Share buy-backs	–	–
Retirement of own shares	–	–
Status at 31.12.2008	588	6,800
Allocation to retained earnings	–	–
Consolidated result	–	–
Income and expense recognised directly in equity	–	–
Currency translation	–	–
Unrealised gains and losses on investments	–	–
Change resulting from valuation at equity	–	–
Change resulting from cash flow hedges	–	–
Actuarial gains and losses on defined benefit plans	–	–
Other changes	–	–
Total recognised income and expense	–	–
Change in shareholdings in subsidiaries	–	–
Change in consolidated group	–	–
Dividend	–	–
Share buy-backs	–	–
Retirement of own shares	–	–
Status at 31.12.2009	**588**	**6,800**

Retained earnings		Other reserves			Consolidated result	Minority interests	Total equity
Retained earnings before deduction of own shares	Own shares held	Unrealised gains and losses	Reserve from currency translation	Valuation result from cash flow hedges			
11,018	**–1,265**	**5,095**	**–1,161**	**–**	**3,840**	**501**	**25,416**
30	–	–72	–4	–	–70	–6	–122
11,048	**–1,265**	**5,023**	**–1,165**	**–**	**3,770**	**495**	**25,294**
2,646	–	–	–	–	–2,646	–	–
–	–	–	–	–	1,555	24	1,579
–51	–	–2,796	–29	3	–	7	–2,866
–	–	–	–29	–	–	–10	–39
–	–	–2,781	–	–	–	–10	–2,791
–4	–	–15	–	–	–	–	–19
–	–	–	–	3	–	–	3
–60	–	–	–	–	–	7	–53
13	–	–	–	–	–	20	33
–51	–	–2,796	–29	3	1,555	31	–1,287
–128	–	–	–	–	–	–211	–339
7	–	–	–	–	–	27	34
–	–	–	–	–	–1,124	–57	–1,181
–	–1,414	–	–	–	–	–	–1,414
–1,498	1,498	–	–	–	–	–	–
12,024	**–1,181**	**2,227**	**–1,194**	**3**	**1,555**	**285**	**21,107**
482	–	–	–	–	–482	–	–
–	–	–	–	–	2,521	43	2,564
–73	–	490	–51	–2	–	7	371
–	–	–	–51	–	–	–	–51
–	–	477	–	–	–	38	515
2	–	13	–	–	–	–	15
–	–	–	–	–2	–	–	–2
–72	–	–	–	–	–	–6	–78
–3	–	–	–	–	–	–25	–28
–73	–	490	–51	–2	2,521	50	2,935
–198	–	–	–	–	–	–164	–362
12	–	–	–	–	–	61	73
–	–	–	–	–	–1,073	–3	–1,076
–	–399	–	–	–	–	–	–399
–1,000	1,000	–	–	–	–	–	–
11,247	**–580**	**2,717**	**–1,245**	**1**	**2,521**	**229**	**22,278**

Consolidated cash flow statement for the financial year 2009

€m	2009	Prev. year
Consolidated result	**2,564**	**1,579**
Net change in technical provisions	5,335	1,049
Change in deferred acquisition costs	–70	–20
Change in deposits retained and accounts receivable and payable	–69	763
Change in other receivables and liabilities	–94	158
Gains and losses on the disposal of investments	–1,612	–2,208
Change in securities held for trading	866	3,411
Change in other balance sheet items	620	–403
Other income/expenses without impact on cash flow	1,114	4,095
I. Cash flows from operating activities	**8,654**	**8,424**
Inflows from the sale of consolidated companies	1	–
Outflows for the acquisition of consolidated companies	915	1,609
Change from the acquisition, sale and maturities of other investments	–3,806	–3,452
Change from the acquisition and sale of investments for unit-linked life insurance	–711	–380
Other	–29	–137
II. Cash flows from investing activities	**–5,460**	**–5,578**
Inflows from increases in capital	–	–
Outflows for share buy-backs	399	1,498
Dividend payments	1,076	1,181
Change from other financing activities	–1,008	–303
III. Cash flows from financing activities	**–2,483**	**–2,982**
Cash flows for the financial year (I + II + III)	**711**	**–136**
Effect of exchange rate changes on cash	6	–10
Cash at the beginning of the financial year	2,365	2,511
Cash at the end of the financial year	3,082	2,365
Additional information		
Income tax paid (net)	–239	–28
Dividends received	303	968
Interest received	6,954	6,625
Interest paid	735	799

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 132.

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 315a 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 315a 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 the previous year.

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 2009 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

The completion of the initial accounting for a business combination pursuant to IFRS 3.62 and the changes pursuant to IAS 8 made it necessary to retrospectively adjust the balance sheet as at 31 December 2008, the consolidated income statement for the financial year 2008 and the respective items of the notes. Details are provided in the sections "Consolidation" and "Changes in accounting policies". Otherwise, the previous-year figures have been calculated on the same basis as the figures for the financial year 2009.

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 Reinsurance Company 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 Reinsurance Company and its subsidiaries.

The following disclosures regarding first-time recognition are provisional, since among other things there may still be changes in the purchase price and the tax items in the balance sheet.

HSB Group Inc. On 31 March 2009, through its subsidiary Munich-American Holding Corporation, Wilmington, Delaware, Munich Re acquired 100% of the share capital of the HSB Group Inc. (HSB Group) based in Wilmington, Delaware, for a total price of €570.5m. The purchase price includes all directly attributable incidental acquisition expenses such as fees for external consulting services and taxes incurred.

The HSB Group is one of the world's leading providers of insurance for machinery breakdown and engineering risks, other specialty insurances, and inspection, certification and engineering services. The core of the HSB Group is Hartford Steam Boiler Inspection and Insurance Company in Hartford, Connecticut, one of the largest insurance and inspection companies specialising in engineering risks in the USA.

The combined opening balance sheet of the HSB Group at the time of acquisition, after elimination of its intra-group business, includes the following provisional IFRS figures (the amounts in brackets are the figures directly prior to the business combination): intangible assets of €116.9m (1.7m), investments of €888.8m (888.8m), a ceded share of technical provisions of €147.6m (147.6m), cash at banks, cheques and cash in hand of €31.1m (31.1m), deferred acquisition costs of €58.8m (58.8m), receivables, deferred tax assets and other assets of €296.5m (281.9m), subordinated liabilities of €31.5m (60.2m), gross technical provisions of €676.1m (676.1m), and other provisions, liabilities and deferred tax liabilities of €322.7m (226.8m).

In connection with the acquisition of the HSB Group, other intangible assets of €115.2m and goodwill of €61.1m have been recognised. The goodwill is based mainly on the exploitation of additional future business potential and the use of the sales, marketing and insurance know-how by Munich Re. The goodwill includes the value assigned to the HSB Group's staff.

The income and expenses for the months of April to December 2009 have been recognised in the consolidated income statement. In this period, the HSB Group contributed €77.6m to the consolidated result.

If the acquisition of the HSB Group had already been concluded at the beginning of the financial year, Munich Re's gross premiums written would have amounted to €41,599.1m and the consolidated result to €2,573.3m. The HSB Group's contributions to gross premiums and consolidated result up to the time of acquisition are based on US GAAP.

Based on the conclusion of the acquisition process and the determination of the tax impact, which is currently still in progress, the provisional figures for the HSB Group have been adjusted since April 2009. The adjustments mainly concern increases of €6.9m in the purchase price, €53.8m in deferred tax assets, and €80.9m in deferred tax liabilities. Altogether, there was an increase of €32.8m in goodwill.

WFB Stockholm Management AB On 1 December 2009, Munich Reinsurance Company acquired 50% of the share capital of WFB Stockholm Management AB (WFB) – formerly Fastighets AB Bangardsposten – based in Stockholm, Sweden, for a total price of €67.3m.

WFB is a property management company with one item of property in Stockholm. WFB's core activity is the leasing and management of real estate.

The purchase price comprises various forms of conditional consideration contingent in particular on the future rental situation for the still unleased space in the property held by WFB. In addition, the acquisition costs include all directly attributable incidental acquisition expenses such as fees for external consulting services and taxes incurred.

WFB's opening balance sheet at the time of acquisition includes the following provisional IFRS figures (amounts directly prior to the business combination): investments of €187.3m (85.8m), cash at banks, cheques and cash in hand of €31.4m (0.9m), receivables, deferred acquisition costs and other assets of €11.9m (3.9m), other provisions and liabilities of €93.1m (90.5m), and deferred taxes of €26.7m (–).

The differences between the amounts directly prior to the business combination and the amounts at the time of acquisition are mainly the result of the property's recognition at fair value (€101.5m) in accordance with IFRS 3 and of shareholder contributions (€11.2m) that are not of relevance for the purchase price and were made at the time of acquisition.

In connection with the acquisition of WFB, goodwill of €17.5m was recognised. This goodwill was based mainly on expected future rental increases for real estate. Given the deterioration in the financial market situation since conclusion of the purchase contract in June 2007, the goodwill was reviewed with regard to impairment and was fully written off in the fourth quarter of 2009.

Since the WFB property was not ready for occupancy until 2010, the company did not earn any revenues in 2009. The loss for the year that WFB incurred during the building phase in 2009 totalled approximately €1.3m.

The group's income and expenses for the month of December 2009 have been recognised in Munich Re's consolidated income statement. In this period, the WFB Group contributed a negative result of €0.6m to the consolidated result.

An overview of the group of consolidated companies and other important shareholdings is provided on page 298 ff. The list of all our shareholdings is filed with the Company Registry in Munich under registration number HRB 42039.

Number of consolidated subsidiaries[1]	Germany	Other countries	Total
31 Dec. previous year	79	207	286
Additions	4	34	38
Reductions	6	8	14
31 Dec. financial year	77	233	310

[1] In addition, 64 German and 3 non-German special funds were included in the consolidated group.

Adjustment of provisional values in order to complete the initial accounting for a business combination On 30 September 2008, through its subsidiary ERGO Austria International AG, Munich Re increased its stake in Bank Austria Creditanstalt Versicherung AG (BACAV) and included it in the consolidated group. The figures disclosed at the time of first consolidation were of a provisional nature. In the third quarter of 2009, the provisional figures at the date of first consolidation for the following items were adjusted retrospectively in accordance with IFRS 3.62:

a) At the time of first consolidation, the value of the insurance portfolio acquired (PVFP) was approximated on the basis of embedded-value methodology. The conversion of this figure, determined in accordance with local accounting rules, to a projection according to US GAAP resulted in an increase of €30m in the carrying amount.

b) The deferred acquisition costs were also determined on the basis of approximations at the date of first consolidation. This provisional figure has been adjusted in the same manner as the value of the insurance portfolio acquired (PVPF).

c) Full conversion of the measurement of actuarial reserves to US GAAP has resulted in a reduction of €30m in the carrying amount at the date of first consolidation. The resultant reallocation according to unit- and index-linked life insurance on the one hand and participating life insurance on the other led to a shift within the relevant balance sheet items of the gross technical provisions.

d) The aforementioned change in valuation resulted in an increase of €24m in the provision for deferred premium refunds and an increase of €9m in deferred tax liabilities at the time of first consolidation.

e) These adjustments have an impact on the goodwill recognised in the opening balance sheet and its later impairment.

The effects of the adjustments in accordance with IFRS 3.62 on the consolidated balance sheet at 31 December 2008 are as follows:

Consolidated balance sheet	Changes from adjustments in accordance with IFRS 3.62
€m	31.12.2008
Assets	
A. I. Goodwill	**–23**
A. II. Other intangible assets	**15**
G. Deferred acquisition costs	
Gross	6
Ceded share	–1
Net	7
I. Other assets	**–10**
Equity and liabilities	
A. II. Retained earnings	**–2**
A. III. Other reserves	**7**
A. IV. Consolidated result attributable to Munich Reinsurance Company equity holders	**–15**
A. V. Minority interests	**3**
C. II. Provision for future policy benefits	**–61**
C. IV. Other technical provisions	**22**
D. Gross technical provisions for life insurance policies where the investment risk is borne by the policyholders	**30**
G. Deferred tax liabilities	**5**

The effects on the consolidated income statement for the financial year 2008 are as follows:

Consolidated income statement	Changes from adjustments in accordance with IFRS 3.62
€m	2008
3. Expenses for claims and benefits	
Gross	–2
Net	–2
4. Operating expenses	
Gross	14
Ceded share	1
Net	13
13. Impairment losses of goodwill	**8**
15. Taxes on income	**–3**
16. Consolidated result	**–16**
Thereof:	
Attributable to Munich Reinsurance Company equity holders	–15
Attributable to minority interests	–1

The relevant items of the segment information and notes have been adjusted for the previous year. The initial accounting for Bank Austria Creditanstalt Versicherung AG is thus complete.

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 Munich Re owns 50% or less of the voting power, the obligation to prepare consolidated accounts is based chiefly on the fact that the main risks and rewards rest with Munich Re, in accordance with SIC 12. 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 or joint ventures but on whose financial and operating policies the investors can exercise a significant influence.

For shareholdings amounting to between 20% and 50% of the voting power, the entities in question are deemed to be associates unless it can be clearly demonstrated that there is no significant influence. We consider the latter to be the case where we have no representation on the board of directors or equivalent governing bodies of the entities in question, no material transactions are conducted between us and the entities, no interchange of managerial personnel takes place and no essential technical information is provided. 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 on the basis of the associates' latest financial statements available unless the investments are not material for assessing the Group's financial position.

Number of companies valued at equity	Germany	Other countries	Total
31 Dec. previous year	24	32	56
Additions	1	2	3
Reductions	5	2	7
31 Dec. financial year	20	32	52

Number of other associates (not valued at equity)	Germany	Other countries	Total
31 Dec. previous year	41	14	55
Additions	6	5	11
Reductions	2	2	4
31 Dec. financial year	45	17	62

Restrictions regarding transfer of capital At 31 December 2009, our subsidiaries Munich Re America (MRAm) and Munich American Reassurance Company (MARC) show a negative earned surplus of US$ 876m and US$ 598m respectively in their local financial statements prepared in accordance with Statutory Accounting Principles. For this reason, they can only pay dividends or transfer capital to the parent company with the approval of the competent US regulatory authority.

Owing to its acquisition by Munich Re in the year under review , dividend payments by our subsidiary The Hartford Steam Boiler Inspection and Insurance Company (HSBIIC), Connecticut, can only be made subject to the prior approval of the competent US regulatory authority in the coming two years.

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 Munich Re. Valuations used in the financial statements of associates not classified as significant are maintained. In the course of 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 and in the notes regarding the individual items as well as in the disclosures on risks from insurance contracts and financial instruments.

Changes in accounting policies

Application of the recognition, measurement and disclosure methods follows the principle of consistency.

In the financial year 2009, the following new IFRSs had to be applied for the first time:

Published in March 2009, the amended **IFRS 7, Financial Instruments: Disclosures**, requires additional disclosures on financial instruments measured at fair value. Based on the new three-level hierarchy for such measurement, information must be supplied on which level of the hierarchy has been used for valuation. A distinction has to be made here between valuation at quoted prices in active markets (Level 1), valuation using inputs based on observable market data (Level 2), and valuation using inputs not based on observable market data (Level 3). Reallocations between the individual levels have to be disclosed. For instruments valued in accordance with Level 3, a reconciliation from the beginning balances to the ending balances must be published. Disclosure of comparative information may be dispensed with for the financial year 2009, and Munich Re is availing itself of this option.

As far as disclosures on the liquidity risk are concerned, the amended IFRS 7 also clarifies that the maturity analysis for non-derivative financial liabilities includes issued financial guarantee contracts. The maturity analysis for derivative financial liabilities must include their remaining contractual maturities insofar as these are essential for understanding the timing of the cash flows.

The implementation of **IFRS 8, Operating Segments**, to be applied for the first time as from 1 January 2009, has resulted in additional disclosures in the notes and a modified disclosure of items in our segment reporting. The business fields in which we operate continue to form the basis for identifying the segments to be reported. In accordance with the “management approach”, the way in which Munich Re is managed internally constitutes the basis for the changes in disclosure described in the following. In primary insurance, we now separate the previously combined life and health segment into the two individual segments, life and health. Health reinsurance and our specialised insurers in international health primary insurance business that are managed from within reinsurance, together with the international health primary insurance business conducted by ERGO, have been brought together in a separate business field, which has been operating under the Munich Health brand since May 2009. Not having yet reached a volume that requires disclosure as a separate segment, Munich Health’s business is split up for reporting purposes, with some sections of it being shown together with life reinsurance and others together with German health primary insurance.

At Munich Re entities, different performance indicators and measures are used, depending on the type and duration of the business. Besides this, IFRS result contributions are a central feature of planning and strategy in all segments. Therefore the uniform assessment basis used for the measure of segment result is the operating result adjusted to eliminate non-operating components (e.g. foreign currency gains and losses, income and expenses from the sale of intangible assets).

In line with our internal management approach, the operating result has been split into a technical and a non-technical result as from the first quarter of 2009, with an interest component allocated to the underwriting business in the form of income from technical interest. This interest income derives from investment of the premium income and the entitlement of policyholders to portions of the non-technical result (cf. information on income from technical interest, page 260). There continues to be comparability with prior periods, since it is possible to reconcile the current figures to the previous IFRS segment results by reallocating the result components.

For reasons of consistency and comparability, we have adjusted the structure of our consolidated income statement in accordance with our segment income statement. Differences merely exist in the degree of detail of individual items and, in particular, in the disclosure of the non-operating result components. In the segment disclosure, the latter components are combined, since they are not part of the defined performance measure and were not planned on a segment-related basis. To meet the IFRS 8 requirements for additional segment disclosures of certain income and expense components, we provide extra "thereof" items in the segment income statement.

In connection with the first-time application of IFRS 8, we have refined our system for distributing taxes on income between the reinsurance segments with a view to achieving a more direct allocation.

Owing to the reallocation of Europäische Reiseversicherung within the primary insurance segment and the management-related reallocation of the Watkins Syndicate from primary insurance to the reinsurance segment, the composition of our reported segments has changed. The relevant items of the segment information and notes for the previous year have been adjusted.

The main change to **IAS 1 (rev. 09/2007), Presentaion 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 with significant adjustments. Non-owner changes in equity are now disclosed in a separate statement of recognised income and expense, with only the total shown in the changes in equity. There is also 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. We have not availed ourselves of this option.

There was no significant impact on Munich Re's financial statements from the mandatory first-time application of IFRS 2 (rev. 01/2008), Share-based Payment, IAS 23 (rev. 03/2007), Borrowing costs, or IAS 32 (rev. 05/2008), Financial Instruments: Presentation. The same applies to the mandatory first-time application of interpretations IFRIC 9 (rev. 03/2009), Reassessment of Embedded Derivatives, in conjunction with IAS 39 (rev. 03/2009), Financial Instruments: Recognition and Measurement, 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 18, Transfers of Assets from Customers. For application on the basis of Regulation (EC) No. 1606/2002, the European Commission has changed the date at which first-time application of the interpretations IFRIC 15, IFRIC 16 and IFRIC 18 is mandatory. As a result, application of these interpretations is currently only optional for Munich Re.

The minor changes to a total of 19 standards published as part of the IASB's Annual Improvement Process in May 2008 had no significant implications for Munich Re either.

Owing to the introduction of new IT systems, we are now able to record provisions for disability benefits separately from provisions for future policy benefits. This has resulted in a reclassification of these disability reserves from the provisions for future policy benefits to the provisions for outstanding claims.

In the past, our participations in the companies Suramericana S.A., Medellin, and Queensley Holdings Limited, Singapore, were recognised as securities available for sale. These participations have been reclassified retrospectively, and the companies included in the consolidated group. The consolidated balance sheets for the financial years 2007 and 2008 are affected by the adjustments pursuant to IAS 8 in the following manner:

Consolidated balance sheet	31.12.2007 as originally recognised	Changes due to adjustments pursuant to IAS 8 in 2007	31.12.2007
€m			
Assets			
B. I. Land and buildings, including buildings on third-party land	3,753	219	3,972
B. II. Investments in affiliated companies and associates	1,168	73	1,241
B. IV. Other securities	119,034	–310	118,724
2. Available for sale	8,636	–13	8,623
E. II. Other receivables	2,505	6	2,511
F. Cash with banks, cheques and cash in hand			
H. Deferred tax assets	4,658	1	4,659
Equity and liabilities	9,753	30	9,783
A. II. Retained earnings			
A. III. Other reserves	3,934	–76	3,858
A. IV. Consolidated result attributable to Munich Reinsurance Company equity holders	3,840	–70	3,770
A. V. Minority interests	501	–6	495
C. IV. Other technical provisions	10,536	–52	10,484
F. IV. Other liabilities	10,831	150	10,981

Consolidated balance sheet	31.12.2008 after adjustment pursuant to IFRS 3.62	Changes due to adjustments pursuant to IAS 8 in 2008	31.12.2008
€m			
Assets			
B. I. Land and buildings, including buildings on third-party land	**3,732**	**225**	**3,957**
B. II. Investments in affiliated companies and associates	**1,198**	**71**	**1,269**
B. IV. Other securities			
2. Available for sale	114,844	–337	114,507
E. II. Other receivables	**8,409**	**–14**	**8,395**
F. Cash with banks, cheques and cash in hand	**2,354**	**11**	**2,365**
Equity and liabilities			
A. II. Retained earnings	**10,886**	**–43**	**10,843**
A. III. Other reserves	**1,194**	**–158**	**1,036**
A. IV. Consolidated result attributable to Munich Reinsurance Company equity holders	**1,488**	**67**	**1,555**
A. V. Minority interests	**293**	**–8**	**285**
C. IV. Other technical provisions	**9,314**	**–61**	**9,253**
F. IV. Other liabilities	**9,771**	**160**	**9,931**
G. Deferred tax liabilities	**8,833**	**–1**	**8,832**

The effects on the consolidated income statement for the financial year 2008 are as follows:

Consolidated income statement	2008 after adjustment pursuant to IFRS 3.62	Changes due to adjustments pursuant to IAS 8 in 2008	2008
€m			
3. Expenses for claims and benefits			
Gross	29,894	–1	29,893
Net	28,717	–1	28,716
6. Investment result			
Investment income	20,064	84	20,148
Investment expenses	14,218	14	14,232
Thereof: Income from associates	21	6	27
7. Other operating income	**708**	**–1**	**707**
12. Other non-operating result	**–346**	**–1**	**–347**
15. Taxes on income	**1,370**	**2**	**1,372**
16. Consolidated result	**1,512**	**67**	**1,579**
Thereof: Attributable to Munich Reinsurance Company equity holders	1,488	67	1,555

The relevant items of the segment information and notes to the consolidated financial statements have been adjusted for the previous year.

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 July 2009:

The revision of **IFRS 3 (rev. 01/2008), Business Combinations**, and that of **IAS 27 (rev. 01/2008), Consolidated and Separate Financial Statements**, mainly involve changes in the balance sheet recognition of non-controlling interests, successive share purchases, acquisition-related costs and contingent consideration. Effects of the new rules for Munich Re 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. 07/2008), 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 Munich Re.

Application of the following amended standard is mandatory for financial years beginning on or after 1 January 2010:

The change to **IFRS 2 (rev. 06/2009), Share-based Payment**, clarifies the recognition of cash-settled share-based payment transactions. The new rules mainly concern the question of how individual subsidiaries in a group are to recognise (cash-settled) share-based payment agreements in their own financial statements. Under these agreements, the subsidiary receives goods or services from employees or suppliers which the parent or another group company pays for. The new rules do not have any implications for Munich Re.

The changes published under the IASB's Annual Improvement Process in April 2009 are also to be applied for the first time for financial years beginning on or after 1 January 2010. Involving a total of ten standards and two interpretations, they are of subordinate importance for Munich Re.

Besides this, the interpretation IFRIC 17, Distributions of Non-cash Assets to Owners, has not yet entered into force.

Application of the following standards is mandatory with effect from 1 January 2010: IFRS 9, Financial Instruments: Classification and Measurement; the changes to IAS 32 (rev. 10/2009), Financial Instruments: Disclosure; the change to IAS 24 (rev. 11/2009): Related Parties; the change to the interpretation IFRIC 14 (rev. 11/2009), IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction; and the change to the interpretation IFRIC 19, Extinguishing Financial Liabilities through Equity Investments. These standards and interpretations have not yet been taken over into EU accounting legislation.

Assets

A // Intangible assets

Goodwill from the first-time consolidation of subsidiaries is tested for impairment in accordance with IAS 36 at least once annually, i.e. the goodwill is allocated to cash-generating units and the carrying amount of the cash-generating unit (including allocated goodwill) is compared with that unit's recoverable amount. If this recoverable amount is lower, a write-down is made for impairment of goodwill.

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, and 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 non-operating expenses". Write-downs of purchased insurance portfolios are recognised under operating expenses. Write-ups of software and other intangible assets are included in "other non-operating 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 over a period of 40 to 55 years on a straight-line basis in accordance with the component approach, 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 in accordance with the effective interest method.

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 no quoted prices in an active market are 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 "other reserves".

Securities at fair value through profit or loss comprise securities held for trading and securities designated at fair value through profit or loss. Securities held for trading are 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. Securities designated as at fair value through profit or loss comprise structured securities. This designation may only be made at the time of acquisition; reallocation to this category in later periods is not possible.

Securities designated as at fair value through profit or loss are accounted for at fair value at the balance sheet date. If no quoted prices in an active market are available, fair values (particularly with derivatives) are based on recognised valuation methods. Munich Re 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	Quoted 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) Monte Carlo simulation
Stock index futures	Quoted 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 (excluding 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 ISDA CDS Standard Model

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 in accordance with the effective interest method.

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.

All financial instruments recognised at fair value are allocated to one of the valuation hierarchy levels of IFRS 7. This valuation hierarchy provides for three levels. The initial basis for the allocation is the "economic investment class". Only if this does not result in an appropriate allocation do we deviate from such an approach in individual cases.

The allocation reflects which of the fair values derive from transactions in the market and where valuation is based on models because market transactions are lacking.

In the case of Level 1, valuation is based on unadjusted quoted prices in active markets for identical financial assets which Munich Re can refer to at the balance sheet date. A market is deemed active if transactions take place with sufficient frequency and in sufficient quantity for price information to be available on an ongoing basis. Since a quoted price in an active market is the most reliable indicator of fair value, this should always be used if available. The financial instruments we have allocated to this level mainly comprise equities, investment funds and fixed-interest securities (bearer bonds) for which either a stock market price is available or prices are provided by a price quoter
on the basis of actual market transactions. We have also allocated derivatives traded on the stock market to Level 1.

Securities allocated to Level 2 are valued using models based on observable market data. For this, we use inputs directly or indirectly observable in the market, other than quoted prices. If the financial instrument concerned has a fixed contract period, the inputs used for valuation must be observable for the whole of this period. The financial instruments we have allocated to this level mainly comprise borrowers' note loans, pfandbriefs, subordinated securities and derivatives not traded on the stock market.

For securities allocated to Level 3, we use valuation techniques not based on inputs observable in the market. This is only permissible insofar as no observable market data are available. The inputs used reflect Munich Re's assumptions regarding the factors which market players would consider in their pricing. We use the best available information for this, including internal company data. The portfolios allocated to this level of the fair value hierarchy largely comprise investments in private equity and certain credit structures.

Owing to their leverage effect, changes in individual inputs may significantly affect the fair value shown for instruments measured under Level 3. If we make such adjustments in measuring fair value in the individual case, we explain the resultant effects.

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 not measured at fair value through 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 impairment is indication of substantial financial difficulty on the part of the issuer, the current market situation or media reports on the issuer.

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 impairment tests of our financial assets (with the exception of equity investments), we generally first assess whether objective evidence of impairment exists for items that are individually significant. 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 included in the technical result. Recognising 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.

Current tax receivables comprise current taxes on income of the individual companies, based on their respective national taxation. Other tax receivables are shown under “other receivables”.

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. In accordance with FASB Accounting Standards Codification Subtopic 944-30, this is done either proportionally to the premium income (formerly FAS 60) or proportionally to the respective contracts’ expected gross profit margins calculated for the relevant year of the contract term (formerly FAS 97, 120). The allocation of individual contracts to the US GAAP standards concerned is shown in the notes to 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 Munich Reinsurance Company equity holders 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 Munich Re, 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 in the balance sheet as part of equity. These are the shares of third parties in the equity of consolidated subsidiaries that are not wholly owned directly or indirectly by Munich Reinsurance Company. 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 as gross figures in the balance sheet, i.e. before deduction of the ceded share; 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. The measurement of technical provisions is based on FASB Accounting Standards Codification Subtopic 944-40 (formerly 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 policyholders' 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 provision for future policy benefits in accordance with FASB Accounting Standards Codification Subtopic 944-40 depends on the type of contract:

For life primary insurance without performance-related participation in surplus, health primary insurance and the bulk of reinsurance (formerly FAS 60), the provision for future policy benefits is calculated from the present value of the estimated future policy benefits (including claims adjustment expenses) less the present value of the 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 are generally valued in the same way.

For life primary insurance contracts on the universal life model, unit-linked life insurance and life reinsurance for assumed policies of this type (formerly 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 life primary insurance contracts with performance-related participation in surplus (formerly 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. 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, Munich Re 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. The provision for premium refunds also incorporates the provision for premium loadings and the provision for future premium reductions in German health primary insurance.

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 (14) Deferred acquisition costs and (21) 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, in accordance with FASB Accounting Standards Codification Subtopic 944-40 (formerly FAS 97), they may include additional premium components; cf. the notes on assets item C. Changes in this provision are fully recognised in the technical 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. Recognising 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**. Munich Re companies 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 assets exceeds the related outsourced pension commitment, this reimbursement right is recognised under "other receivables".

Pension obligations are recognised in accordance with IAS 19, 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 good-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.

The **other provisions** included in this item 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. Details of how the fair value is determined are provided under assets item B.

Current tax liabilities comprise current taxes on income of the individual companies, based on their respective national taxation. Other tax liabilities are shown under "other liabilities".

Tax liabilities for current taxes 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.

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 non-operating income" and "other non-operating expenses" respectively. The following table shows the exchange rates of the most important currencies for our business:

Currency translation rates	Balance sheet		Income statement				Income statement			
Rate for €1	31.12.2009	Prev. year	Q4 2009	Q3 2009	Q2 2009	Q1 2009	Q4 2008	Q3 2008	Q2 2008	Q1 2008
Australian dollar	1.59530	1.99375	1.62479	1.71675	1.79266	1.96394	1.96454	1.69554	1.65619	1.65661
Canadian dollar	1.50410	1.71600	1.55808	1.56978	1.58953	1.62405	1.59798	1.56434	1.57810	1.50544
Pound sterling	0.88845	0.96685	0.90434	0.87197	0.87939	0.90966	0.84344	0.79462	0.79268	0.75742
Rand	10.56510	12.85100	11.06000	11.15800	11.52100	12.96380	13.08630	11.68260	12.14370	11.30410
Swiss franc	1.48315	1.47955	1.50833	1.51947	1.51389	1.49659	1.52322	1.61101	1.61184	1.60073
US dollar	1.43475	1.39005	1.47672	1.43018	1.36218	1.30438	1.32036	1.50378	1.56232	1.49863
Yen	133.5680	126.0080	132.6730	133.7980	132.6520	122.1650	126.7410	161.7500	163.4090	157.7030

Segment reporting[1]

Segment assets	Reinsurance			
€m	Life and health		Property-casualty	
	31.12.2009	Prev. year	31.12.2009	Prev. year
A. Intangible assets	**260**	**396**	**1,954**	**1,874**
B. Investments				
I. Land and buildings, including buildings on third-party land	464	399	848	696
Thereof: Investment property held for sale	17	–	30	–
II. Investments in affiliated companies and associates	2,247	2,217	3,984	3,750
III. Loans	769	839	1,347	1,387
IV. Other securities				
1. Held to maturity	–	–	–	–
2. Available for sale	11,663	11,447	46,400	44,679
3. At fair value through profit or loss	113	211	732	918
	11,776	11,658	47,132	45,597
V. Deposits retained on assumed reinsurance	7,432	10,142	1,351	1,271
VI. Other investments	320	131	829	280
	23,008	25,386	55,491	52,981
C. Investments for the benefit of life insurance policyholders who bear the investment risk	–	–	–	–
D. Ceded share of technical provisions	**420**	**374**	**2,588**	**2,935**
E. Other segment assets	**5,612**	**5,816**	**10,289**	**9,091**
Thereof: Other segment assets relating to disposal groups	5	–	13	–
Total segment assets	**29,300**	**31,972**	**70,322**	**66,881**

[1] Previous year's figures adjusted pursuant to IFRS 3.62 (see "Consolidation") and to IFRS 8 and IAS 8 (see "Changes in accounting policies").

Primary insurance						Asset management		Consolidation		Total	
Life		Health		Property-casualty							
31.12. 2009	Prev. year	31.12. 2009	Prev. year	31.12. 2009	Prev. year	31.12. 2009	Prev. year	31.12. 2009	Prev. year	31.12. 2009	Prev. year
1,206	**1,337**	**757**	**768**	**1,008**	**964**	**13**	**12**	**–3**	**–3**	**5,195**	**5,348**
1,776	1,875	641	612	312	315	46	61	–1	–1	4,086	3,957
43	–	–	–	–	–	–	16	–	–	90	16
356	436	249	264	4,026	3,861	66	61	–9,927	–9,320	1,001	1,269
31,336	27,146	14,787	12,238	2,347	2,231	–	1	–3,964	–3,416	46,622	40,426
83	138	–	–	1	5	–	–	–	–	84	143
38,572	39,748	12,937	13,160	5,929	5,442	105	44	–1	–13	115,605	114,507
730	1,724	33	229	5	40	–	–	–	–	1,613	3,122
39,385	41,610	12,970	13,389	5,935	5,487	105	44	–1	–13	117,302	117,772
118	85	1	1	20	19	–	–	–2,124	–4,872	6,798	6,646
633	1,033	71	131	509	359	265	286	–287	–228	2,340	1,992
73,604	**72,185**	**28,719**	**26,635**	**13,149**	**12,272**	**482**	**453**	**–16,304**	**–17,850**	**178,149**	**172,062**
4,025	**2,873**	**1**	**1**	**–**	**–**	**–**	**–**	**–**	**–**	**4,026**	**2,874**
2,842	**5,803**	**1,081**	**1,064**	**856**	**875**	**–**	**–**	**–2,804**	**–5,800**	**4,983**	**5,251**
9,137	**9,122**	**3,563**	**3,448**	**4,068**	**3,609**	**89**	**94**	**–1,699**	**–1,353**	**31,059**	**29,827**
–	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**18**	**–**
90,814	**91,320**	**34,121**	**31,916**	**19,081**	**17,720**	**584**	**559**	**–20,810**	**–25,006**	**223,412**	**215,362**

Segment reporting

Segment equity and liabilities	Reinsurance			
€m	Life and health		Property-casualty	
	31.12. 2009	Prev. year	31.12. 2009	Prev. year
A. Subordinated liabilities	**1,569**	**1,697**	**2,783**	**2,846**
B. Gross technical provisions				
I. Unearned premiums	321	274	5,021	4,641
II. Provision for future policy benefits	11,472	13,588	300	300
III. Provision for outstanding claims	4,347	4,021	35,804	35,264
IV. Other technical provisions	895	818	135	156
Thereof: Other segment liabilities relating to disposal groups	–	–	–	–
	17,035	**18,701**	**41,260**	**40,361**
C. Gross technical provisions for life insurance policies where the investment risk is borne by the policyholder	–	–	–	–
D. Other accrued liabilities	**212**	**290**	**627**	**658**
E. Other segment liabilities	**4,747**	**4,804**	**9,128**	**8,475**
Thereof: Other segment liabilities relating to disposal groups	2	–	3	–
Total segment liabilities	**23,563**	**25,492**	**53,798**	**52,340**

	Primary insurance						Asset management		Consolidation		Total	
	Life		Health		Property-casualty							
	31.12. 2009	Prev. year	31.12. 2009	Prev. year	31.12. 2009	Prev. year	31.12. 2009	Prev. year	31.12. 2009	Prev. year	31.12. 2009	Prev. year
	104	**98**	**24**	**24**	**371**	**387**	**–**	**–**	**-61**	**-73**	**4,790**	**4,979**
	1	–	174	172	1,506	1,418	–	–	-77	-84	6,946	6,421
	68,800	68,281	21,853	20,498	394	345	–	–	-1,957	-4,807	100,862	98,205
	1,483	1,317	1,147	1,090	4,677	4,478	–	–	-612	-667	46,846	45,503
	2,806	2,508	6,418	5,910	151	129	–	–	-259	-268	10,146	9,253
	-1	–	–	–	–	–	–	–	–	–	-1	–
	73,090	**72,106**	**29,592**	**27,670**	**6,728**	**6,370**	**–**	**–**	**-2,905**	**-5,826**	**164,800**	**159,382**
	4,116	**2,969**	**1**	**1**	**–**	**–**	**–**	**–**	**–**	**–**	**4,117**	**2,970**
	486	**498**	**295**	**333**	**1,611**	**1,191**	**49**	**47**	**-74**	**-35**	**3,206**	**2,982**
	9,390	**12,314**	**2,403**	**2,235**	**5,995**	**5,585**	**399**	**354**	**-7,841**	**-9,825**	**24,221**	**23,942**
	1	–	–	–	–	–	–	19	–	–	6	19
	87,186	**87,985**	**32,315**	**30,263**	**14,705**	**13,533**	**448**	**401**	**-10,881**	**-15,759**	**201,134**	**194,255**

	31.12. 2009	Prev. year
Equity	**22,278**	**21,107**
Total equity and liabilities	**223,412**	**215,362**

Segment reporting

Segment income statement	Reinsurance			
€m	Life and health		Property-casualty	
	2009	Prev. year	2009	Prev. year
Gross premiums written	**9,742**	**7,130**	**15,081**	**14,739**
Thereof:				
From insurance transactions with other segments	**551**	**677**	**317**	**327**
From insurance transactions with external third parties	**9,191**	**6,453**	**14,764**	**14,412**
1. Earned premiums				
Gross	9,688	7,038	15,019	14,412
Ceded	407	263	923	964
Net	**9,281**	**6,775**	**14,096**	**13,448**
2. Income from technical interest	**702**	**588**	**1,056**	**1,282**
3. Expenses for claims and benefits				
Gross	7,306	5,458	9,713	10,213
Ceded share	186	154	389	805
Net	**7,120**	**5,304**	**9,324**	**9,408**
4. Operating expenses				
Gross	2,714	1,895	4,381	4,196
Ceded share	139	74	210	193
Net	**2,575**	**1,821**	**4,171**	**4,003**
Thereof:				
Amortisation and impairment losses of acquired insurance portfolios	12	6	–	–
5. Technical result (1–4)	**288**	**238**	**1,657**	**1,319**
6. Investment result				
Investment income	2,364	2,846	4,593	9,463
Investment expenses	794	1,581	2,284	6,600
Total	**1,570**	**1,265**	**2,309**	**2,863**
Thereof:				
Interest and similar income	1,279	1,115	1,439	1,483
Interest charges and similar expenses	47	23	90	46
Write-downs of investments	307	872	798	3,242
Write-ups of investments	298	485	660	2,033
Income from associates	–6	2	–10	20
7. Other operating income	**109**	**149**	**288**	**208**
Thereof:				
Interest and similar income	13	23	35	32
Write-ups of other operating assets	–	–	1	1
8. Other operating expenses	**90**	**134**	**209**	**216**
Thereof:				
Interest charges and similar expenses	15	25	20	45
Write-downs of other operating assets	5	31	11	70
9. Deduction of income from technical interest	**–702**	**–588**	**–1,056**	**–1,282**
10. Non-technical result (6–9)	**887**	**692**	**1,332**	**1,573**
11. Operating result	**1,175**	**930**	**2,989**	**2,892**
12. Other non-operating result, finance costs and amortisation losses of goodwill	**–175**	**–102**	**–305**	**–221**
13. Taxes on income	**272**	**123**	**857**	**976**
14. Consolidated result	**728**	**705**	**1,827**	**1,695**
Thereof:				
Attributable to Munich Reinsurance Company equity holders	**728**	**705**	**1,827**	**1,695**
Attributable to minority interests	**–**	**–**	**–**	**–**

Primary insurance						Asset management		Consolidation		Total	
Life		Health		Property-casualty							
2009	Prev. year	2009	Prev. year	2009	Prev. year	2009	Prev. year	2009	Prev. year	2009	Prev. year
6,314	**6,053**	**6,048**	**5,840**	**5,154**	**5,105**	**–**	**–**	**-916**	**-1,038**	**41,423**	**37,829**
–	7	3	1	45	26	–	–	-916	-1,038	–	–
6,314	**6,046**	**6,045**	**5,839**	**5,109**	**5,079**	**–**	**–**	**–**	**–**	**41,423**	**37,829**
6,314	6,053	6,043	5,836	5,077	4,993	–	–	-914	-1,055	41,227	37,277
551	595	248	290	486	496	–	–	-914	-1,055	1,701	1,553
5,763	**5,458**	**5,795**	**5,546**	**4,591**	**4,497**	**–**	**–**	**–**	**–**	**39,526**	**35,724**
2,881	**1,936**	**1,203**	**1,011**	**151**	**219**	**–**	**–**	**-199**	**-232**	**5,794**	**4,804**
7,655	6,750	5,979	5,302	3,146	3,008	–	–	-636	-838	33,163	29,893
172	405	170	178	282	307	–	–	-428	-672	771	1,177
7,483	**6,345**	**5,809**	**5,124**	**2,864**	**2,701**	**–**	**–**	**-208**	**-166**	**32,392**	**28,716**
1,366	1,011	853	873	1,622	1,574	–	–	-350	-205	10,586	9,344
298	96	58	86	111	111	–	–	-411	-272	405	288
1,068	**915**	**795**	**787**	**1,511**	**1,463**	**–**	**–**	**61**	**67**	**10,181**	**9,056**
57	30	5	5	–	–	–	–	–	–	74	41
93	**134**	**394**	**646**	**367**	**552**	**–**	**–**	**-52**	**-133**	**2,747**	**2,756**
5,032	6,326	1,477	1,960	804	833	24	67	-719	-1,347	13,575	20,148
1,937	4,140	406	1,403	331	537	15	23	-75	-52	5,692	14,232
3,095	**2,186**	**1,071**	**557**	**473**	**296**	**9**	**44**	**-644**	**-1,295**	**7,883**	**5,916**
3,001	2,829	1,134	1,041	355	342	6	19	-308	-333	6,906	6,496
47	86	15	28	9	12	–	–	-4	-6	204	189
1,052	2,064	132	699	169	310	13	9	–	–	2,471	7,196
332	1,470	31	309	28	52	–	–	–	–	1,349	4,349
-40	-14	1	-8	-58	2	-10	25	–	–	-123	27
533	**526**	**115**	**81**	**551**	**483**	**251**	**279**	**-1,159**	**-1,019**	**688**	**707**
10	43	5	11	5	15	4	7	-9	-9	63	122
4	1	–	2	–	–	–	–	–	–	5	4
619	**560**	**155**	**120**	**757**	**624**	**208**	**242**	**-1,235**	**-1,155**	**803**	**741**
20	20	20	13	109	169	13	26	-75	-121	122	177
38	28	14	6	49	15	–	–	–	-39	117	111
-2,881	-1,936	-1,203	-1,011	-151	-219	–	–	199	232	-5,794	-4,804
128	**216**	**-172**	**-493**	**116**	**-64**	**52**	**81**	**-369**	**-927**	**1,974**	**1,078**
221	**350**	**222**	**153**	**483**	**488**	**52**	**81**	**-421**	**-1,060**	**4,721**	**3,834**
-164	-251	-80	-107	-191	-231	-14	-15	36	44	-893	-883
27	111	60	30	29	105	19	30		-3	1,264	1,372
30	**-12**	**82**	**16**	**263**	**152**	**19**	**36**	**-385**	**-1,013**	**2,564**	**1,579**
17	-23	77	18	249	141	13	36	-390	-1,017	2,521	1,555
13	11	5	-2	14	11	6		5	4	43	24

Segment reporting

Non-current assets by country[1]	31.12.2009	Prev. year
€m		
Germany	7,759	7,691
USA	1,987	1,969
Austria	471	581
Spain	235	232
Singapore	219	225
Sweden	195	–
UK	185	151
Netherlands	182	185
France	162	162
Turkey	147	163
Portugal	118	124
Poland	102	95
Italy	80	112
Switzerland	71	72
Greece	56	17
Others	253	270
Total	**12,222**	**12,049**

[1] The non-current assets mainly comprise intangible assets (especially goodwill) and our owner-occupied and investment property.

Gross premiums written[1]	Reinsurers		Primary insurers		Total	
	2009	Prev. year	2009	Prev. year	2009	Prev. year
€m						
Europe						
Germany	1,604	1,704	12,872	12,818	14,476	14,522
UK	4,032	3,966	129	131	4,161	4,097
Italy	463	454	481	494	944	948
Spain	556	527	604	509	1,160	1,036
Belgium	32	51	751	659	783	710
Others	2,444	2,559	2,506	2,247	4,950	4,806
	9,131	**9,261**	**17,343**	**16,858**	**26,474**	**26,119**
North America						
USA	7,224	6,053	–	–	7,224	6,053
Canada	3,088	1,291	–	–	3,088	1,291
	10,312	**7,344**	**–**	**–**	**10,312**	**7,344**
Asia and Australasia						
Australia	764	570	–	–	764	570
China	520	563	–	–	520	563
Japan	486	345	–	–	486	345
Korea	203	263	125	106	328	369
Others	652	515	–	–	652	515
	2,625	**2,256**	**125**	**106**	**2,750**	**2,362**
Africa, Near and Middle East						
South Africa	331	314	–	–	331	314
Israel	154	151	–	–	154	151
Others	412	394	–	–	412	394
	897	**859**	**–**	**–**	**897**	**859**
Latin America	**990**	**1,145**	**–**	**–**	**990**	**1,145**
Total	**23,955**	**20,865**	**17,468**	**16,964**	**41,423**	**37,829**

[1] After elimination of intra-Group reinsurance across segments.
Presentation of the figures in the management report differs from this (cf. note on page 84).

Notes to the consolidated balance sheet – Assets

1 // Goodwill

Development of goodwill	2009	Prev. year
€m		
Gross carrying amount at 31 Dec. previous year	3,744	3,157
Accumulated impairment losses at 31 Dec. previous year	197	22
Carrying amount at 31 Dec. previous year	3,547	3,135
Currency translation differences	–40	45
Additions	87	542
Reductions	–	–
Impairment losses	117	175
Carrying amount at 31 Dec. financial year	3,477	3,547
Accumulated impairment losses at 31 Dec. financial year	314	197
Gross carrying amount at 31 Dec. financial year	3,791	3,744

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 €87m derive mainly from the acquisition of the HSB Group, 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 a 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 total Group goodwill. This concerns goodwill resulting from the acquisition of Munich Re America (carrying amount: €962m) 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 2009, the impairment test did not give rise to any need for write-downs of goodwill for these cash-generating units.

In the financial year 2009, impairments of goodwill amounting to €117m were identified in the impairment tests of goodwill that is not significant within the meaning of IAS 36.134. These have been recognised in the item "impairment losses of goodwill" in the income statement. A breakdown of these impairments between Munich Re's segments is provided by the overview on page 268. The recognised impairments mainly concern the following goodwill:

The deterioration in parameters caused by the spreading of the financial crisis to the real economy prompted us to critically review the business plans of our international primary insurance companies and, in some cases, adjust them downwards. For the financial year 2009, the impairment test gave rise to an impairment for the goodwill of **Bank Austria Creditanstalt Versicherung AG**. As a result, the remaining goodwill of €38m was written off.

Owing to the high capital market volatility at the beginning of the year and regional failures to meet planning targets, further write-downs of goodwill amounting to €21m were made for **ERGO Previdenza, ERGO DAUM** and **ERGO Latvija** in the course of the financial year 2009.

Further changes in the US healthcare system as a consequence of the amendments adopted in 2008 resulted in a significant reduction in the growth potential of **Sterling Life Insurance Company**, requiring a revision of the company's planning figures. The goodwill of €40m has consequently been completely written off.

The goodwill of **WFB Stockholm Management AB** (formerly Fastighets AB Bangards-posten), acquired on 1 December 2009, was fully written off in the fourth quarter of 2009. The write-down amounts to €18m and is due to the financial market situation, which has deteriorated since the purchase contract was signed in June 2007, and a related reduction in the future rent increases expected for real estate.

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 slight reduction in the loss ratio. Our general assumption in the investment planning was that the interest-rate level will remain stable.	For the detailed planning, growth in results is expected on average. Our general assumption was that there will be moderate upward movement on the equity markets and a stable interest-rate level.
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	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]	9–10%	8–9%
	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), different peer groups of international insurers and reinsurers are 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 €m	Software	Purchased insurance portfolios	Other	2009	Prev. year
Gross carrying amount at 31 Dec. previous year	907	1,364	1,096	3,367	2,716
Accumulated amortisation and accumulated impairment losses at 31 Dec. previous year	565	628	373	1,566	1,590
Carrying amount at 31 Dec. previous year	342	736	723	1,801	1,126
Currency translation differences	–3	1	–8	–10	7
Change in consolidated group	13	–	105	118	814
Additions	122	13	48	183	63
Disposals	13	–	–	13	10
Impairment losses reversed	–	–	–	–	–
Depreciation and impairment losses					
Depreciation	98	95	103	296	198
Impairment losses	14	5	46	65	1
Carrying amount at 31 Dec. financial year	349	650	719	1,718	1,801
Accumulated amortisation and accumulated impairment losses at 31 Dec. financial year	620	690	668	1,978	1,566
Gross carrying amount at 31 Dec. financial year	969	1,340	1,387	3,696	3,367

The figures shown under acquired insurance portfolios include amortised carrying amounts of €532m resulting from the assumption of the life reinsurance business of CNA Financial Corporation and Bank Austria Creditanstalt Versicherung AG and the acquisition of additional shares in the ERGO Insurance Group in 2001 and 2002. The remaining other intangible assets include land rights amounting to €1m (1m).

The change in consolidated group comprises **additions** resulting from the acquisition of the HSB Group.

The **impairment losses** are distributed between the different Group segments as follows: in primary insurance – (€1m) is apportionable to life, – (–) to health, and €2m (–) to property-casualty, whilst in reinsurance €51m (–) is apportionable to life and health, and €12m (–) to property-casualty.

Further changes in the US healthcare system as a consequence of the amendments adopted in 2008 led to a significant reduction in the growth potential of Sterling Life Insurance Company, necessitating a revision of the company's planning figures. The impairment test we carried out for this reason gave rise to total a write-down of €25m on other intangible assets.

Owing to the reduced turnover and earnings expectations for the products sold by Allfinanz Ltd., Dublin, an impairment test was carried out. This resulted in an impairment loss of €12m on software and of €9m on the other intangible assets.

The other impairment losses derive in particular from lower earnings expectations.

Assets pledged as security and other restrictions on title amount to €1m (1m). Commitments to acquire other intangible assets total €4m (2m). Costs of €32m (26m) 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	2009	Prev. year
€m		
Gross carrying amount at 31 Dec. previous year	4,735	4,642
Accumulated depreciation and accumulated impairment losses at 31 Dec. previous year	778	670
Carrying amount at 31 Dec. previous year	3,957	3,972
Currency translation differences	8	11
Change in consolidated group	175	41
Additions	149	141
Disposals	24	54
Impairment losses reversed	3	10
Depreciation and impairment losses		
Depreciation	79	85
Impairment losses	48	81
Reclassification	–55	2
Carrying amount at 31 Dec. financial year	4,086	3,957
Accumulated depreciation and accumulated impairment losses at 31 Dec. financial year	863	778
Gross carrying amount at 31 Dec. financial year	4,949	4,735

The impairment losses result essentially from a deterioration in the market environment in a number of the European countries invested in. They are distributed between the different Group segments as follows: in reinsurance €5m (18m) is apportionable to life and health and €9m (31m) to property-casualty; in primary insurance €31m (31m) is apportionable to life, €3m (–) to health, – (€1m) to property-casualty, and – (–) to asset management .

Of the carrying amount of €4,086m (3,957m) at 31 December 2009, €90m (16m) concerns investment property classified as “held for sale”; cf. (17) Non-current assets and disposal groups held for sale.

Property pledged as security and other restrictions on title amount to €711m (526m; opening balance sheet previous year €724m). Expenditures recognised in the carrying amount for assets in the course of construction total €250m (125m) at the balance sheet date, and contractual commitments to acquire property amount to €60m (142m). The fair value of investment property at the balance sheet date amounted to €5,533m (5,426m; opening balance sheet previous year €5,442m). Of this, €141m (16m) concerns investment property classified as “held for sale”. The valuation is performed for each site individually as at 31 December 2009 except where valuation units are formed. Calculations are carried out mainly by valuers within the Group but in individual cases also by external valuers. Determining the sustainability of cash inflows and outflows, taking into account the market conditions at the respective property location, is material for the valuation. The fair value is determined individually per item by discounting the future surplus 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	31.12.2009	Prev. year	Opening balance sheet prev. year
€m			
Affiliated companies recognised at fair value	**178**	**235**	**216**
Associates valued at equity	**796**	**1,020**	**1,013**
Thereof:			
Primary insurance life	189	255	284
Primary insurance health	105	106	104
Primary insurance property-casualty	123	310	245
Reinsurance	328	308	339
Asset management	51	41	41
Associates recognised at fair value	**27**	**14**	**12**
Total	**1,001**	**1,269**	**1,241**

The fair value of investments in associates valued at equity amounted to €982m (1,189m; opening balance sheet previous year €1,334m) at the balance sheet date. In the financial year, shares of losses of associates amounting to €14m (8m) were not recognised in the balance sheet. Altogether, the losses not recognised in the balance sheet totalled €17m (8m).

The goodwill of all associates together amounts to €8,702m, debt to €6,236m, annual results to –€201m, and turnover to €2,638m. For associates not valued by the equity method, goodwill amounts to €282m, debt to €241m, annual results to €1m, and turnover to €150m.

An overview of the most important shareholdings is provided on page 298 ff.

5 // Loans

Breakdown of loans	31.12.2009	Prev. year
€m		
Mortgage loans	4,598	4,578
Loans and advance payments on insurance policies	613	617
Other loans	41,411	35,231
Total	**46,622**	**40,426**

The other loans mainly comprise government bonds, pfandbriefs and borrowers' note loans of banks.

The fair value of the loans, based on recognised valuation methods in line with the present value principle and taking observable market parameters into account, totalled €47,909m (41,052m) at the reporting date.

Contractual period to maturity	Carrying amounts	
€m	31.12.2009	Prev. year
Up to one year	1,201	1,618
Over one year and up to two years	1,849	1,070
Over two years and up to three years	1,696	2,138
Over three years and up to four years	1,723	1,871
Over four years and up to five years	2,276	2,401
Over five years and up to ten years	14,529	14,837
Over ten years	23,348	16,491
Total	**46,622**	**40,426**

Rating of “other loans“ according to carrying amounts	31.12.2009	Prev. year
€m		
AAA	20,390	17,682
AA	15,401	11,736
A	4,452	4,854
BBB or lower	711	448
No rating	457	511
Total	**41,411**	**35,231**

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 securities held to maturity	Carrying amounts		Fair values	
€m	31.12.2009	Prev. year	31.12.2009	Prev. year
Government bonds	1	4	1	4
Debt securities of banks	83	139	85	140
Total	**84**	**143**	**86**	**144**

The fair values are based on recognised valuation methods in line with the present value principle and taking observable market parameters into account.

Contractual period to maturity	Carrying amounts		Fair values	
€m	31.12.2009	Prev. year	31.12.2009	Prev. year
Up to one year	38	38	38	38
Over one year and up to two years	30	37	31	38
Over two years and up to three years	7	45	7	45
Over three years and up to four years	3	7	4	8
Over four years and up to five years	6	7	6	7
Over five years and up to ten years	–	9	–	8
Total	**84**	**143**	**86**	**144**

Rating according to carrying amounts	31.12.2009	Prev. year
€m		
AAA	10	4
AA	–	10
A	69	121
BBB or lower	1	–
No rating	4	8
Total	**84**	**143**

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 // Hierarchy for the fair value measurement of investments

At 31 December 2009, around 76% of the investments measured at fair value derives from investments allocated to Level 1 of the fair value hierarchy, 22% from Level 2, and 2% from Level 3.

Allocation of investments[1] measured at fair value to levels of the fair value hierarchy	31.12.2009			
	Level 1	Level 2	Level 3	Total
€m				
Other securities available for sale				
Fixed-interest	83,148	23,940	2,478	109,566
Non-fixed-interest	4,816	1,097	331	6,244
Other securities at fair value through profit or loss				
Held for trading	644	722	12	1,378
Designated as at fair value through profit or loss	–	392	–	392
Investments for the benefit of life insurance policyholders who bear the investment risk	**4,026**	–	–	**4,026**
Total	**92,634**	**26,151**	**2,821**	**121,606**

[1] Including affiliated companies and associates recognised at fair value and hedging derivatives.

Information on the criteria for allocation to the individual levels of the fair value hierarchy can be found in the notes on assets, under B – Investments, Determining fair values.

The only investments held for trading that are allocated to Level 3 are hedge funds and hedge fund certificates.

The following table presents the reconciliation from the beginning balances to the ending balances for investments allocated to Level 3.

Reconciliation for investments allocated to Level 3	Other securities available for sale		Other securities at fair value through profit or loss		Total
€m	Fixed-interest	Non-fixed-interest	Held for trading	Designated as at fair value through profit or loss	
Carrying amount at 31 Dec. previous year	2,575	358	–	–	2,933
Gains and losses	128	-31	16	–	113
Gains (losses) recognised in the income statement	-261	-32	16	–	-277
Gains (losses) recognised in equity	389	1	–	–	390
Acquisitions	2,141	166	–	–	2,307
Disposals	2,366	165	–	–	2,531
Transfer to/out of Level 3	–	3	-4	–	-1
Carrying amount at 31 Dec. financial year	**2,478**	**331**	**12**	**–**	**2,821**
Gains (losses) recognised in the income statement that are attributable to investments shown at the end of the financial year		-9		16	7

8 // Other securities held for trading

Breakdown of other securities available for sale	Carrying amounts			Unrealised gains/losses			Amortised cost		
€m	31.12. 2009	Prev. year	Opening balance sheet prev. year	31.12. 2009	Prev. year	Opening balance sheet prev. year	31.12. 2009	Prev. year	Opening balance sheet prev. year
Fixed-interest securities									
Government bonds									
Germany	7,501	12,826	10,292	224	324	-103	7,277	12,502	10,395
Rest of EU	23,782	21,688	18,099	469	523	-31	23,313	21,165	18,130
USA	9,481	8,838	9,829	50	347	199	9,431	8,491	9,630
Other	7,862	7,435	5,212	295	315	378	7,567	7,120	4,834
Corporate debt securities	50,018	45,839	38,561	1,876	-267	-411	48,142	46,106	38,972
Other	10,922	11,182	12,496	428	168	-34	10,494	11,014	12,530
	109,566	107,808	94,489	3,342	1,410	-2	106,224	106,398	94,491
Non-fixed-interest securities									
Shares	3,471	4,300	21,857	1,253	1,512	6,176	2,218	2,788	15,681
Investment funds									
Equity funds	557	404	823	82	56	262	475	348	561
Bond funds	731	553	413	41	39	24	690	514	389
Real estate funds	547	585	532	7	–	19	540	585	513
Other	733	857	610	25	-24	70	708	881	540
	6,039	6,699	24,235	1,408	1,583	6,551	4,631	5,116	17,684
Total	**115,605**	**114,507**	**118,724**	**4,750**	**2,993**	**6,549**	**110,855**	**111,514**	**112,175**

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 5%), 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.

Assets pledged as security and other restrictions on title amount to €12,037m (11,378m). Some €923m (1,085m) 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 €4,750m (2,993m; opening balance sheet previous year €6,549m) in unrealised gains and losses, €2,516m (2,032m; opening balance sheet previous year €4,894m) 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 October 2008, backed by the Deutsche Bundesbank and also the German financial services industry. As part of this rescue package, the Bundesbank granted liquidity assistance of €20bn, and a consortium of financial institutions subscribed to two HRE bearer bonds totalling €30bn with a maximum term up to the end of 2009. As from 23 December 2009, the two bonds were replaced by a €22.98bn bond issued by Deutsche Pfandbriefbank AG. This has a term of one year and is guaranteed by the German Financial Market Stabilisation Fund (SoFFin). Munich Reinsurance Company has taken up €108.3m of this bond, €37.3m in trust for companies of the ERGO Group. The bond is recognised under corporate debt instruments.

Disposal proceeds in the financial year	2009	Prev. year
€m		
Fixed-interest securities	**70,920**	**69,360**
Non-fixed-interest securities		
Quoted	5,942	22,650
Unquoted	824	437
Total	**77,686**	**92,447**

Realised gains and losses	2009	Prev. year
€m		
Gains on disposal	**2,878**	**3,581**
Fixed-interest securities	1,391	844
Non-fixed-interest securities	1,487	2,737
Losses on disposal	**1,156**	**3,425**
Fixed-interest securities	612	800
Non-fixed-interest securities	544	2,625
Total	**1,722**	**156**

Contractual period to maturity of fixed-interest securities	Carrying amounts			Amortised cost		
€m	31.12.2009	Prev. year	Opening balance sheet prev. year	31.12.2009	Prev. year	Opening balance sheet prev. year
Up to one year	9,026	18,674	10,831	8,919	18,618	10,846
Over one year and up to two years	9,576	10,353	10,595	9,344	10,247	10,616
Over two years and up to three years	10,056	8,438	8,845	9,708	8,411	8,853
Over three years and up to four years	9,554	8,260	6,598	9,162	8,177	6,631
Over four years and up to five years	10,772	8,603	8,438	10,394	8,487	8,470
Over five years and up to ten years	34,847	31,074	27,271	33,546	30,401	27,408
Over ten years	25,735	22,406	21,911	25,151	22,057	21,667
Total	**109,566**	**107,808**	**94,489**	**106,224**	**106,398**	**94,491**

Rating of fixed-interest securities according to fair values	31.12.2009	Prev. year	Opening balance sheet prev. year
€m			
AAA	66,086	75,550	66,763
AA	17,987	13,374	14,187
A	14,381	13,083	9,832
BBB	9,596	4,885	2,767
Lower	1,089	606	683
No rating	427	310	257
Total	**109,566**	**107,808**	**94,489**

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.

9 // Other securities at fair value through profit or loss

Securities at fair value through profit or loss comprise securities of €1,221m (2,640m) held for trading and securities of €392m (482m) designated as at fair value through profit or loss.

The securities held for trading are made up of fixed-interest securities totalling €600m (695m), non-fixed-interest securities totalling €25m (30m) and derivatives held for trading amounting to €596m (1,915m). The securities designated as at fair value through profit or loss comprise €372m (482m) assignable to fixed-interest securities and €20m (–) to non-fixed interest securities.

Rating of fixed-interest securities according to fair values	31.12.2009	Prev. year
€m		
AAA	417	553
AA	307	378
A	196	211
BBB	34	20
Lower	4	2
No rating	14	13
Total	**972**	**1,177**

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, Munich Re selects only top-quality counterparties for such transactions.

Disclosure of derivatives by balance sheet item

€m			31.12.2009	Prev. year
Fair value	Qualifying for hedge accounting	Balance sheet item		
Positive	No	Investments, other securities held for trading	596	1,915
	Yes	Other assets	157	703
Negative	No Yes	Liabilities, other liabilities	–593	–603
Total			**160**	**2,015**

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 2009, the open positions amounted to €160m (2,015m), or 0.1% (0.9%) 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. 2009	Prev. year
Interest-rate risks								
Traded on the stock exchange								
Fair values	31	–	–	–	–	–	31	–8
Notional principal amounts	13,693	–	–	–	–	–	13,693	9,686
Over-the-counter								
Fair values	23	32	46	20	109	203	433	765
Notional principal amounts	3,061	2,444	2,203	1,856	3,179	5,924	18,667	22,374
Total interest-rate risks								
Fair values	54	32	46	20	109	203	464	757
Notional principal amounts	16,754	2,444	2,203	1,856	3,179	5,924	32,360	32,060
Currency risks								
Traded on the stock exchange								
Fair values	1	–	–	–	–	–	1	–
Notional principal amounts	71	–	–	–	–	–	71	2
Over-the-counter								
Fair values	–158	–	–3	–	–1	3	–159	257
Notional principal amounts	10,504	96	363	4	85	244	11,296	8,103
Total currency risks								
Fair values	–157	–	–3	–	–1	3	–158	257
Notional principal amounts	10,575	96	363	4	85	244	11,367	8,105
Equity and index risks								
Traded on the stock exchange								
Fair values	–19	–	–	–	–	–	–19	522
Notional principal amounts	1,358	–	–	–	–	–	1,358	4,074
Over-the-counter								
Fair values	–3	–	4	1	–8	16	10	567
Notional principal amounts	1,192	–	140	62	194	95	1,683	1,883
Total equity and index risks								
Fair values	–22	–	4	1	–8	16	–9	1,089
Notional principal amounts	2,550	–	140	62	194	95	3,041	5,957
Credit risks								
Over-the-counter								
Fair values	–	–	–1	–11	–30	–5	–47	–2
Notional principal amounts	56	34	–7	214	2,443	5	2,745	528
Weather risks								
Over-the-counter								
Fair values	3	3	7	–	–	–	13	31
Notional principal amounts	164	554	541	18	–	–	1,277	1,345
Commodity risks								
Over-the-counter								
Fair values	12	–	–	–	–	–	12	11
Notional principal amounts	244	–	–	–	–	–	244	248
Other risks								
Over-the-counter								
Fair values	–	–	–2	5	–	–118	–115	–128
Notional principal amounts	–	–	21	88	–	6,019	6,128	2,308
Total of all risks								
Fair values	**–110**	**35**	**51**	**15**	**70**	**99**	**160**	**2,015**
Notional principal amounts	**30,343**	**3,128**	**3,261**	**2,242**	**5,901**	**12,287**	**57,162**	**50,551**

The derivative components from securitisations of mortaltiy and morbidity risks 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 €175m (565m), and the underlying notional principal amounts €10,867m (17,588m). The investment result from derivatives includes expenses of €374m (–486m) from fluctuations in value of these options.

Although the derivatives used by Munich Re essentially serve to hedge against risks, only an amount of €152m (702m) 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. Munich Re uses hedging relationships in the form of fair value hedges 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, swaps and other forwards. The fair value of the derivatives used for this amounted to €130m (682m) at the balance sheet date. In 2009, the following changes in value were recognised in the consolidated income statement: –€3m for the hedging instruments and €36m 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. Munich Re uses cash flow hedges 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 €1m (3m) from cash flow hedges. The net fair value of the derivatives falling into this category amounted to €22m (20m) at the balance sheet date.

Periods to maturity and amount of the hedged cash flows at the balance sheet date	< 1 year	1–2 years	2–3 years	3–4 years	4–5 years	> 5 years	31.12.2009	Prev. year
€m								
Notional principal amounts of hedged transactions	38	–	–	–	25	225	**288**	385

10 // 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 the run-off of the corresponding provisions.

11 // Other investments

This item includes deposits with banks totalling €2,340m (1,992m). 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.

12 // Ceded share of technical provisions

Ceded share of technical provisions	Reinsurance				Primary insurance						Total	
	Life and health		Property-casualty		Life		Health		Property-casualty			
€m[1]	31.12. 2009	Prev. year	31.12. 2009	Prev. year	31.12. 2009	Prev. year	31.12. 2009	Prev. year	31.12. 2009	Prev. year	31.12. 2009	Prev. year
Unearned premiums	7	5	266	305	–	–	1	1	61	65	335	376
Provision for future policy benefits	147	148	–	–	1,689	1,626	2	3	–	–	1,838	1,777
Provision for outstanding claims	215	197	2,318	2,626	16	18	5	6	193	216	2,747	3,063
Other technical provisions	51	25	4	5	–	–	–	–	8	5	63	35
Total	**420**	**375**	**2,588**	**2,936**	**1,705**	**1,644**	**8**	**10**	**262**	**286**	**4,983**	**5,251**

[1] After elimination of intra-Group transactions across segments.

Details of the ceded share of technical provisions are shown in (20) Unearned premiums, (21) Provisions for future policy benefits, (22) Provisions for outstanding claims, (23) Other technical provisions and (39) Credit risks from ceded reinsurance business.

13 // Other receivables

Breakdown of other receivables €m	31.12.2009	Prev. year	Opening balance sheet prev. year
Amounts receivable on primary insurance business	1,425	1,310	1,331
Accounts receivable on reinsurance business	4,310	3,308	3,260
Interest and rent	2,913	2,782	2,444
Miscellaneous receivables	1,422	995	1,588
Total	**10,070**	**8,395**	**8,623**

€622m (608m) of the amounts receivable on primary insurance business is apportionable to receivables from insurance agents. The miscellaneous receivables contain amounts of €400m (258m) 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 €m	31.12.2009	Prev. year	Opening balance sheet prev. year
Up to one year	9,629	8,063	8,327
Over one year and up to two years	191	51	51
Over two years and up to three years	13	188	28
Over three years and up to four years	142	8	26
Over four years and up to five years	25	21	29
Over five years and up to ten years	43	40	141
Over ten years	27	24	21
Total	**10,070**	**8,395**	**8,623**

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 2009, our accounts receivable on ceded business were split between the following ratings (based on those of Standard & Poor's):

Rating of accounts receivable	31.12.2009	Prev. year
€m		
AAA	35	10
AA	142	121
A	254	166
BBB and lower	16	23
No external rating	186	125

€224m (289m) 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 €198m (136m).

14 // Deferred acquisition costs

Deferred acquisition costs €m[1]	Reinsurance Life and health 31.12.2009	Reinsurance Life and health Prev. year	Reinsurance Property-casualty 31.12.2009	Reinsurance Property-casualty Prev. year	Primary insurance Life 31.12.2009	Primary insurance Life Prev. year	Primary insurance Health 31.12.2009	Primary insurance Health Prev. year	Primary insurance Property-casualty 31.12.2009	Primary insurance Property-casualty Prev. year	Total 31.12.2009	Total Prev. year
Gross	1,701	1,570	1,166	1,044	3,643	3,886	1,537	1,501	557	505	8,604	8,506
Ceded share	-13	5	70	74	12	13	–	–	7	15	76	107
Net	**1,714**	**1,565**	**1,096**	**970**	**3,631**	**3,873**	**1,537**	**1,501**	**550**	**490**	**8,528**	**8,399**

[1] After elimination of intra-Group transactions across segments.

Development of gross deferred acquisition costs €m[1]	Reinsurance Life and health 31.12.2009	Reinsurance Life and health Prev. year	Reinsurance Property-casualty 31.12.2009	Reinsurance Property-casualty Prev. year	Primary insurance Life 31.12.2009	Primary insurance Life Prev. year	Primary insurance Health 31.12.2009	Primary insurance Health Prev. year	Primary insurance Property-casualty 31.12.2009	Primary insurance Property-casualty Prev. year	Total 31.12.2009	Total Prev. year
Status at 31 Dec. previous year	1,570	1,749	1,044	930	3,886	3,752	1,501	1,467	505	490	8,506	8,388
Currency translation differences	78	-198	7	-26	1	-8	–	–	2	-32	88	-264
Change in consolidated group/Other	–	–	63	97	–	–	–	–	–	–	63	97
New deferred acquisition costs	344	350	1,065	928	387	486	192	186	290	254	2,278	2,204
Changes												
Amortisation	-276	-327	-996	-881	-360	-287	-154	-152	-240	-207	-2,026	-1,854
Impairment losses	-15	-4	-17	-4	-271	-57	-2	–	–	–	-305	-65
Status at 31 Dec. financial year	**1,701**	**1,570**	**1,166**	**1,044**	**3,643**	**3,886**	**1,537**	**1,501**	**557**	**505**	**8,604**	**8,506**

[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. In the primary insurance segment, long-term interest-rate levels were significantly adjusted on the basis of the long-term regular return on investments. The now lower interest margin led to write-downs of deferred acquisition costs.

15 // Deferred tax

Deferred tax €m	31.12.2009 Assets	31.12.2009 Liabilities	Prev. year Assets	Prev. year Liabilities	Opening balance sheet prev. year Assets	Opening balance sheet prev. year Liabilities
Losses carried forward and tax credits	210	–	595	–	753	–
Intangible assets	125	339	32	381	8	203
Investment property	76	174	58	131	54	137
Investments (other than investment property)	1,930	3,054	2,035	2,943	1,190	1,738
Technical provisions	1,454	1,360	1,887	1,451	1,947	1,278
Pension provisions	298	11	282	7	234	1
Claims equalisation provisions	–	2,531	–	2,968	–	2,879
Other	932	1,052	819	951	473	877
Total	**5,025**	**8,521**	**5,708**	**8,832**	**4,659**	**7,113**

The deferred taxes for technical provisions also include the deferred taxes for deferred acquisition costs.

Of the total deferred tax liabilities amounting to €372m (670m), some €87m (549m) was recognised in the income statement and €285m (121m) in equity.

The impact from first-time consolidation and deconsolidation is also included in the deferred tax assets and liabilities.

16 // Other assets

These mainly comprise owner-occupied property totalling €2,472m (2,313m), thereof finance leases amounting to €21m (–), plant and equipment and inventories totalling €371m (314m), deferred expenses from the conclusion of insurance contracts amounting to – (€16m), and other deferred items of €107m (126m).

Development of owner-occupied property	2009	Prev. year
€m		
Gross carrying amount at 31 Dec. previous year	3,107	2,959
Accumulated depreciation and accumulated impairment losses at 31 Dec. previous year	794	721
Carrying amount at 31 Dec. previous year	2,313	2,238
Currency translation differences	–1	1
Change in consolidated group	3	34
Additions	162	144
Disposals	15	21
Impairment losses reversed	15	9
Depreciation and impairment losses		
Depreciation	62	53
Impairment losses	3	36
Reclassification	60	–3
Carrying amount at 31 Dec. financial year	2,472	2,313
Accumulated amortisation and accumulated impairment losses at 31 Dec. financial year	892	794
Gross carrying amount at 31 Dec. financial year	3,364	3,107

The impairment losses mainly resulted from a deterioration in the market environment in a number of European countries invested in. They are distributed between the different Group segments as follows: in reinsurance – (€11m) is apportionable to life and health and €1m (22m) to property-casualty; in primary insurance, the impairment losses amount to €1m (3m) in life, €1m (–) in health and – (–) in property-casualty.

The fair value of the property at the balance sheet date amounted to €2,746m (2,574m). The expenditures recognised in the carrying amount for assets in the course of construction at the balance sheet date totalled €95m (52m) for property and €28m (18m) for plant and equipment. Commitments to acquire property totalled €14m (78m) and commitments to acquire plant and equipment €18m (12m).

17 // Non-current assets and disposal groups held for sale

The property and liabilities of HGE Haus- und Grundbesitzgesellschaft Elsterwerda mbH, which had been classified in disposal groups as "held for sale" since the second quarter of 2007, ceased to be relevant with economic effect from the third quarter of 2009, as we sold our shares in the company. The property, with a carrying amount of €16m, is therefore no longer recognised at the reporting date.

In addition, we sold our stake in Vereinsbank Victoria Bauspar AG (VVB), which had been classified as "held for sale" in the first quarter of 2009, in the third quarter. Its carrying amount of €24m is consequently no longer recognised at the reporting date either.

In the fourth quarter of 2009, with scheduled economic effect from 1 April 2010, we sold seven residential investment properties with a total carrying amount of €68m.

Also in the fourth quarter of 2009, with economic effect from 1 January 2010, we sold one of our owner-occupied office properties with a carrying amount of €13m. At the same time, we acquired an office property for own use at a price of €41m.

Besides this, in the fourth quarter of 2009, we decided to sell an investment office property with a carrying amount of €22m. It is envisaged that the sale will take place in the first half of 2010.

From the above-mentioned transactions, we expect to achieve a gain on disposal of around €77m in 2010.

Balance sheet items relating to disposal groups at the reporting date	31.12.2009	Prev. year
€m		
Assets		
B. Investments		
I. Land and buildings, including buildings on third-party land	4,086	3,957
Thereof: Investment property held for sale	90	16
H. Deferred tax assets	5,025	5,708
Thereof: Deferred tax assets relating to disposal groups	5	–
I. Other assets	3,654	4,041
Thereof: Owner-occupied property held for scale	13	–
Total assets relating to disposal groups	**108**	**16**
Equity and liabilities		
C. Gross technical provisions		
IV. Other technical provisions	10,146	9,253
Thereof: Provision for deferred premium refunds relating to disposal groups	–1	–
F. Liabilities		
IV. Other liabilities	10,114	9,931
Thereof: Amounts due to banks relating to disposal groups	–	19
G. Deferred tax liabilities	8,521	8,832
Thereof: Deferred tax liabilities relating to disposal groups	6	–
Total liabilities relating to disposal groups	**5**	**19**

The allocation of the disposal groups between the segments is disclosed in the segment reporting.

Notes to the consolidated balance sheet – Equity and liabilities

18 // Equity

The total share capital of €587,725,396.48 at 31 December 2009 is divided into 197,401,624 registered no-par-value shares, each fully paid up and entitled to one vote. By resolution of the Annual General Meeting on 17 April 2008, Munich Reinsurance Company was authorised to buy back shares amounting to a maximum of 10% of the share capital up to 16 October 2009. This authorisation was cancelled by the Annual General Meeting on 22 April 2009 and replaced by a new one, authorising the Board of Management to buy back shares amounting to a maximum of 10% of the share capital up to 21 October 2010. The number of shares in circulation developed as follows:

Development of shares in circulation	2009	Prev. year
Number of shares		
Status at 31 Dec. previous year	195,655,351	207,824,071
Additions		
Issue of employee shares	–	61,890
Disposals from hedging stock appreciation rights under long-term incentive plans	80,542	–
Reductions		
Acquisition of shares for retirement (share buy-back programme) including exercise of put options	3,793,050	11,840,105
Acquisition of shares to issue to employees	–	61,921
Acquisition of shares to hedge stock appreciation rights under long-term incentive plans	32,666	328,584
Status at 31 Dec. financial year	**191,910,177**	**195,655,351**

On 31 December 2009, a total of 5,491,447 Munich Re shares with a calculated nominal value of around €16.3m were held by Group companies. This represents 2.78% of the share capital.

On 6 May 2008, Munich Reinsurance Company's Board of Management decided on a 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. In the period from 8 May 2008 to 11 March 2009, 7,692,180 Munich Reinsurance Company shares were acquired via the stock exchange. In addition, pursuant to the Board of Management's resolution of 29 January 2008 and the authorisation granted at the Annual General Meeting on 26 April 2007, 1,310,000 own shares were acquired using put options. The total of 9,002,180 own shares were retired on 1 and 2 April 2009 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 1 October 2009, Munich Reinsurance Company'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 22 April 2009, in accordance with Section 71 para. 1 item 8 of the German Stock Companies Act. The share buy-back will be restricted to a total purchase price (excluding incidental expenses) of €1bn up to the 2010 Annual General Meeting. From 2 October 2009 to 31 December 2009, a total of 3,225,550 shares were purchased at an average price of €108.51. Altogether, 3,793,050 shares were acquired in 2009 at an average price of €107.16.

In 2009, no employee share programmes were set up for the employees of Munich Reinsurance Company, MEAG MUNICH ERGO AssetManagement GmbH or the ERGO Insurance Group (including EUROPÄISCHE Reiseversicherung AG and almeda GmbH, formerly called Mercur Assistance Deutschland GmbH, which are now part of ERGO). At Munich Reinsurance Company, there are a total of 255 shares left over from the 2008 employee share programme.

In addition, one subsidiary holds 1,831,795 shares to hedge stock appreciation rights granted to the Board of Management and top Munich Re executives since 1999. In 2009, no shares were acquired for hedging these programmes, and a total of 62,060 shares were sold at an average price of €106.47.

In the financial year 2009, companies of the ERGO Insurance Group acquired 9,666 shares at an average price of €95.58 each and sold 16,163 shares at a price of €111.55 each to cover future commitments from the long-term incentive plans launched since 2002. Together with the remaining Munich Re shares acquired to hedge stock appreciation rights granted in prior years, the ERGO Insurance Group had a total portfolio of 294,093 shares at 31 December 2009.

MEAG MUNICH ERGO AssetManagement GmbH acquired 23,000 shares at €99.61 each in the financial year 2009 to safeguard obligations from its long-term incentive plan and and sold 2,319 shares at an average price of €106.16, leaving it with a portfolio of 139,754 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 €579,739,065.18.

Composition of the capital authorised for capital increases	31.12.2009
€m	
Authorised Capital Increase 2006 (until 18 April 2011)	5
Authorised Capital Increase 2009 (until 21 April 2014)	280
Total	**285**

Composition of contingent capital	31.12.2009
€m	
To safeguard conversion rights or subscription rights from convertible bonds or bonds with warrants (Contingent Capital Increase 2005)	100
Total	**100**

Composition of equity	31.12.2009	Prev. year	Opening balance sheet prev. year
€m			
Issued capital	588	588	588
Capital reserve	6,800	6,800	6,800
Retained earnings	10,667	10,843	9,783
Other reserves	1,473	1,036	3,858
Consolidated result attributable to Munich Reinsurance Company equity holders	2,521	1,555	3,770
Minority interests	229	285	495
Total equity	**22,278**	**21,107**	**25,294**

Retained earnings contain equalisation reserves of €5,866m (6,167m).

The “other reserves” include –€1,245m (–1,194m) from currency translation and €1m (3m) resulting from valuation of cash flow hedges. In addition, “other reserves” contain unrealised gains and losses distributed between the different items as follows:

Unrealised gains and losses	31.12.2009	Prev. year	Opening balance sheet prev. year
€m			
Unconsolidated affiliated companies and associates not valued at equity	**147**	**158**	**68**
Associates valued at equity	**66**	**53**	**71**
Other securities available for sale			
Fixed-interest	3,342	1,410	–2
Non-fixed-interest	1,408	1,583	6,551
Less			
Provision for deferred premium refunds recognised in equity	1,632	727	1,325
Deferred taxes recognised in equity	623	314	321
Minority interests	12	12	23
Consolidation and currency translation effects	–21	–76	–4
Total	**2,717**	**2,227**	**5,023**

Tax effects in the income and expenses recognised directly in equity	2009			Prev. year		
	Before tax	Tax	After tax	Before tax	Tax	After tax
€m						
Currency translation	-51	–	-51	-39	–	-39
Unrealised gains and losses on investments	824	309	515	-2,798	-7	-2,791
Change resulting from valuation at equity	15	–	15	-19	–	-19
Change resulting from cash flow hedges	-2	–	-2	4	1	3
Actuarial gains and losses on defined benefit plans	-86	-8	-78	-147	-94	-53
Other changes	-37	-9	-28	44	11	33
Income and expense recognised directly in equity	**663**	**292**	**371**	**-2,955**	**-89**	**-2,866**

Minority interests	31.12.2009	Prev. year	Opening balance sheet prev. year
€m			
Unrealised gains and losses	12	12	23
Consolidated result	8	17	77
Other equity	209	256	395
Total	**229**	**285**	**495**

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 121 f.

19 // Subordinated liabilities

Breakdown of subordinated liabilities	31.12.2009	Prev. year
€m		
Munich Reinsurance Company, Munich, 6.75% until 2013, thereafter floating, €2,900m[1], Bonds 2003/2023	2,883	2,981
Munich Reinsurance Company, Munich, 7.625% until 2018, thereafter floating, £300m, Bonds 2003/2028	335	308
Munich Reinsurance Company, Munich, 5.767% until 2017, thereafter floating, €1,349m[2], Bonds 2007/perpetual	1,475	1,613
The Midland Company, Cincinnati, LIBOR +350 BP, US$ 24m[3], Bonds 2004/2034	–	17
Bank Austria Creditanstalt Versicherung AG, Vienna, 4.95%, €50m, Registered bonds 2004/2014	49	45
Bank Austria Creditanstalt Versicherung AG, Vienna, 6% until 2010, thereafter floating, €12m[4], Registered bonds 2001/perpetual	9	7
Bank Austria Creditanstalt Versicherung AG, Vienna, secondary market yield on federal government bonds (Austria) +70 BP, €13m[5], Registered bonds 1998/perpetual	9	8
HSB Group Inc., Delaware, LIBOR +91 BP, US$ 76m[6], Bonds 1997/2027	30	–
Total	**4,790**	**4,979**

[1] In the first half-year 2009, the issuer bought back bonds with a nominal value of €100m.
[2] In the first half-year 2009, the issuer bought back bonds with a nominal value of €151m.
[3] In the second quarter of 2009, the issuer redeemed bonds with a nominal value of US$ 24m.
[4] ERGO International AG holds bonds with a nominal value of €3m; the volume outstanding has been reduced accordingly.
[5] ERGO AG holds bonds with a nominal value of €3m; the volume outstanding has been reduced accordingly.
[6] In the third quarter of 2009, HSB Capital I, Delaware, was dissolved. The bonds it had issued were replaced by bonds of the HSB Group Inc., Delaware, in the amount of the liabilities outstanding, with unchanged terms and conditions.

In the case of Munich Reinsurance Company's bonds, outflows of liquidity occur for the interest payments of €197m, £23m and €80m respectively until the first possible call dates in 2013, 2018 and 2017. Thereafter, the liquidity outflows will vary, depending on the respective interest rate level. In the case of 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 HSB Group bonds, be variable, depending on the respective interest-rate levels.

The fair value of the subordinated bond issued by Munich Reinsurance Company in June 2007 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 €4,781m (4,017m). For the Munich Reinsurance Company 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.

20 // Unearned premiums

Unearned premiums	Reinsurance				Primary insurance						Total	
	Life and health		Property-casualty		Life		Health		Property-casualty			
€m[1]	31.12. 2009	Prev. year	31.12. 2009	Prev. year	31.12. 2009	Prev. year	31.12. 2009	Prev. year	31.12. 2009	Prev. year	31.12. 2009	Prev. year
Gross	321	273	4,949	4,562	1	–	173	171	1,502	1,415	6,946	6,421
Ceded share	7	5	266	305	–	–	1	1	61	65	335	376
Net	**314**	**268**	**4,683**	**4,257**	**1**	**–**	**172**	**170**	**1,441**	**1,350**	**6,611**	**6,045**

[1] After elimination of intra-Group transactions across segments.

Development of gross unearned premiums	Reinsurance				Primary insurance						Total	
	Life and health		Property-casualty		Life		Health		Property-casualty			
€m[1]	31.12. 2009	Prev. year	31.12. 2009	Prev. year	31.12. 2009	Prev. year	31.12. 2009	Prev. year	31.12. 2009	Prev. year	31.12. 2009	Prev. year
Status at 31 Dec. previous year	273	183	4,562	4,025	–	–	171	176	1,415	1,335	6,421	5,719
Currency translation effects	–8	–4	19	–101	–	–	–2	–9	10	–51	19	–165
Change in consolidated group	–	–	310	315	–	–	–	–	–	–	310	315
Gross premiums written	9,191	6,453	14,764	14,412	6,314	6,046	6,045	5,839	5,109	5,079	41,423	37,829
Earned premiums	9,135	6,359	14,706	14,089	6,313	6,046	6,041	5,835	5,032	4,948	41,227	37,277
Status at 31 Dec. financial year	**321**	**273**	**4,949**	**4,562**	**1**	**–**	**173**	**171**	**1,502**	**1,415**	**6,946**	**6,421**

[1] After elimination of intra-Group transactions across segments.

21 // Provision for future policy benefits

Provision for future policy benefits	Reinsurance				Primary insurance						Total	
	Life and health		Property-casualty		Life		Health		Property-casualty			
€m[1]	31.12. 2009	Prev. year	31.12. 2009	Prev. year	31.12. 2009	Prev. year	31.12. 2009	Prev. year	31.12. 2009	Prev. year	31.12. 2009	Prev. year
Gross	9,596	8,871	300	299	68,755	68,239	21,853	20,498	358	298	100,862	98,205
Ceded share	147	148	–	–	1,689	1,626	2	3	–	–	1,838	1,777
Net	**9,449**	**8,723**	**300**	**299**	**67,066**	**66,613**	**21,851**	**20,495**	**358**	**298**	**99,024**	**96,428**

[1] After elimination of intra-Group transactions across segments.

Gross provision for future policy benefits according to type of insurance cover	31.12.2009	Prev. year
€m		
Life	**78,346**	**77,105**
Reinsurance	9,591	8,866
Primary insurance	68,755	68,239
Term life insurance	2,589	2,529
Other life insurance	39,967	40,711
Annuity insurance	25,133	23,956
Disability insurance	1,057	1,037
Contracts with combination of more than one risk	9	6
Health	**21,858**	**20,503**
Reinsurance	5	5
Primary insurance	21,853	20,498
Property-casualty	**658**	**597**
Reinsurance	300	299
Primary insurance	358	298
Total	**100,862**	**98,205**

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. Discount rates are chosen that reflect the best estimate of expected investment income, less a safety margin. For the major part of the portfolio, these assumptions are fixed at the beginning of the contract and not changed over its duration.

In primary insurance, measurement is generally carried out individually for each risk. For German life and health primary insurance, to which approx. 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 (37) Risks from insurance contracts in the life and health segment and (38) Risks from insurance contracts in the property-casualty segment.

Development of gross provision for future policy benefits	2009	Prev. year
€m		
Status at 31 Dec. previous year	98,205	94,933
Currency translation differences	117	–125
Change in consolidated group/Other	576	2,249
Changes		
Scheduled	1,959	1,148
Unscheduled	5	–
Status at 31 Dec. financial year	**100,862**	**98,205**

The item "Change/Other" contains €326m in savings premiums for capitalisation products and €54m for portfolio entries and withdrawals. 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.

22 // Provision for outstanding claims

Provision for outstanding claims	Reinsurance				Primary insurance						Total	
	Life and health		Property-casualty		Life		Health		Property-casualty			
€m[1]	31.12.2009	Prev. year	31.12.2009	Prev. year	31.12.2009	Prev. year	31.12.2009	Prev. year	31.12.2009	Prev. year	31.12.2009	Prev. year
Gross	4,277	3,883	35,270	34,739	1,483	1,316	1,146	1,089	4,670	4,476	46,846	45,503
Ceded share	215	197	2,318	2,626	16	18	5	6	193	216	2,747	3,063
Net	**4,062**	**3,686**	**32,952**	**32,113**	**1,467**	**1,298**	**1,141**	**1,083**	**4,477**	**4,260**	**44,099**	**42,440**

[1] After elimination of intra-Group transactions across segments.

Gross provision by type	Reinsurance		Primary insurance		Total	
€m[1]	31.12.2009	Prev. year	31.12.2009	Prev. year	31.12.2009	Prev. year
Life and health segment						
Disability claims provisions	2,232	1,942	1,023	898	3,255	2,840
Provision for other benefit cases	2,045	1,941	1,606	1,507	3,651	3,448
Property-casualty segment (claims reserve)						
Case reserve	17,668	17,923	3,744	3,596	21,412	21,519
IBNR reserve	17,602	16,816	926	880	18,528	17,696
Total	**39,547**	**38,622**	**7,299**	**6,881**	**46,846**	**45,503**

[1] After elimination of intra-Group transactions across segments.

In the life and health segments, 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 (37) 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 (38) 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 only)	Reinsurance		Primary insurance	
%[1]	31.12.2009	Prev. year	31.12.2009	Prev. year
Up to one year	30.1	31.7	40.4	39.9
Over one year and up to five years	46.6	42.0	36.7	36.4
Over five years and up to ten years	14.3	15.3	14.3	13.9
Over ten years and up to fifteen years	4.4	5.1	4.5	5.0
Over fifteen years	4.6	5.9	4.1	4.8

[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 €m[1]	2009 Gross	2009 Ceded share	2009 Net	Prev. year Gross	Prev. year Ceded share	Prev. year Net
Status at 31 Dec. previous year	**39,215**	**2,841**	**36,374**	**38,792**	**3,023**	**35,769**
Currency translation differences	**262**	**–92**	**354**	**–454**	**38**	**–492**
Change in consolidated group	**359**	**137**	**222**	**144**	**36**	**108**
Claims expenses						
For the year under review	12,677	522	12,155	12,761	688	12,073
For previous years	–538	–60	–478	–52	223	–275
Total	**12,139**	**462**	**11,677**	**12,709**	**911**	**11,798**
Unwinding of discount	**87**	**7**	**80**	**92**	**8**	**84**
Less payments						
For the year under review	4,533	222	4,311	4,393	254	4,139
For previous years	7,589	622	6,967	7,675	921	6,754
Total	**12,122**	**844**	**11,278**	**12,068**	**1,175**	**10,893**
Status at 31 Dec. financial year	**39,940**	**2,511**	**37,429**	**39,215**	**2,841**	**36,374**

[1] After elimination of intra-Group transactions across segments.

Changes in the consolidated group result from the acquisition of the HSB Group.

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 exposure and claims information and past claims experience. The respective change is shown under claims expenses for previous years.

Significant claims were incurred particularly in connection with the financial crisis and in sections of professional indemnity business, necessitating a strengthening of reserves in the credit and liability classes of business. By contrast, most of the other classes showed a positive trend.

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)

€m	Accident year											
Calendar year	≤ 1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	Total
1999	7,970											
2000	5,675	3,354										
2001	3,023	2,616	3,322									
2002	2,377	1,192	2,948	3,782								
2003	1,413	719	1,498	2,820	3,923							
2004	1,671	512	828	1,203	2,127	3,715						
2005	882	475	580	635	869	2,741	3,390					
2006	770	280	433	372	393	873	3,404	3,294				
2007	868	110	429	240	375	378	1,531	2,366	4,068			
2008	908	191	341	291	290	405	479	1,273	2,676	4,112		
2009	690	190	166	305	218	225	449	515	1,169	3,035	4,258	11,220

Claims reserve for the individual accident years at the respective reporting dates (net)

€m	Accident year											
Date	≤ 1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	Total
31.12.1999	18,708											
31.12.2000	12,904	6,019										
31.12.2001	10,221	4,223	7,587									
31.12.2002	9,457	3,250	5,745	9,107								
31.12.2003	8,349	2,892	4,765	5,762	7,879							
31.12.2004	7,188	2,430	3,839	4,805	5,398	7,243						
31.12.2005	8,004	2,272	3,470	2,920	3,807	4,595	8,594					
31.12.2006	7,633	1,932	3,084	2,479	3,295	3,735	5,043	7,219				
31.12.2007	7,393	1,981	2,591	2,232	2,622	3,177	3,638	4,621	7,376			
31.12.2008	6,894	1,708	2,307	1,943	2,175	2,427	2,879	3,216	4,935	8,248		
31.12.2009	6,252	1,623	1,974	1,638	1,891	1,903	2,409	2,583	3,647	5,453	8,055	37,428

Ultimate loss for the individual accident years at the respective reporting dates (net)

€m	Accident year											
Date	≤ 1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	Total
31.12.1999	26,678											
31.12.2000	26,549	9,373										
31.12.2001	26,889	10,193	10,909									
31.12.2002	28,502	10,412	12,015	12,889								
31.12.2003	28,807	10,773	12,533	12,364	11,802							
31.12.2004	29,317	10,823	12,435	12,610	11,448	10,958						
31.12.2005	31,015	11,140	12,646	11,360	10,726	11,051	11,984					
31.12.2006	31,414	11,080	12,693	11,291	10,607	11,064	11,837	10,513				
31.12.2007	32,042	11,239	12,629	11,284	10,309	10,884	11,963	10,281	11,444			
31.12.2008	32,451	11,157	12,686	11,286	10,152	10,539	11,683	10,149	11,679	12,360		
31.12.2009	32,499	11,262	12,519	11,286	10,086	10,240	11,662	10,031	11,560	12,600	12,313	146,058
Net run-off result	–5,821	–1,889	–1,610	1,603	1,716	718	322	482	–116	–240	n/a	–4,835
Change 2008 to 2009	–48	–105	167	–	66	299	21	118	119	–240	n/a	397

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 or the composition of segments to be reported, 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 2009). 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.

23 // Other technical provisions

Breakdown of other technical provisions	Reinsurance		Primary insurance		Total		
€m[1]	31.12.2009	Prev. year	31.12.2009	Prev. year	31.12.2009	Prev. year	Opening balance sheet prev. year
Provision for premium refunds based on national regulations	–	–	4,880	4,442	4,880	4,442	4,925
Provision for deferred premium refunds	–	–	4,343	4,029	4,343	4,029	4,662
Thereof resulting from unrealised gains and losses on investments (recognised directly in equity)	–	–	1,650	747	1,650	747	1,325
Thereof resulting from other revaluations (recognised in profit or loss)	–	–	2,693	3,282	2,693	3,282	3,337
Provision for profit commission	797	674	–	–	797	674	748
Other	14	11	112	97	126	108	149
Total (gross)	**811**	**685**	**9,335**	**8,568**	**10,146**	**9,253**	**10,484**

[1] After elimination of intra-Group transactions across segments.

Of the provision for premium refunds based on national regulations, €61m (57m) 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 €63m (35m), of which – (€2m) 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	2009	Prev. year
€m		
Status at 31 Dec. previous year	4,442	4,925
Change in consolidated group	–	–
Allocations/Withdrawals	438	–483
Status at 31 Dec. financial year	**4,880**	**4,442**

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	2009	Prev. year
€m		
Status at 31 Dec. previous year	4,029	4,662
Change in consolidated group	–	–
Change resulting from unrealised gains and losses on investments (recognised directly in equity)	903	–577
Change resulting from other revaluations (recognised in profit or loss)	–589	–56
Status at 31 Dec. financial year	**4,343**	**4,029**

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 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 50% 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 again 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 €4,343m (4,029m) at 31 December 2009, –€1m (–) concerns disposal groups held for sale; cf. (17) Non-current assets and disposal groups held for sale.

24 // Gross technical provisions for life insurance policies where the investment risk is borne by the policyholders

Development of gross provision	2009	Prev. year
€m		
Status at 31 Dec. previous year	2,970	2,308
Change in consolidated group and other influences	46	852
Savings premiums	945	563
Unrealised gains/losses on fund assets	461	–591
Withdrawal for expenses and risk	–50	–20
Withdrawal for benefits	–255	–142
Status at 31 Dec. financial year	**4,117**	**2,970**

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.

25 // Other accrued liabilities

Breakdown of other accrued liabilities	31.12.2009	Prev. year
€m		
Provisions for post-employment benefits	1,424	1,335
Other provisions	1,782	1,647
Total	**3,206**	**2,982**

Provisions for post-employment benefits Munich Re companies 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 €57m (47m).

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	2009	Prev. year
Status at 31 Dec. previous year	2,319	2,185
Currency translation differences	6	–26
Change in consolidated group	90	58
Current service cost	90	82
Interest cost	123	119
Actuarial gains/losses	150	–33
Paid pension benefits	–92	–77
Plan curtailments	–45	–
Past service cost	–25	15
Other	2	–4
Status at 31 Dec. financial year	**2,618**	**2,319**

Defined benefit obligations include medical-care benefits. The present value of defined benefit obligations for these items amounted to €129m (140m) 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 2009 by €81m (133m).

Change in the plan assets for defined benefit plans €m	2009	Prev. year
Status at 31 Dec. previous year	989	965
Currency translation differences	17	–24
Change in consolidated group	41	48
Expected return	55	55
Actuarial gains/losses	22	–114
Capital transfer to plan assets	133	83
Paid pension benefits	–31	–20
Other	3	–4
Status at 31 Dec. financial year	**1,229**	**989**

Change in the reimbursement rights for defined benefit plans €m	2009	Prev. year
Status at 31 Dec. previous year	103	91
Expected return	4	3
Actuarial gains/losses	3	–
Capital transfer	8	11
Paid pension benefits	–1	–2
Status at 31 Dec. financial year	**117**	**103**

The reimbursement rights derive from insurance concluded to cover the benefit obligations.

Funded status of defined benefit plans	31.12.2009	Prev. year
€m		
Unfunded obligations		
Present value	1,307	1,097
Past service cost not yet recognised	13	–1
Net balance sheet liability	1,320	1,096
Wholly/partly funded obligations		
Present value	1,311	1,222
Plan assets	–1,229	–989
Other receivables	19	5
Other	3	1
Net balance sheet liability	104	239
Total net balance sheet liability	**1,424**	**1,335**

Change in the provision for defined benefit plans	2009	Prev. year
€m		
Status at 31 Dec. previous year	1,335	1,224
Currency translation differences	–9	–3
Change in consolidated group	56	12
Expenses	98	156
Payments	–60	–55
Capital transfer to plan assets	–133	–83
Transfer to other receivables	6	3
Actuarial gains/losses recognised in equity	125	84
Other	6	–3
Status at 31 Dec. financial year	**1,424**	**1,335**

Breakdown of expenses booked in the business year	2009	Prev. year
€m		
Current service cost	**90**	**82**
Interest cost	**123**	**119**
Less		
Expected return on plan assets	–55	–55
Expected return on reimbursements	–4	–3
Past service cost	**–11**	**13**
Effects of plan curtailments	**–45**	**–**
Total	**98**	**156**

The plan curtailments concern defined benefit plans which have been superseded by defined contribution plans.

The actual return on plan assets amounts to €77m (–59m), and the actual return on reimbursements to €7m (3m).

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 gains/losses amounting to €121m (81m) in the financial year and €508m (387m) cumulative, taking currency fluctuations into account.

Breakdown of plan assets to cover pension obligations	31.12.2009	Prev. year
%		
Non-fixed-interest securities	23.6	20.6
Fixed-interest securities and loans	73.7	77.7
Real estate	0.1	0.2
Other	2.6	1.5
Total	**100.0**	**100.0**

The fair value of the plan assets does not include any own shares.

The consolidated companies used the following actuarial assumptions (weighted average values) for calculating their pension obligations:

Actuarial assumptions	2009	Prev. year
%		
Discount rate	5.0	5.5
Expected rate of return on fund assets	5.5	5.3
Expected rate of return on reimbursements	4.4	5.0
Future increases in entitlement/salary	3.2	3.4
Future pension increases	1.6	1.5
Medical cost trend rate	5.0	6.1

The expected rate of return on plan assets is determined on the basis of anticipated long-term capital yields.

For the financial year 2010, capital transfers of €59m (64m) 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	16	–12
Pension expenses	2	–2

Other figures for the current financial year and previous years	2009	2008	2007	2006
€m				
Present value of defined benefit obligations (excluding medical-care benefits)	2,489	2,178	2,053	2,123
Plan assets	–1,229	–989	–965	–971
Not covered by plan assets	1,260	1,189	1,088	1,152
Experience adjustments arising on the plan liabilities	–44	7	–24	101
Experience adjustments arising on the plan assets	20	–100	–7	–

Other provisions €m	Prev. year	Additions	Withdrawals	Reversal	Other changes	31.12.2009
Early retirement benefits/semi-retirement	219	29	65	–	15	198
Earned commission	169	605	589	2	–1	182
Outstanding invoices	106	182	121	20	2	149
Anniversary benefits	110	72	57	7	–3	115
Holiday and overtime pay	80	52	81	6	9	54
Bonuses	58	11	14	–	12	67
Miscellaneous	905	741	424	176	–29	1,017
Total	**1,647**	**1,692**	**1,351**	**211**	**5**	**1,782**

The miscellaneous other provisions comprise a large number of different items, including €50m (86m) for medium- and long-term incentive plans, €82m (77m) for salary obligations, €46m (44m) for other remuneration for desk and sales staff, €273m (155m) for restructuring, €27m (29m) for competitions for sales staff, €27m (11m) for litigation risks, and €5m (3m) for insurance tax on outstanding premiums. The provisions for restructuring mainly concern €263m (144m) for the ERGO Group's "Continuous improvement of our competitive position" project.

The provisions for early-retirement benefits/semi-retirement, anniversary benefits and medium- 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.

26 // Bonds and notes issued

Breakdown of bonds and notes issued €m	31.12.2009	Prev. year
Munich Re America Corporation, Princeton, 7.45%, US$ 397m, Senior Notes 1996/2026[1]	276	302
Total	**276**	**302**

1 The issuer bought back notes with a nominal value of US$ 17m in the second quarter of 2009 and notes with a nominal value of US$ 7m in the third quarter of 2009.
2 Outflows of liquidity occur annually in the amount of the interest payments of US$ 30m until the notes mature.

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 €285m (317m).

The rating of the notes is given on page 131.

27 // 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.

28 // Other liabilities

Breakdown of other liabilities	31.12.2009	Prev. year	Opening balance sheet prev. year
€m			
Amounts payable on primary insurance business	3,763	4,005	4,002
Accounts payable on reinsurance business	2,532	1,678	2,116
Amounts due to banks	873	1,650	1,823
Miscellaneous liabilities	2,946	2,598	3,040
Total	**10,114**	**9,931**	**10,981**

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 at 31 December 2009 totalling €873m (1,650m; opening balance sheet previous year €1,823m), – (€19m; opening balance sheet previous year €19m) concerns disposal groups held for sale; cf. (17) Non-current assets and disposal groups held for sale.

The miscellaneous liabilities contain liabilities of €157m (167m; opening balance sheet previous year €172m) resulting from reinsurance contracts without significant risk transfer and €593m (603m; opening balance sheet previous year €550m) from derivative financial instruments and derivative components of variable annuities with a negative fair value. The miscellaneous liabilities also include €12m (11m; opening balance sheet previous year €9m) for social security and €202m (200m; opening balance sheet previous year €211m) 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 (37) Risks from insurance contracts in the life and health segment and (38) 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	Carrying amounts 31.12.2009	Prev. year	Opening balance sheet prev. year
(excluding amounts payable on primary insurance business and excluding liabilities from derivative components embedded in variable annuities)			
€m			
Up to one year	5,132	4,390	5,456
Over one year and up to two years	73	240	403
Over two years and up to three years	237	76	215
Over three years and up to four years	40	58	51
Over four years and up to five years	79	59	189
Over five years and up to ten years	297	364	148
Over ten years	314	565	447
Total	**6,172**	**5,752**	**6,909**

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. €378m (1,107m; opening balance sheet previous year €1,091m) of the amounts owed to banks and €273m (119m; opening balance sheet previous year €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.

The following table shows the allocation of the other liabilities measured at fair value to levels of the fair value hierarchy.

Allocation of other liabilities measured at fair value to levels of the fair value hierarchy	31.12.2009 Level 1	Level 2	Level 3	Total
€m				
Other liabilities				
Derivatives	52	541	–	593

In the other liabilities, only derivatives with a negative market value are currently recognised at fair value. Of these, only hedge fund certificates are allocated to Level 3 of the fair value hierarchy. At the beginning of the year, our portfolio of such investments with a negative market value totalled around €21m. Owing to purchases/sales and the settlement of contracts, as well as the positive price development, we do not show any Level 3 investments at the balance sheet date.

Notes to the consolidated income statement

29 // Premiums

Premiums[1] €m	Reinsurance Life and health 2009	Reinsurance Life and health Prev. year	Reinsurance Property-casualty 2009	Reinsurance Property-casualty Prev. year	Primary insurance Life 2009	Primary insurance Life Prev. year	Primary insurance Health 2009	Primary insurance Health Prev. year	Primary insurance Property-casualty 2009	Primary insurance Property-casualty Prev. year	Total 2009	Total Prev. year
Total gross premiums	9,191	6,453	14,764	14,412	7,894	7,178	6,045	5,839	5,109	5,079	43,003	38,961
Gross premiums written	9,191	6,453	14,764	14,412	6,314	6,046	6,045	5,839	5,109	5,079	41,423	37,829
Change in unearned premiums												
Gross	56	94	58	323	1	–	4	4	77	131	196	552
Gross earned premiums	**9,135**	**6,359**	**14,706**	**14,089**	**6,313**	**6,046**	**6,041**	**5,835**	**5,032**	**4,948**	**41,227**	**37,277**
Ceded premiums written	407	262	898	974	177	150	14	15	170	165	1,666	1,566
Change in unearned premiums												
Ceded share	2	1	–24	10	–	–	–	–1	–13	3	–35	13
Ceded earned premiums	**405**	**261**	**922**	**964**	**177**	**150**	**14**	**16**	**183**	**162**	**1,701**	**1,553**
Net earned premiums	**8,730**	**6,098**	**13,784**	**13,125**	**6,136**	**5,896**	**6,027**	**5,819**	**4,849**	**4,786**	**39,526**	**35,724**

[1] After elimination of intra-Group transactions across segments.

The total gross premiums include not only the gross premiums written but also savings premiums from unit-linked life insurances and capitalisation products. Premiums from long-term insurance business, especially in the life primary insurance segment, 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. (20) Unearned premiums. Unearned premiums are reversed in accordance with the reduction in risk, over the duration of the contracts.

30 // Income from technical interest

Income from technical interest[1] €m	Reinsurance Life and health 2009	Reinsurance Life and health Prev. year	Reinsurance Property-casualty 2009	Reinsurance Property-casualty Prev. year	Primary insurance Life 2009	Primary insurance Life Prev. year	Primary insurance Health 2009	Primary insurance Health Prev. year	Primary insurance Property-casualty 2009	Primary insurance Property-casualty Prev. year	Total 2009	Total Prev. year
Income from technical interest	503	356	1,056	1,282	2,881	1,936	1,203	1,011	151	219	5,794	4,804

[1] After elimination of intra-Group transactions across segments.

The income from technical interest is the amount earned by assumed insurance business from the mainly risk-free investment of the premium income. Its composition varies from segment to segment, depending on the type of insurance business conducted and the related statutory regulations.

In the reinsurance property-casualty segment, we allow for the fact that provisions established in prior years were invested at higher interest rates than the current level of market interest rates. In the property-casualty segment, the income from technical interest therefore corresponds to the risk-free interest on our technical provisions at the historical interest rate at which the premium for the relevant period of insurance was invested. In the property-casualty primary insurance segment, it corresponds to the risk-free interest on our technical provisions, as derived from our replication portfolio.

For the life and health segment in reinsurance, the interest on the provisions is essentially based on contractual agreements (in Germany, for example, at least the guaranteed interest rate). In primary insurance, the income from technical interest in the life segment corresponds to the gains and losses from unit-linked life insurance for life business in Germany plus the policyholders' guaranteed interest and profit sharing on the basis of the IFRS investment result, as derived in accordance with supervisory regulations. For the companies outside Germany, it corresponds to the gains and losses from unit-linked life insurance plus the risk-free interest on the average net provision for future policy benefits at the relevant national interest rate.

In the health segment, the income from technical interest for German business corresponds to the allocation of interest to the ageing reserve (actuarial interest) and the allocation to the provision for premium refunds. The latter is based on the investment result exceeding the actuarial interest and on policyholders' participation in the other non-technical result components.

The technical interest for non-German health insurance companies is based on the interest on technical provisions at the relevant national risk-free interest rate.

31 // Expenses for claims and benefits

Net expenses for claims and benefits[1]	Reinsurance				Primary insurance						Total	
	Life and health		Property-casualty		Life		Health		Property-casualty			
€m	2009	Prev. year	2009	Prev. year	2009	Prev. year	2009	Prev. year	2009	Prev. year	2009	Prev. year
Gross												
Claims and benefits paid	6,132	4,229	9,288	9,344	6,614	6,647	4,230	3,950	2,834	2,724	29,098	26,894
Change in technical provisions												
Provision for future policy benefits	481	518	–	19	589	–353	1,089	993	60	27	2,219	1,204
Provision for outstanding claims	239	54	165	605	166	60	57	72	187	221	814	1,012
Provision for premium refunds	–	–	17	6	97	256	610	295	17	15	741	572
Other technical result	41	17	33	31	184	131	–6	–2	39	34	291	211
Gross expenses for claims and benefits	**6,893**	**4,818**	**9,503**	**10,005**	**7,650**	**6,741**	**5,980**	**5,308**	**3,137**	**3,021**	**33,163**	**29,893**
Ceded share												
Claims and benefits paid	187	182	762	1,082	94	78	7	7	82	93	1,132	1,442
Change in technical provisions												
Provision for future policy benefits	–9	–15	–	–	92	59	–1	–	–	–	82	44
Provision for outstanding claims	14	–21	–360	–273	2	3	–2	–	–4	25	–350	–266
Provision for premium refunds	–	–	–	–	1	–	–	–	–2	1	–1	1
Other technical result	–6	8	–13	–4	–73	–49	–	–	–	1	–92	–44
Expenses for claims and benefits Ceded share	**186**	**154**	**389**	**805**	**116**	**91**	**4**	**7**	**76**	**120**	**771**	**1,177**
Net												
Claims and benefits paid	5,945	4,047	8,526	8,262	6,520	6,569	4,223	3,943	2,752	2,631	27,966	25,452
Change in technical provisions												
Provision for future policy benefits	490	533	–	19	497	–412	1,090	993	60	27	2,137	1,160
Provision for outstanding claims	225	75	525	878	164	57	59	72	191	196	1,164	1,278
Provision for premium refunds	–	–	17	6	96	256	610	295	19	14	742	571
Other technical result	47	9	46	35	257	180	–6	–2	39	33	383	255
Net expenses for claims and benefits	**6,707**	**4,664**	**9,114**	**9,200**	**7,534**	**6,650**	**5,976**	**5,301**	**3,061**	**2,901**	**32,392**	**28,716**

[1] After elimination of intra-Group transactions across segments.

The change in the provision for future policy benefits (net) contains €461m (–591m) in unrealised gains/losses from unit-linked life insurance. Expenses for claims and benefits include expenses for policyholders' bonuses. Of this, €1,000m (439m) is for the allocation to the provision for premium refunds on the basis of national regulations, –€593m (–113m) for the change in the provision for deferred premium refunds recognised in the income statement, and €382m (290m) 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[1]	Reinsurance				Primary insurance						Total	
	Life and health		Property-casualty		Life		Health		Property-casualty			
€m	2009	Prev. year	2009	Prev. year	2009	Prev. year	2009	Prev. year	2009	Prev. year	2009	Prev. year
Acquisition costs	–3	–15	456	311	1,065	734	663	690	994	970	3,175	2,690
Administration expenses	363	319	1,053	824	255	261	200	205	602	606	2,473	2,215
Amortisation of acquired insurance portfolios	12	6	–	–	57	30	5	5	–	–	74	41
Reinsurance commission and profit commission	2,047	1,405	2,791	2,979	10	3	12	9	4	2	4,864	4,398
Gross operating expenses	**2,419**	**1,715**	**4,300**	**4,114**	**1,387**	**1,028**	**880**	**909**	**1,600**	**1,578**	**10,586**	**9,344**
Ceded share of acquisition costs	2	18	36	15	2	–32	–	–	4	–2	44	–1
Commission received on ceded business	136	55	173	178	18	21	4	5	30	30	361	289
Operating expenses – Ceded share	**138**	**73**	**209**	**193**	**20**	**–11**	**4**	**5**	**34**	**28**	**405**	**288**
Net operating expenses	**2,281**	**1,642**	**4,091**	**3,921**	**1,367**	**1,039**	**876**	**904**	**1,566**	**1,550**	**10,181**	**9,056**

[1] After elimination of intra-Group transactions across segments.

33 // Investment result

Investment result by type of investment and segment (before deduction of income from technical interest)[1]	Reinsurance			
	Life and health		Property-casualty	
€m	2009	Prev. year	2009	Prev. year
Land and buildings, including buildings on third-party land	19	5	68	26
Investments in affiliated companies	–1	–6	–	1
Investments in associates	–6	2	–10	20
Loans	7	4	17	16
Other securities held to maturity	–	–	–	–
Other securities available for sale				
Fixed-interest	905	659	1,661	1,022
Non-fixed-interest	252	–278	763	–1,281
Other securities at fair value through profit or loss				
Other securities held for trading				
Fixed-interest	–	1	17	63
Non-fixed-interest	–	–	2	–1
Derivatives	–	420	–127	2,375
Designated at fair value through profit or loss				
Fixed-interest	–	–	–	–
Non-fixed-interest	–	–	–	–
Deposits retained on assumed reinsurance, and other investments	200	167	–60	26
Investments for the benefit of life insurance policyholders who bear the investment risk	–	–	–	–
Expenses for the management of investments, other expenses	53	53	168	241
Total	**1,323**	**921**	**2,163**	**2,026**

[1] After elimination of intra-Group transactions across segments.

The result for land and buildings includes rental income of €340m (339m). The expenses for the management of investments include running costs and expenses for repair and maintenance of property totalling €79m (65m). We earned interest income of €1,951m (1,732m) on loans and €6m (9m) on other securities held to maturity. Other securities available for sale earned regular income of €4,729m (5,172m).

Investment income by segment (before deduction of income from technical interest)[1]	Reinsurance			
	Life and health		Property-casualty	
€m	2009	Prev. year	2009	Prev. year
Regular income	1,143	1,014	1,613	1,890
Thereof:				
Interest income	1,077	918	1,391	1,457
Income from write-ups	298	485	660	2,033
Gains on the disposal of investments	657	993	2,169	4,697
Other income	–	–	–	–
Total	**2,098**	**2,492**	**4,442**	**8,620**

[1] After elimination of intra-Group transactions across segments.

Primary insurance						Asset management		Total	
Life		Health		Property-casualty					
2009	Prev. year	2009	Prev. year	2009	Prev. year	2009	Prev. year	2009	Prev. year
99	123	36	36	27	24	4	5	253	219
-11	-4	-8	-6	-7	–	9	-6	-18	-21
-40	-14	1	-8	-58	2	-10	25	-123	27
1,312	994	581	481	67	81	–	–	1,984	1,576
6	8	–	–	–	1	–	–	6	9
1,796	1,429	512	476	240	209	4	5	5,118	3,800
-110	-1,316	–	-808	2	-140	–	–	907	-3,823
26	-2	–	–	–	–	–	–	43	62
–	11	–	–	–	–	–	–	2	10
-271	1,665	-30	393	2	112	–	–	-426	4,965
13	–	–	–	–	–	–	–	13	–
–	–	–	–	–	–	–	–	–	–
-5	-22	7	-6	5	21	3	13	150	199
441	-562	–	–	–	–	–	–	441	-562
171	174	47	48	27	29	1	–	467	545
3,085	**2,136**	**1,052**	**510**	**251**	**281**	**9**	**42**	**7,883**	**5,916**

Primary insurance						Asset management		Total	
Life		Health		Property-casualty					
2009	Prev. year	2009	Prev. year	2009	Prev. year	2009	Prev. year	2009	Prev. year
3,256	3,277	1,253	1,230	350	394	14	54	7,629	7,859
2,977	2,761	1,121	1,013	335	329	5	18	6,906	6,496
332	1,470	31	309	28	52	–	–	1,349	4,349
934	1,432	167	366	184	364	6	6	4,117	7,858
475	76	–	–	1	1	4	5	480	82
4,997	**6,255**	**1,451**	**1,905**	**563**	**811**	**24**	**65**	**13,575**	**20,148**

Investment expenses by segment (before deduction of income from technical interest)[1]	Reinsurance			
	Life and health		Property-casualty	
€m	2009	Prev. year	2009	Prev. year
Write-downs of investments	**307**	**872**	**798**	**3,242**
Losses on the disposal of investments	**381**	**633**	**1,209**	**3,053**
Management expenses, interest charges and other expenses	**87**	**66**	**272**	**299**
Thereof:				
Interest charges	47	22	90	46
Total	**775**	**1,571**	**2,279**	**6,594**

[1] After elimination of intra-Group transactions across segments.

Write-downs of investments	2009	Prev. year
€m [1]		
Land and buildings, including buildings on third-party land	127	166
Investments in affiliated companies	16	18
Investments in associates	87	16
Loans	74	153
Other securities available for sale	522	5,411
Other securities held for trading	1,645	1,432
Total	**2,471**	**7,196**

34 // Other operating result

Other operating result[1]	Reinsurance			
€m	Life and health		Property-casualty	
	2009	Prev. year	2009	Prev. year
Other operating income	**99**	**137**	**270**	**191**
Other operating expenses	**81**	**112**	**192**	**177**

[1] After elimination of intra-Group transactions across segments.

The other operating income mainly comprises income of €361m (331m) from services rendered, interest and similar income of €64m (122m), income of €208m (203m) from the release/reduction of miscellaneous provisions and adjustments of values for receivables, and income of €37m (39m) from owner-occupied property, some of which is also leased out.

In addition to expenses of €292m (250m) for services rendered, the other operating expenses chiefly include interest charges and similar expenses of €132m (182m), other write-downs of €85m (62m), and other tax of €36m (20m). They also contain expenses of €44m (17m) for owner-occupied property, some of which is also leased out.

Primary insurance						Asset management		Total	
Life		Health		Property-casualty					
2009	Prev. year	2009	Prev. year	2009	Prev. year	2009	Prev. year	2009	Prev. year
1,052	2,064	132	699	169	310	13	9	2,471	7,196
606	1,154	200	615	108	183	1	12	2,505	5,650
254	901	67	81	35	37	1	2	716	1,386
45	85	15	28	7	8	–	–	204	189
1,912	**4,119**	**399**	**1,395**	**312**	**530**	**15**	**23**	**5,692**	**14,232**

Primary insurance						Asset management		Total	
Life		Health		Property-casualty					
2009	Prev. year	2009	Prev. year	2009	Prev. year	2009	Prev. year	2009	Prev. year
118	149	73	39	69	100	59	91	688	707
200	131	89	55	190	193	51	73	803	741

35 // Other non-operating result, impairment losses of goodwill and finance costs

Other non-operating result, impairment losses of goodwill and finance costs[1]	Reinsurance			
	Life and health		Property-casualty	
€m	2009	Prev. year	2009	Prev. year
Other non-operating income	476	612	1,250	1,357
Other non-operating expenses	516	601	1,359	1,356
Impairment losses of goodwill	40	–	18	–
Finance costs	91	113	182	222

[1] After elimination of intra-Group transactions across segments.

The other non-operating income and expenses are unrelated to the conclusion, administration or settlement of insurance contracts or the administration of investments.

Besides foreign currency exchange gains of €2,996m (3,688m), the other non-operating income contains other non-technical income of €287m (162m).

The other non-operating expenses comprise foreign currency exchange losses of €3,133m (3,653m), write-downs of €142m (77m) on other intangible assets and other non-technical expenses of €480m (467m), such as expenses unrelated to the accounting period, project costs and other amounts that cannot be allocated elsewhere, and restructuring expenses. An amount of €138m (136m) in restructuring expenses is attributable to the ERGO Group's "Continuous improvement of our competitive position" project.

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	2009	Prev. year
€m		
Subordinated bonds of Munich Reinsurance Company, Munich	262	321
Senior notes of Munich Re America Corporation, Princeton[1]	22	27
Bank borrowing of Munich Reinsurance Company, Munich	11	–
Bank borrowing of Munich Re America Corporation, Princeton	–	11
Other	9	2
Total	**304**	**361**

Information on the Group's strategic debt can be found in the management report on page 128 f. and under (19) Subordinated liabilities and (26) Bonds and notes issued.

	Primary insurance						Asset management		Total	
	Life		Health		Property-casualty					
	2009	Prev. year	2009	Prev. year	2009	Prev. year	2009	Prev. year	2009	Prev. year
	746	1,031	574	571	229	269	8	10	3,283	3,850
	836	1,103	647	678	377	436	20	23	3,755	4,197
	47	175	–	–	12	–	–	–	117	175
	5	–	–	–	24	24	2	2	304	361

36 // 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	2009	Prev. year
€m [1]		
Current tax	**1,177**	**823**
Germany	683	630
Other countries	494	193
Deferred tax	**87**	**549**
Germany	169	360
Other countries	–82	189
Taxes on income	**1,264**	**1,372**

Main components of tax expenses/income	2009	Prev. year
€m [1]		
Current tax for financial year	1,093	942
Current tax for other periods	84	–119
Deferred tax resulting from the occurrence or reversal of temporary differences	–195	293
Deferred tax resulting from the occurrence or reversal of loss carry-forwards	382	172
Write-downs of deferred taxes/loss carry-forwards	–86	79
Effects of changes in tax rates on deferred tax	–14	5
Taxes on income	**1,264**	**1,372**

The current tax is derived from the tax results of the financial year, to which the local tax rates of the respective Group companies 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 taken into account.

No deferred taxes were posted for temporary differences of €44m (37m) in connection with investments in subsidiaries and associates.

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.

At the balance sheet date, there were unused loss carry-forwards of €3,956m for which no deferred tax assets were posted because their utilisation was not sufficiently probable. In 2009, the current tax expenditure resulting from the use of previously unrecognised tax losses fell by €100m.

The table below shows the remaining utilisation periods of tax loss carry-forwards for which no deferred tax assets were recognised.

Breakdown of tax loss carry-forwards for which no deferred tax assets were recognised	2009
€m	
One to three years	3
Four to ten years	473
Over ten years	2,987
Unlimited	493
Total	**3,956**

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 amounts to 33%. This takes into account corporation tax including solidarity surcharge, and trade tax. The trade-tax municipal factors range from 240% to 490%.

Reconciliation to effective tax expenses	2009	Prev. year
€m		
Result before taxes on income (after "other tax")	**3,828**	**2,951**
Group tax rate in %	**33.0**	**33.0**
Expected taxes on income	**1,263**	**974**
Tax effect of:		
Tax rate differences	–106	–186
Tax-free income	–326	–352
Non-deductible expenses	251	662
Valuation allowances for deferred taxes/loss carry-forwards	–86	79
Change in tax rates and tax legislation	–14	5
Tax for prior years	249	–96
Municipal trade earnings tax	–2	97
Other	35	189
Taxes on income shown	**1,264**	**1,372**

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 33% (previous year: 47%). “Tax-free income” is made up of tax-free gains on the sales of shareholdings in joint-stock companies, tax-free dividends and other tax-free income.

The non-deductible expenses mainly comprise losses on the disposal of equities, impairments of goodwill, and interest on back tax payments.

“Valuation allowances for deferred taxes/loss carry-forwards” benefited particularly from the utilisation of loss carry-forwards for which no deferred tax assets had previously been posted.

In Canada, there was a reduction in future tax rates, resulting in deferred tax income of €15m. This change is included in the item “Change in tax rates and tax legislation” in the above reconciliation to effective tax expenses.

“Tax for prior years” has been impacted in particular by an increase in provisions for potential tax risks.

Disclosures on risks from insurance contracts and financial instruments

37 // 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	– 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): – Increase in claims expenditure due to exceptional, one-off circumstances (e.g. pandemics) Mortality (long term): – Increase in claims expenditure due to sustained rise in mortality in the portfolio
Annuity insurance	– In most cases, guaranteed lifetime annuity payment – Actuarial assumptions mainly fixed when contract is concluded	Longevity: – Increase in expected expenditure for annuities due to sustained rise in life expectancy in the portfolio
Disability insurance	– Long-term contracts with a guaranteed limited annuity in the event of disablement – Actuarial assumptions fixed when contract is concluded	Disablement: – 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: – Increased expenditure due to rise in the average duration of annuity period
Life reinsurance		
	– Largely long-term contracts under which mainly mortality and disability risks are assumed from cedants	Mortality (short term): – Increase in claims expenditure due to exceptional, one-off circumstances (e.g. pandemics) Mortality (long term): – Increase in claims expenditure due to sustained rise in mortality in cedants' portfolios Disablement: – Increased expenditure for disability insurances in cedants' portfolios
Health primary insurance		
	– 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: – 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		
	– In most cases, short-term contracts under which morbidity risks are assumed from cedants	Morbidity (short term): – 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 (21) Provision for future policy benefits.

The biometric assumptions we use 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 278 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 does not depend directly 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 provision 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)	31.12.2009	Prev. year
€m[1]		
Without discount rate	2,297	2,157
Discount rate ≤ 2.5%	–	1
2.5% < discount rate ≤ 3.5%	645	534
3.5% < discount rate ≤ 4.5%	1,469	486
4.5% < discount rate ≤ 5.5%	2,416	2,679
5.5% < discount rate ≤ 6.5%	1,370	1,288
6.5% < discount rate ≤ 7.5%	352	310
Discount rate > 7.5%	108	93
Covered by deposits retained on assumed reinsurance	5,216	5,206
Total	**13,873**	**12,754**

[1] After elimination of intra-Group transactions across segments.

If provisions are covered by deposits retained on assumed reinsurance, the interest is directly secured by an inflow of investment income generally guaranteed by the ceding company. Consequently, for provisions for which at least the discount rate is guaranteed by the cedant, 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 technical 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)	Life 31.12.2009	Health 31.12.2009	Total 31.12.2009	Total Prev. year
€m[1]				
Without discount rate	4,672	1,234	5,906	5,905
Discount rate ≤ 2.5%	4,705	8	4,713	3,572
2.5% < discount rate ≤ 3.0%	18,914	24	18,938	20,027
3.0% < discount rate ≤ 3.5%	26,767	993	27,760	26,573
3.5% < discount rate ≤ 4.0%	15,008	730	15,738	15,892
4.0% < discount rate ≤ 4.5%	30	2,473	2,503	2,367
4.5% < discount rate ≤ 5.0%	13	17,422	17,435	16,570
Discount rate > 5.0%	129	115	244	236
Total	**70,238**	**22,999**	**93,237**	**91,142**

[1] After elimination of intra-Group transactions across segments.

Besides this, in German health primary insurance, a discount rate of 3.5% is applied for the provision for premium loadings and the provision for future premium reductions totalling €2,830m, which are part of the provision for premium refunds under IFRS; in principle, however, this rate can be altered by way of a premium adjustment.

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 significantly, 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 278 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, but these sensitivities are nearly fully compensated for by the fact such derivatives are for the most part directly matched by financial derivatives for hedging purposes. The sensitivities to changes in share prices and interest rates shown in the previous year have been largely eliminated through an adjustment of the hedging strategy for these portfolios.

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 derivates 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. As a result, 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 technical provisions.

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. 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. Based on the relevant legal parameters, reserves for primary health insurance business are calculated considering amounts payable due to cancellation of policies. The underlying assumptions are regularly checked.

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 278 f.

Liquidity risks For Munich Re, 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, 2]	31.12.2009
€m	
Up to one year	–2,178
Over one year and up to five years	–10,715
Over five years and up to ten years	–20,202
Over ten years and up to twenty years	–39,175
Over twenty years	–127,571

1 Premiums less benefits guaranteed at the balance sheet date and costs (excluding unit-linked products).
2 After elimination of intra-Group transactions across segments.

With these estimated values, 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 153 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 reinsured 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 (21) 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 (23) 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 145–149 and page 151.

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 on the basis of the Market Consistent Embedded Value Principles and Guidance of the CFO Forum; cf. page 64 f. This covers 100% (100%) of the long-term business in reinsurance and more than 94% (90%) of the long-term business in primary insurance.

The sensitivities given below measure the impact of changes in the calculation bases and capital market parameters on the calculated economic value of our business. They take account of risk minimisation measures and tax effects.

Munich Re continues to adhere to the strict rules of market-consistent evaluation as at the end of the year. The extraordinary situation on the capital markets at the reporting date 31 December 2008 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). However, these distortions clearly diminished in the course of 2009.

Embedded value sensitivities[1]	Reinsurance		Primary insurance	
€m	2009	Prev. year	2009	Prev. year
Embedded value at the balance sheet date	**6,773**	**6,116**	**5,126**	**3,509**
Change in the event of a sustained increase in interest rates of 100 BP	–267	–397	585	968
Change in the event of a sustained decrease in interest rates of 100 BP	265	443	–1,173	–1,564
Change in the event of a 10% decrease in the value of equities and real estate	–3	–8	–94	–25
Change in the event of an increase in mortality by 5% in the case of contracts mainly covering the mortality risk	–1,137	–1,065	–23	–14
Change in the event of a decrease in mortality by 5% in the case of contracts mainly covering the longevity risk	–10	–20	–45	–38
Change in the event of an increase in morbidity by 5%	–183	–149	–25	–12
Change in the event of an increase in the lapse rate by 10%	25	–78	–27	–3

[1] In contrast to the figures for 2009, the figures for the previous year are based on the European Embedded Value Principles and Guidance of May 2004.

38 // 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 past 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	2009	2008	2007	2006	2005
Gross premiums written in €m					
Reinsurance					
Liability	2,206	2,118	2,227	2,394	2,561
Accident	402	503	547	713	1,052
Motor	2,218	2,441	2,643	2,913	2,671
Marine, aviation, space	1,900	1,836	1,730	1,751	1,654
Fire	4,339	3,998	3,932	3,763	3,701
Engineering	1,536	1,457	1,286	1,239	1,299
Credit and bonding	632	825	710	688	695
Other classes of business	1,848	1,561	1,149	1,090	914
Primary insurance	**5,154**	**5,105**	**5,639**	**5,147**	**5,242**
Loss ratio in %					
Reinsurance					
Liability	108.5	80.0	80.4	81.7	96.6
Accident	93.0	108.6	118.6	134.0	83.4
Motor	66.7	86.6	80.9	84.9	71.5
Marine, aviation, space	64.6	69.9	63.5	67.7	80.8
Fire	35.4	57.1	52.6	32.2	107.8
Engineering	46.6	58.5	53.9	56.4	40.0
Credit and bonding	131.1	59.4	43.3	42.4	54.3
Other classes of business	70.8	63.3	76.8	56.8	70.8
Primary insurance	**60.2**	**58.4**	**58.6**	**55.8**	**58.4**
Combined ratio in %					
Reinsurance					
Liability	138.8	114.2	111.0	110.7	124.8
Accident	139.4	148.8	160.2	167.7	111.0
Motor	92.2	111.6	104.6	109.7	94.6
Marine, aviation, space	90.8	96.1	93.3	91.5	106.6
Fire	61.0	84.6	78.0	58.8	135.8
Engineering	83.2	89.7	87.3	87.8	75.3
Credit and bonding	173.4	98.3	85.6	78.6	93.6
Other classes of business	102.4	94.3	100.4	86.7	101.7
Primary insurance	**93.1**	**90.9**	**93.4**	**90.8**	**93.1**

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, credit 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 Munich Re's combined ratios including and excluding natural catastrophes:

Combined ratio for the last ten years	2009	2008	2007	2006	2005	2004	2003	2002[2]	2001[1]	2000
%										
Including natural catastrophes	95.3	99.4	96.4	92.6	111.7	98.9	96.5	123.7	136.9	116.2
Excluding natural catastrophes	93.9	93.2	91.7	91.6	92.5	93.9	94.8	120.3	135.4	112.7

[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%.

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. A special impact that needs to be taken into account for 2009 is the claims expenditure of €510m triggered by defaults in credit and surety business in the wake of the financial crisis.

Large and very large losses in reinsurance according to individual calendar years (net)	2009	2008	2007	2006	2005
€m[1]					
Large and very large losses	**1,158**	**1,509**	**1,103**	**585**	**3,134**
Thereof losses from natural catastrophes	196	832	634	139	2,603
Thereof other accumulation losses	962	677	469	446	531

[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 pages 157-159.

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 claims 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 (22) 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, inflation in medical care costs 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 US and some European counties are an area of concern for the entire insurance and reinsurance industry. Since the mid-1980s industrial insurers writing business worldwide have found themselves being confronted with losses from policies taken out decades before. This also applies to Munich Re. 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	31.12.2009		Prev. year	
€m[1]	Gross	Net	Gross	Net
Asbestos	1,655	1,337	1,785	1,433
Environmental	331	282	346	296

[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 the 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 have already led to a wave of lawsuits from aggrieved investors and shareholders, particularly against the managements of financial institutions. We continue to carefully monitor trends and respond to the emergence of new information as appropriate.

In the area of bodily injury losses, Munich Re 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. (12) Ceded share of technical provisions and (29) 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.

For information on our risk management processes, reference is made to the risk report; cf. pages 145-151.

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 an 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)	Reinsurance		Primary insurance		Total	
	31.12.2009	Prev. year	31.12.2009	Prev. year	31.12.2009	Prev. year
€m[1]						
Discount rate ≤ 2.5%	7	47	126	56	133	103
2.5% < discount rate ≤ 3.5%	138	122	479	460	617	582
3.5% < discount rate ≤ 4.5%	1,740	2,011	74	81	1,814	2,092
Discount rate > 4.5%	–	–	–	–	–	–
Total	**1,885**	**2,180**	**679**	**597**	**2,564**	**2,777**

[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 €227m (229m), 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 13.5% (12.5%) 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 Munich Re 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. 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 the structure of our investment portfolio. The losses simulated in these scenarios 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)	2009	2008	2007	2006	2005
€m					
Premiums received	19,873	19,491	19,021	18,917	18,918
Claims payments for financial year	4,533	4,393	4,264	3,493	3,734
Claims payments for previous years	7,589	7,675	7,597	7,722	7,713
Costs	6,069	5,728	5,717	5,455	5,477
Liquid funds	1,682	1,695	1,443	2,247	1,994

Further information on the liquidity risk is provided in the risk report on page 153 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.

39 // Credit risks from ceded reinsurance business

In connection with the business we cede, the credit risk is also of relevance. For our reinsurance and retrocessions to be placed externally, 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 160 f. of the risk report, which also includes further information on credit risks on pages 152 f.

44% (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 (38) Risks from insurance contracts in the property-casualty segment. We do not conduct any active credit insurance business in our primary insurance.

40 // 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 ±10%, ± 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 ±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 97% of Munich Re's investments.

Market risk – Share prices Sensitivity to the stock market was increased in part by the termination of existing derivative hedging measures. A change in the stock market of 10.0% has an impact of 10.5% (4.2%) on the market value of the equity portfolio.

The non-linear effects of equity options or other asymmetrical strategies are not taken into account in this presentation owing to the delta-weighted approach selected.

Change in market value of investments sensitive to share prices

Change in share prices	31.12.2009			Prev. 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]	Total change in market value
Increase of 30%	0.120	1.323	1.763	–0.686	1.266	0.895
Increase of 10%	0.040	0.441	0.588	–0.230	0.422	0.297
Decrease of 10%	–0.150	–0.331	–0.587	–0.201	0.009	–0.297
Decrease of 30%	–0.583	–0.856	–1.760	–0.371	–0.206	–0.893
Market values			5.605			7.005

[1] Gross before tax and policyholder participation in surplus.

Market risk – Interest rates In terms of market value, Munich Re's fixed-interest investments respond to changes in interest rates in a similar way to an interest-bearing bond with a period of around seven 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 are largely cancelled 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.

Countervailing effects from interest-rate derivatives (mainly long receiver swaptions and receiver swaps as well as short bond futures) cause the described impact on the income statement as at the reporting date.

Change in market value of investments sensitive to interest rates

Change in interest rates	31.12.2009			Prev. 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]	Total change in market value
Increase of 200 BP	0.097	-10.426	-16.323	-0.652	-7.937	-11.993
Increase of 100 BP	-0.054	-5.442	-8.750	-0.491	-4.217	-6.915
Decrease of 100 BP	0.259	5.901	9.927	0.822	4.714	8.752
Decrease of 200 BP	0.724	12.260	21.030	1.975	9.924	19.342
Market values			157.391			141.702

[1] Gross before tax and policyholder participation in surplus.

Market risk – Exchange rates 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 60% of the investments' sensitivity to exchange rates shown above stems from the US dollar. The British pound and the Canadian dollar contribute a further 23%. In this analysis, an increase of 10% in the exchange rate means that the foreign currency appreciates by 10% against the euro.

Change in market value of investments sensitive to exchange rates

Change in exchange rates	31.12.2009			Prev. 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]	Total change in market value
Increase of 10%	3.463	0.140	3.603	3.456	0.127	3.583
Decrease of 10%	-3.463	-0.140	-3.603	-3.456	-0.127	-3.583
Market values			43.389			40.554

[1] Gross before tax and policyholder participation in surplus.

Other information

41 // Parent

The Group parent 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.

42 // Related parties

Information on the remuneration of Board members and transactions with these persons can be found in the remuneration report, starting on page 36 and under (46) Remuneration report. Transactions between Munich Reinsurance Company 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.

43 // 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	2009	Prev. year
€m		
Wages and salaries	2,280	2,150
Social security contributions and employee assistance	402	379
Expenses for employees' pensions	199	174
Total	**2,881**	**2,703**

44 // 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. Eligible for participation 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 2009 long-term incentive plan is €97.57 (121.84). 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 459,734 (448,117) stock appreciation rights were granted, 151,667 (143,101) of these to Board of Management members. The future obligations arising from the long-term incentive plans are covered by Munich Reinsurance Company 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 €29.5m (63.3m) had to be posted for Munich Re's reinsurers. The personnel expense/income recognised in the income statement corresponds to the change in the provision in the year under review, taking into consideration any rights exercised. In 2009, this resulted in income of €33.3m (–10.6m). The weighted average share price for the stock appreciation rights exercised in 2009 was €108.98 for plan year 2003, €108.92 for plan year 2004, and €108.54 for plan year 2005. The intrinsic value of the exercisable stock appreciation rights amounted to €11.6m at the balance sheet date.

Incentive plans 2002–2009 of Munich Re's reinsurers	Incentive Plan 2002	Incentive Plan 2003	Incentive Plan 2004	Incentive Plan 2005	Incentive Plan 2006	Incentive Plan 2007	Incentive Plan 2008	Incentive Plan 2009
Plan commencement	1.7.2002	1.7.2003	1.7.2004	1.7.2005	1.7.2006	1.7.2007	1.7.2008	1.7.2009
Plan end	30.6.2009	30.6.2010	30.6.2011	30.6.2012	30.6.2013	30.6.2014	30.6.2015	30.6.2016
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**	**€97.57**
Intrinsic value 2009 for one right	–	**€24.48**	**€17.85**	**€18.40**	–	–	–	**€8.93**
Fair value 2009 for one right	–	**€24.41**	**€17.78**	**€18.33**	**€9.81**	**€6.11**	**€9.09**	**€15.84**
Number of rights on 31 Dec. 2002	**132,466**	–	–	–	–	–	–	–
Additions	6,696	439,581	–	–	–	–	–	–
Forfeited	3,962	–	–	–	–	–	–	–
Number of rights on 31 Dec. 2003	**135,200**	**439,581**	–	–	–	–	–	–
Additions	–	–	456,336	–	–	–	–	–
Forfeited	748	2,354	–	–	–	–	–	–
Number of rights on 31 Dec. 2004	**134,452**	**437,227**	**456,336**	–	–	–	–	–
Additions	–	320	1,697	485,527	–	–	–	–
Exercised	–	177,748	–	–	–	–	–	–
Forfeited	680	121	2,005	–	–	–	–	–
Number of rights on 31 Dec. 2005	**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	**133,772**	**195,736**	**336,665**	**485,527**	**442,590**	–	–	–
Additions	–	–	–	–	6,123	341,737	–	–
Exercised	–	70,690	85,652	84,329	–	–	–	–
Forfeited	985	–	–	3,892	8,514	503	–	–
Number of rights on 31 Dec. 2007	**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	–	–	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**	–
Additions	–	–	–	–	–	–	463	459,271
Exercised	–	24,085	8,906	19,213	–	–	–	–
Forfeited	132,787	–	–	715	2,904	2,804	4,194	–
Number of rights on 31 Dec. 2009	–	**60,916**	**209,456**	**345,662**	**431,907**	**336,595**	**437,310**	**459,271**
Exercisable at year-end	–	**60,916**	**209,456**	**345,662**	**431,907**	**336,595**	–	–

Since 1 July 2002, ERGO Versicherungsgruppe AG and some of its subsidiaries, as well as 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 eligible for participation – 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 148,834 (173,153) stock appreciation rights were granted, 112,764 (132,383) 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 €9.4m (21.4m) had to be posted for Munich Re's primary insurers and asset managers. The personnel expense/income recognised in the income statement corresponds to the change in the provision in the year under review, taking into consideration any rights exercised. In 2009, this resulted in income of €7.6m (–4.4m). The weighted average share price for the stock appreciation rights exercised in 2009 was €109.50 for plan year 2003, €110,95 for plan year 2004, and €110.20 for plan year 2005. The intrinsic value of the exercisable stock appreciation rights amounted to €3.2m at the balance sheet date.

Incentive plans 2002–2009 of Munich Re'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	Incentive Plan 2009
Plan commencement	1.7.2002	1.7.2003	1.7.2004	1.7.2005	1.7.2006	1.7.2007	1.7.2008	1.7.2009
Plan end	30.6.2009	30.6.2010	30.6.2011	30.6.2012	30.6.2013	30.6.2014	30.6.2015	30.6.2016
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**	**€97.57**
Intrinsic value 2009 for one right	–	**€24.48**	**€17.85**	**€18.40**	–	–	–	**€8.93**
Fair value 2009 for one right	–	**€24.41**	**€17.78**	**€18.33**	**€9.81**	**€6.11**	**€9.09**	**€15.84**
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	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**	–
Additions	–	–	–	–	–	–	–	148,834
Exercised	–	2,200	2,859	14,851	–	–	–	–
Forfeited	42,092	–	–	–	2,046	1,578	1,803	–
Number of rights on 31 Dec. 2009	–	**14,811**	**47,134**	**110,509**	**160,187**	**108,224**	**170,749**	**148,834**
Exercisable at year-end	–	**14,811**	**47,134**	**110,509**	**160,187**	**108,224**	–	–

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 Reinsurance Company or if the latter's group of shareholders changes significantly due to a merger or comparable transaction or intended business combination ("change of control"), all plan participants from Munich Re 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.

45 // Mid-Term Incentive Plan

On 1 January 2009, Munich Reinsurance Company set up a Mid-Term Incentive Plan with a duration of three years. Eligible for participation in this cash-settled share-based remuneration plan are members of the Board of Management and senior management in Munich. ERGO Versicherungsgruppe AG and some of its subsidiaries, as well as MEAG MUNICH ERGO AssetManagement GmbH, have established a similar plan for their Board members and company management. The participants receive performance share units (PSUs). In the fourth year after plan commencement, participants are entitled to a bonus payment dependent on the achievement of value-based performance targets and the increase in the total shareholder return (TSR).

The plan conditions are structured as follows:

The **calculation factors** are, on the one hand, value-based performance targets and, on the other, the total shareholder return of Munich Reinsurance Company shares.

The **value-based performance targets** are set for the business fields of reinsurance, ERGO primary insurance and Munich Health in the form of a target average to be achieved over three years and are allocated according to responsibilities.

The share-based factor **TSR** represents the total return on Munich Re shares and comprises share price increases plus dividends paid over a certain observation period. The initial TSR value and the final TSR value are determined from the average of the last 60 days prior to plan commencement and plan termination respectively.

At plan commencement, the PSUs are granted as follows: the contractual target amount for 100% achievement of the performance targets is divided by the initial TSR value. The total return index of the Xetra listing of Munich Re shares, starting on 22 January 1996, is used for the TSR.

The final number of PSUs is calculated by multiplying the PSUs at plan commencement by the percentage achievement of the performance target at plan termination. The number of PSUs may fluctuate between 0 and 1.5 times the initially allocated number.

Payment is capped if the TSR doubles. The maximum amount payable is limited to 150% of the target amount for members of the Board of Management and company management, and to 300% of the target amount for senior management.

The basis for full and partial allocation of PSUs is the year of commencement (= first plan year). A pro rata temporis arrangement applies for participants joining or leaving the plan during the year.

The Mid-Term Incentive Plan at the reporting date is valued indirectly at the fair value of the liabilities. The fair value takes account of the value-based performance target and the total shareholder return during the performance period.

Munich Re's incentive plan 2009	Incentive Plan 2009
Plan commencement	1.1.2009
Plan end	31.12.2011
Fair value 2009 for one right	**191.38**
Number of rights (for 100% achievement of objectives) on 1 January 2009	**87,347**
Additions	–
Forfeited	–
Number of rights (for 100% achievement of objectives) on 31 December 2009	**87,347**

In the financial year 2009, expenses of €15.7m were recognised for the Mid-Term Incentive Plan. The provision at the reporting date amounted to €15.7m.

46 // Remuneration report

The total remuneration of Munich Reinsurance Company's Board of Management amounted to €17.8m (18.2m) and that of the Supervisory Board to €1.5m (1.5m).

Payments to retired members of the Board of Management or their surviving dependants totalled €5.7m (5.5m).

Personnel expenses of €0k (0k) were incurred for pension commitments to retired members of the Board of Management. As at 31 December 2009, 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 Munich Re. 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 36 ff.

47 // Employee share-ownership programmes

The employee share programmes of Munich Reinsurance Company, MEAG MUNICH ERGO AssetManagement GmbH or one of its subsidiaries, EUROPÄISCHE Reiseversicherung AG and almeda GmbH (formerly called Mercur Assistance Deutschland GmbH) were not continued in 2009. The shares left over from previous-year programmes were not sold.

48 // Number of staff

The number of staff employed by the Group at year-end totalled 24,951 (25,437) in Germany and 22,298 (18,772) in other countries.

Breakdown of number of staff	31.12.2009	Prev. year
Reinsurance companies	13,309	10,795
Primary insurance companies	33,152	32,606
Asset management	788	808
Total	**47,249**	**44,209**

The increase is mainly due to the acquisition of the HSB Group.

49 // 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	2009	Prev. year
€’000		
Audits of financial statements	8,243	7,358
Other assurance and appraisal services	2,519	1,554
Tax consultancy services	1,665	1,502
Other services	1,045	1,886
Total	**13,472**	**12,300**

With effect from 1 October 2009, KPMG Netherlands (excluding KPMG Meijburg), Turkey, Luxembourg and Belgium became part of KPMG Europe LLP. These companies, along with KPMG Spain, KPMG Switzerland and KPMG LLP (UK), are thus affiliated companies of KPMG Germany within the meaning of Section 271 para. 2 of the German Commercial Code. Consequently, they have been included in the auditor’s fees to be disclosed.

50 // Contingent liabilities, other financial commitments

Munich Re enters into contingent liabilities in connection with its normal business operations. Commitments under rental, work and service contracts amounted to €103m (111m). Investment obligations total €1,174m (1,291m). These figures represent undiscounted nominal amounts. Beyond this, there are other financial commitments of €19m (54m) and obligations from guarantees totalling €129m (183m). There are letters of support for €8m (8m). 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 €80m (88m) 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 €147m (156m) 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.

All information on risks arising from legal disputes can be found on page 165 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.

51 // Leasing

Munich Re as lessee At the balance sheet date, future minimum lease payments under non-cancellable operating leases totalled €397m (356m):

Due dates	31.12.2009	Prev. year
€m		
Not later than one year	84	75
Later than one year and not later than five years	236	196
Later than five years	77	85
Total	**397**	**356**

Payments from operating leases concern in particular rents for offices and business premises of the Group.

The finance leases also chiefly concern rents for Group offices and business premises. They include extension options as well as restrictions regarding the agreement of subleases, but no price adjustment clauses or purchase options. The following table shows the future minimum lease payments and their present value for finance leases at 31 December 2009.

Due dates	31.12.2009			Prev. year		
€m	Minimum lease payments	Interest component	Present value of minimum lease payments	Minimum lease payments	Interest component	Present value of minimum lease payments
Not later than one year	7	–	7	1	–	1
Later than one year and not later than five years	26	7	19	1	–	1
Later than five years	23	6	17	1	–	1
Total	**56**	**13**	**43**	**3**	**–**	**3**

The total of future minimum sublease payments expected to be received under non-cancellable subleases was €3m (–) at 31 December 2009.

Munich Re 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 €716m (633m).

Due dates	31.12.2009	Prev. year
€m		
Not later than one year	139	131
Later than one year and not later than five years	363	298
Later than five years	214	204
Total	**716**	**633**

There were no finance leases at the balance sheet date.

52 // Events after the balance sheet date

Under the share buy-back programme decided on by Munich Reinsurance Company's Board of Management in the fourth quarter of 2009, we repurchased a further 2,760,659 Munich Re shares with a volume of €298m after the balance sheet date up to 28 February 2010.

On 27 February 2010, a severe earthquake with an intensity of 8.8 occurred off the coast of Chile. On the same weekend, Winter Storm Xynthia swept over western and central Europe. Munich Re has exposures in the regions affected.

53 // Earnings per share

Diluting effects to be disclosed for the calculation of earnings per share were not present either in the financial year 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		2009	Prev. year
Consolidated result attributable to Munich Reinsurance Company equity holders	€m	2,521	1,555
Number of shares at 1 Jan. financial year		195,655,351	207,824,071
Addition of own shares		3,745,174	12,168,720
Weighted average number of shares		194,692,459	200,883,490
Earnings per share	€	12.95	7.74

54 // Proposal for appropriation of profit

Munich Reinsurance Company's net retained profits for 2009 according to its financial statements prepared on the basis of the German Commercial Code amount to €1,291,060,272.38. 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 €5.75 per dividend-bearing share and an allocation of €156,000,934.38 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, 2 March 2010.

The Board of Management

Affiliated companies, participating interests and other shareholdings[1]

Company	Proportional shareholding	Equity €'000[2]	Result for year €'000[2]
Reinsurance, consolidated companies and associates			
American Alternative Insurance Corporation, Wilmington, Delaware	100.00%	44,787	10,279
American Family Home Insurance Company, Jacksonville, Florida	100.00%	103,542	13,126
American Modern Home Insurance Company, Amelia, Ohio	100.00%	233,238	24,548
American Modern Insurance Company of Florida, Inc., Jacksonville, Florida	100.00%	5,766	328
American Modern Insurance Group, Inc., Amelia, Ohio	100.00%	51,672	3,923
American Modern Life Insurance Company, Amelia, Ohio	100.00%	28,519	1,347
American Modern Select Insurance Company, Amelia, Ohio	100.00%	19,743	2,742
American Modern Surplus Lines Insurance Company, Amelia, Ohio	100.00%	18,861	1,933
American Southern Home Insurance Company, Jacksonville, Florida	100.00%	20,339	2,169
American Western Home Insurance Company, Oklahoma City, Oklahoma	100.00%	35,079	4,049
Apollo DKV Insurance Company Limited, Hyderabad[5]	25.06%	30,669	-11,004
B&C International Insurance, Hamilton, Bermuda	100.00%	2,272	157
Beaufort Underwriting Agency Limited, London	100.00%	4,613	843
Bell & Clements (London) Ltd, London	100.00%	-1,287	-49
Cairnstone Inc., Wilmington, Delaware	100.00%	701	133
DAMAN – National Health Insurance Company, Abu Dhabi[5]	20.00%	56,303	6,477
DKV Globality S.A., Luxembourg	100.00%	2,929	-4,597
DKV Salute S.p.A., Milan	100.00%	15,605	-5,128
Global Standards LLC, Wilmington, Delaware	100.00%	54,705	11,936
Great Lakes Reinsurance (UK) Plc., London	100.00%	330,374	84,779
HSB Engineering Insurance Limited, London	100.00%	114,477	14,843
HSB Group, Inc., Wilmington, Delaware	100.00%	447,361	-1,004
HSB Professional Loss Control, Inc., Lenoir City, Tennessee	100.00%	1,316	11
HSB Solomon Associates LLC, Wilmington, Delaware	100.00%	5,724	1,386
LifePlans Inc., Waltham, Massachusetts	100.00%	4,106	599
MedNet Holding GmbH, Munich	100.00%	25,382	4,583
MSP Underwriting Ltd., London	100.00%	19,905	772
Münchener Rück do Brasil Resseguradora S.A., São Paulo	100.00%	32,915	-8,129
Munich American Holding Corporation, Wilmington, Delaware	100.00%	7,362,997	82,377
Munich American Reassurance Company, Atlanta, Georgia	100.00%	1,052,603	45,124
Munich Health Holding AG, Munich[3]	100.00%	65,248	-557
Munich Holdings of Australasia Pty. Ltd., Sydney	100.00%	50,697	2,802
Munich Mauritius Reinsurance Co. Ltd., Port Louis	100.00%	23,675	663
Munich Re America Corporation, Wilmington, Delaware	100.00%	3,074,614	98,005

Company	Proportional shareholding	Equity €'000[2]	Result for year €'000[2]
Munich Re Capital Limited, London	100.00%	-62,059	4,856
Munich Re of Malta Holding Limited, Floriana	100.00%	193,971	-50
Munich Re of Malta p.l.c., Floriana	100.00%	197,559	5,181
Munich Reinsurance America, Inc., Wilmington, Delaware	100.00%	1,688,503	167,127
Munich Reinsurance Company Life Reinsurance Eastern Europe / Central Asia, Moscow	100.00%	8,786	617
Munich Reinsurance Company of Africa Ltd, Johannesburg	100.00%	137,547	26,299
Munich Reinsurance Company of Australasia Ltd, Sydney	100.00%	111,208	3,853
Munich Reinsurance Company of Canada, Toronto	100.00%	186,530	30,743
Munichre Life Services Limited, London	100.00%	59,173	8,801
New Reinsurance Company, Geneva	100.00%	1,037,209	130,131
Roanoke Trade Services Inc., Schaumburg, Illinois	100.00%	8,502	67
Southern Pioneer Life Insurance Company, Jonesboro, Arkansas	100.00%	12,739	-757
Sterling Life Insurance Company, Bellingham, Washington	100.00%	147,915	1,557
Temple Insurance Company, Toronto	100.00%	97,938	17,218
The Boiler Inspection and Insurance Company of Canada, Toronto	100.00%	49,776	7,415
The Hartford Steam Boiler Inspection and Insurance Company of Connecticut, Hartford, Connecticut	100.00%	44,408	6,918
The Hartford Steam Boiler Inspection and Insurance Company, Hartford, Connecticut	100.00%	597,725	89,231
The Midland Company, Cincinnati, Ohio	100.00%	66,933	-4,754
The Princeton Excess and Surplus Lines Insurance Company, Wilmington, Delaware	100.00%	24,062	5,145
The Roanoke Companies Inc., Schaumburg, Illinois	100.00%	10,341	1,506
Watkins Marine Services Limited, London	100.00%	17	-42
Watkins Syndicate Hong Kong Limited, Hong Kong	67.00%	113	0
Watkins Syndicate Middle East Limited, Dubai	100.00%	265	39
Watkins Syndicate Singapore Pte. Limited, Singapore	100.00%	142	0
Primary insurance, consolidated companies and associates			
ERGO Versicherungsgruppe AG, Düsseldorf	99.64%	1,995,411	85,613
VICTORIA General Insurance Company S.A., Athens	99.64%	23,008	3,822
VICTORIA Krankenversicherung Aktiengesellschaft, Düsseldorf[3]	99.64%	86,968	0
VICTORIA Lebensversicherung Aktiengesellschaft, Düsseldorf[3]	99.64%	738,653	0
VICTORIA Life Insurance Company S.A., Thessaloniki	99.64%	5,588	-155
VICTORIA Pensionskasse AG, Düsseldorf[3]	99.64%	48,504	1,300
VICTORIA Versicherung Aktiengesellschaft, Düsseldorf[3]	99.64%	528,152	0
VICTORIA-Seguros de Vida, S.A., Lisbon	99.64%	29,747	2,967
VICTORIA-Seguros S.A., Lisbon	99.64%	14,566	-8,300
VICTORIA-VOLKSBANKEN pojišt´ovna, a.s., Prague	68.18%	11,899	511
VICTORIA-VOLKSBANKEN Pensionskassen Aktiengesellschaft, Vienna[5]	41.33%	13,894	1,451
VICTORIA-VOLKSBANKEN Versicherungsaktiengesellschaft, Vienna	74.36%	58,309	-675
Vorsorge Lebensversicherung Aktiengesellschaft, Düsseldorf[3]	99.64%	27,746	0
Vorsorge Luxemburg Lebensversicherung S.A., Munsbach	99.64%	14,794	2,120
Hamburg-Mannheimer Pensionskasse AG, Hamburg	99.64%	30,187	-86
Hamburg-Mannheimer Rechtsschutzversicherungs-Aktiengesellschaft, Hamburg[3]	99.64%	17,293	0
Hamburg-Mannheimer Sachversicherungs-Aktiengesellschaft, Hamburg[3]	99.64%	202,486	0
Hamburg-Mannheimer Versicherungs-Aktiengesellschaft, Hamburg[3]	99.64%	402,885	0
DKV BELGIUM S.A., Brussels	99.64%	70,663	13,534
DKV Deutsche Krankenversicherung Aktiengesellschaft, Cologne[3]	99.64%	466,352	0
DKV Luxembourg S.A., Luxembourg	74.73%	20,661	1,563
DKV Seguros y Reaseguros, Sociedad Anónima Española, Saragossa	99.64%	127,025	15,611
Unión Médica la Fuencisla, S.A., Compañia de Seguros, Saragossa	99.64%	7,826	674

Company	Proportional shareholding	Equity €'000[2]	Result for year €'000[2]
D.A.S. Deutscher Automobil Schutz Allgemeine Rechtsschutz-Versicherungs-Aktiengesellschaft, Munich[3]	99.64%	249,657	0
D.A.S. Deutscher Automobil Schutz Versicherungs-Aktiengesellschaft, Munich[3]	99.64%	66,974	0
D.A.S. Difesa Automobilistica Sinistri, S.p.A. di Assicurazione, Verona[5]	49.81%	13,776	2,199
D.A.S. Österreichische Allgemeine Rechtsschutz-Versicherungs-Aktiengesellschaft, Vienna	99.62%	47,268	2,956
D.A.S. Société anonyme belge d'assurances de Protection Juridique, Brussels	99.62%	9,212	1,403
DAS Legal Expenses Insurance Company Limited, Bristol	99.64%	60,146	6,392
DAS Nederlandse Rechtsbijstand Verzekeringmaatschappij N.V., Amsterdam	50.81%	57,393	13,981
DAS Rechtsschutz-Versicherungs-AG, Lucerne	99.64%	7,512	738
KarstadtQuelle Krankenversicherung AG, Fürth	99.64%	62,235	9,485
KarstadtQuelle Lebensversicherung AG, Fürth	99.64%	61,945	11,600
KarstadtQuelle Versicherung AG, Fürth	99.64%	46,260	3,920
Neckermann Lebensversicherung AG, Fürth	99.64%	13,896	2,200
Neckermann Versicherung AG, Nuremberg	99.64%	11,529	3,018
Quelle Lebensversicherung AG, Schwechat	99.64%	6,020	227
Bank Austria Creditanstalt Versicherung AG, Vienna	89.67%	74,546	-40,116
ERGO Assicurazioni S.p.A., Milan	99.64%	70,219	5,003
ERGO Daum Direct Auto Insurance Co. Ltd., Seoul	68.54%	40,394	-2,179
ERGO Generales Seguros y Reaseguros, S.A., Madrid	99.64%	32,994	8,137
ERGO International Aktiengesellschaft, Düsseldorf[3]	99.64%	2,000,760	0
ERGO Italia S.p.A., Milan	99.64%	311,738	25,205
ERGO Kindlustuse AS, Tallinn	99.64%	49,602	7,964
ERGO Latvija Versicherung AG (ERGO Latvija Apdrosinasanas Akciju Sabiedriba), Riga	99.64%	8,924	1,466
ERGO Lietuva draudimo UADB, Vilnius	99.64%	19,819	3,904
ERGO Life N.V., Brussels	99.64%	79,728	8,613
ERGO Previdenza S.p.A., Milan	99.64%	331,854	44,501
ERGO Vida Seguros y Reaseguros, Sociedad Anónima, Saragossa	99.64%	30,031	3,656
ERGOISVICRE Emeklilik ve Hayat A.S., Istanbul	99.64%	11,040	-2,300
ERGOISVICRE SIGORTA A.S., Istanbul	99.64%	97,116	13,485
HDFC ERGO General Insurance Company Ltd., Mumbai[5]	25.91%	15,456	-2,522
Sopockie Towarzystwo Ubezpieczen Ergo Hestia Spolka Akcyjna, Sopot	99.64%	160,928	26,605
Sopockie Towarzystwo Ubezpieczen na Zycie Ergo Hestia Spolka Akcyjna, Sopot	99.64%	17,827	1,046
Compagnie Européenne d`Assurances, Nanterre	99.64%	5,480	266
Compania Europea de Seguros S.A., Madrid	99.64%	10,051	1,923
Europaeiske Rejseforsikring A/S, Copenhagen	99.64%	31,979	3,332
EUROPÄISCHE Reiseversicherung Aktiengesellschaft, Munich[3]	99.64%	88,004	0
Europeiska Försäkringsaktiebolaget, Stockholm	99.64%	2,814	914
Europai Utazasi Biztosito Rt., Budapest[5]	25.91%	5,832	702
Europäische Reiseversicherungs-Aktiengesellschaft, Vienna[5]	24.92%	6,811	872
Evropska Cestovni Pojistovna A.S., Prague	89.67%	7,578	1,578
Storebrand Helseforsikring AS, Oslo[5]	49.82%	8,566	-1,489
Financial services and asset management, consolidated companies and associates			
IDEENKAPITAL AG, Düsseldorf	99.64%	17,511	2,710
MEAG Hong Kong Limited, Hong Kong	100.00%	5,652	1,094
MEAG MUNICH ERGO AssetManagement GmbH, Munich	99.85%	126,973	36,224
MEAG MUNICH ERGO Kapitalanlagegesellschaft mbH, Munich[3]	99.85%	46,977	26,957
MEAG New York Corporation, Wilmington, Delaware	100.00%	7,493	-587
Munich Re Capital Markets New York, Inc., Wilmington, Delaware	100.00%	4,685	-2,157
PICC Asset Management Company Ltd., Shanghai	18.97%	93,390	6,165

Company	Proportional shareholding	Equity €'000[2]	Result for year €'000[2]
Other participating interests			
Admiral Group plc, Cardiff	10.18%	310,168	162,623
Allfinanz Limited, Dublin	100.00%	1,014	
BHS tabletop AG, Selb[4] (MC: €35m)[5]	28.91%	36,361	3,359
Credit Guarantee Insurance Corporation, Johannesburg	7.10%	25,096	2,512
Forst Ebnath AG, Ebnath[3]	96.73%	5,302	909
Helvetia Holding, St. Gallen	8.16%	550,720	44,977
Jordan Insurance Co. p.l.c., Amman	10.00%	40,017	8,567
MEDICLIN Aktiengesellschaft, Offenburg[4] (MC: €141m)[5]	34.88%	189,780	5,820
MR Solar GmbH & Co. KG, Nuremberg	100.00%	57,548	-1,899
Nürnberger Beteiligungs AG, Nuremberg	19.84%	418,279	29,417
Österreichische Volksbanken-AG, Vienna	9.96%	1,377,567	80,800
Sana Kliniken AG, Munich[5]	21.62%	166,498	12,670
Bloemers Holding B. V., Rotterdam[5]	22.73%	33,975	359
Global Aerospace Underwriting Managers Ltd., London[5]	40.00%	34,792	5,533
Middlesea Insurance p.l.c, Floriana[4] (MC: €20m)[5]	19.90%	63,779	21,369
Saudi National Insurance Company B.S.C.(c), Manama[5]	22.50%	26,294	4,965

[1] Some of these selected participated 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 2009 (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 2009.
[5] Associate.

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 consolidated balance sheet, the consolidated income statement, the statement of recognised income and expense, the Group statement of changes in equity, the consolidated 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 2009. 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 para. 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, 2 March 2010

KPMG Bayerische Treuhandgesellschaft Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft
Steuerberatungsgesellschaft

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, 9 March 2010

GENERAL INFORMATION

Glossary

Aa

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.

Assistance //
A service that provides the clients of insurance and other companies with immediate, on-the-spot assistance and organises and/or provides emergency help around the clock.

Available financial resources //
These comprise the economic equity (essentially the IFRS equity, adjusted for various factors) and the hybrid capital (subordinated bonds).

Bb

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.

Cc

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 incor porate 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.). Managing the cycle means 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.

Dd

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 duration in years defines the average term of an interest-sensitive investment (or portfolio), whereas the modified duration (in per cent) indicates how much a bond's overall yield rises or falls when there is a change in interest rate in the market.

Ee

Economic capital buffer //
The amount by which the available financial resources exceed the economic risk capital.

Economic risk capital (ERC) //
The amount of economic equity that Munich Re needs, with a given risk appetite, to cover unexpected losses in the following year. In Munich Re's risk model, economic risk capital is calculated as 1.75 times value at risk for a 12-month time horizon with a confidence level of 99.5%.

Economic solvency ratio //
Calculated by dividing the available financial resources (after dividend and share buy-backs) by the economic risk capital, this ratio is an expression of Munich Re's capital strength.

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.

Ff

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, or a liability settled, between knowledgeable, willing business partners in an arm's length transaction.

Gg

Gross/net //
In insurance terminology, the terms gross and net mean before and after deduction of the portion attributable to business ceded in reinsurance.

Guaranteed interest //
Minimum interest rate to be paid out by the insurer on the savings component of the insurance premium under an endowment insurance policy.

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).

Income from technical interest //
The amount earned by assumed insurance business from the mainly risk-free investment of the premium income.

Insurance pool //
Risk community in which legally and economically independent insurers and reinsurers combine (or in some cases are required by the government) to create cover for particularly large or unbalanced risks. The participants undertake to write the risks defined in the pool contract only within the framework of the insurance pool and to transfer such risks to it in return for a commission. Every pool member participates in the pool's profit or loss in accordance with its predefined quota share. To spread the risk further, reinsurance covers are often ceded or taken out. Types of pool include coinsurance pools, where all members act as primary insurers, and reinsurance pools, where primary insurers write the risks and then divide these between the participating insurers via reinsurance.

Interest-rate curve //
Plotted on a graph, it models the relationship between interest rates and the term of an investment (e.g. fixed-interest securities). As a rule, the interest rate increases the longer the term. This type of interest-rate curve is therefore referred to as rising (or normal). An interest-rate curve is defined as flat if the interest rate is independent of the term. Inverse (or declining) interest-rate curves are rare. They are produced when less interest is paid on long-term securities (bonds) than on short-term securities.

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.

Longevity //
The insurer's risk that an insured person lives longer than expected or that life expectancy within an insured portfolio rises as a whole.

Loss ratio //
Percentage ratio of claims expenses to earned premiums.

Mm

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.

Nn

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.

Oo

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).

Pp

Pandemic //
The spread of a disease or – in the narrower sense – infectious disease across national borders and continents. Unlike an epidemic, which is a disease occurring in a limited area and time, a pandemic is not restricted to a certain geographical area.

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.

Premiums //
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. However, under statutory accounting rules in the insurance company's home country, premium income may also include the policyholders' savings premiums from unit-linked life insurance and capitalisation products.

Present value of future profits (PVFP) //
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.

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 refund //
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.

Rr

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.

Replicating portfolio //
A securities portfolio that reflects the payout structure of the technical provisions.

Retrocessionaire //
Reinsurer that reinsures 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.

Ss

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: 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.

Tt

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. The technical result includes an interest component, the income from technical interest, which is reallocated from the non-technical result.

Uu

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.

Unit-linked life insurance //
A type of life insurance with a savings component, where the benefits payable depend on the performance of the assets invested in a fund. The investment risk is borne by the policyholder.

Universal life //
Contracts in life primary insurance where the amount of the premiums and benefits is flexible, the policyholder being able tovary the premium payments within certain limits.

Vv

Value at risk //
Method of quantifying risk; 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.

Index of key terms

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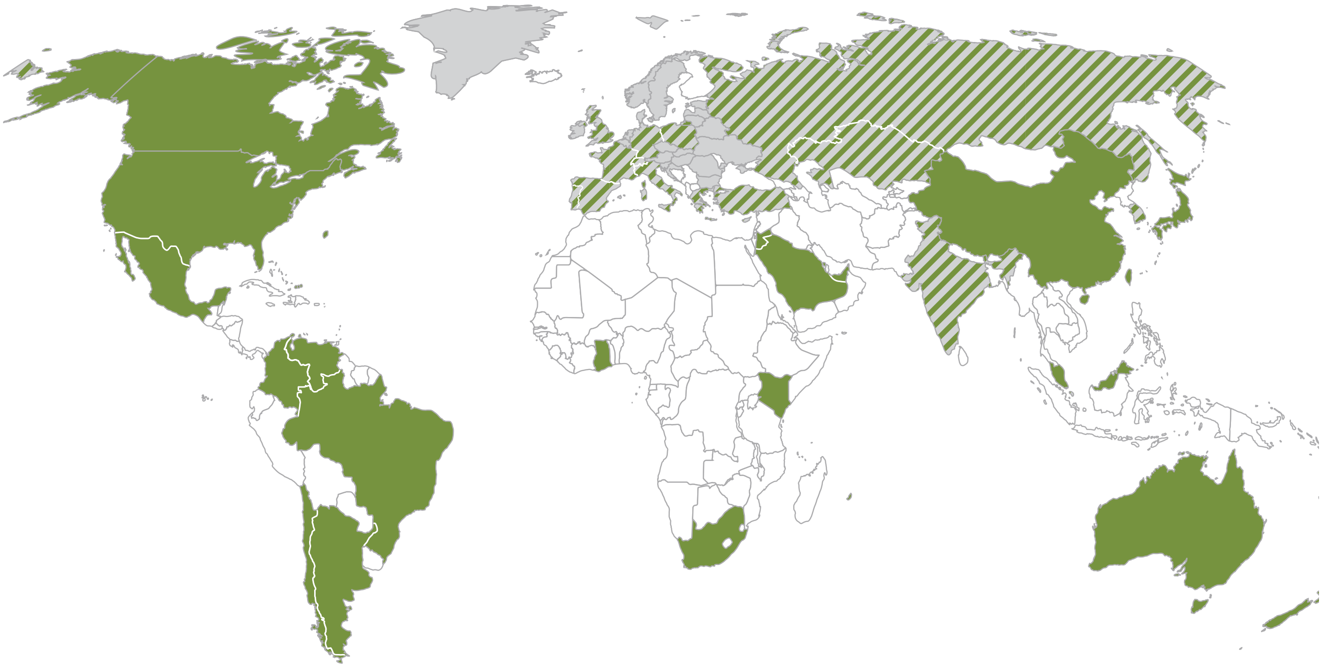
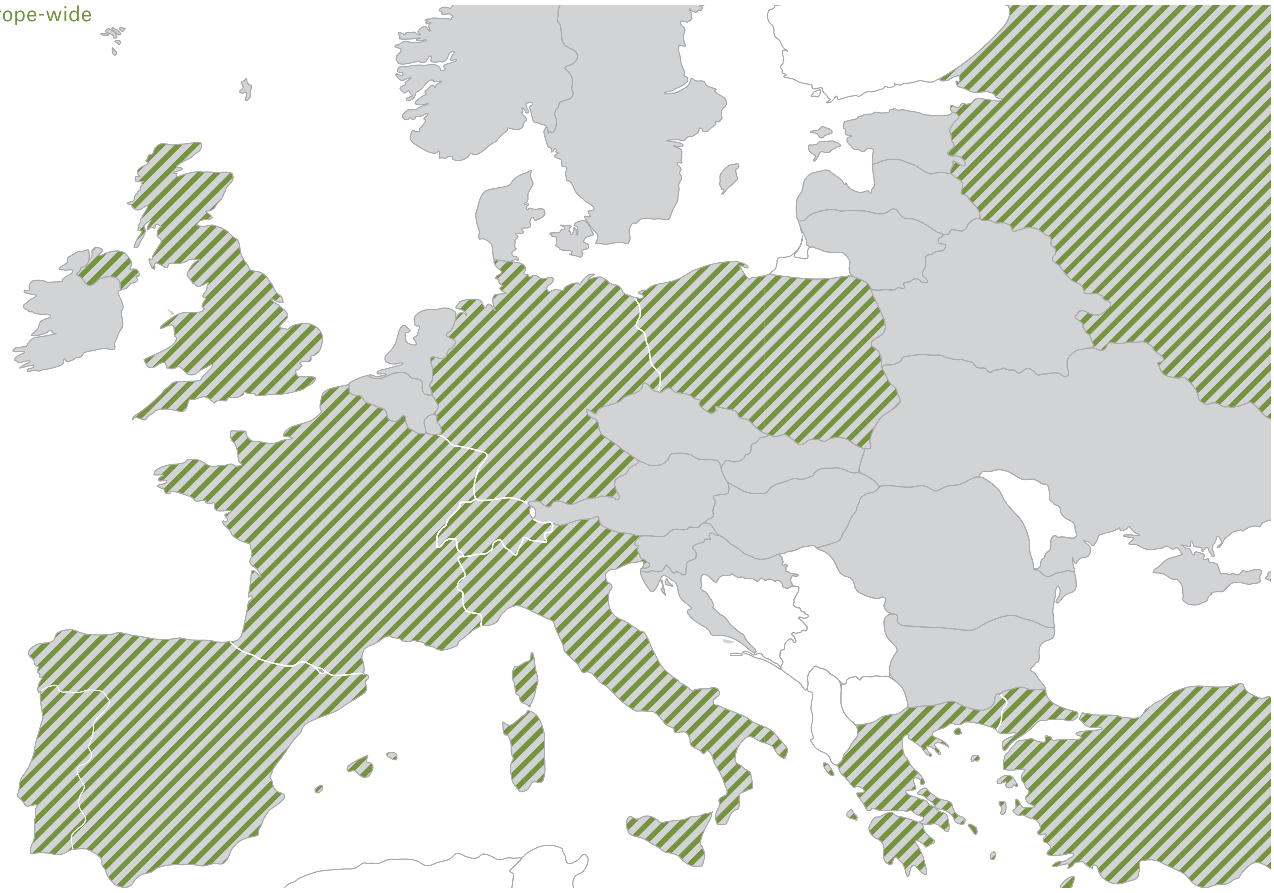
Munich Re's global presence

Munich Re's presence – worldwide and in Europe



Worldwide

Europe-wide



Reinsurance | Primary insurance | Reinsurance and primary insurance

Multi-year overview

		31.12.2009	31.12.2008	31.12.2007	31.12.2006	31.12.2005
Balance sheet						
Investments	€m	182,175	174,936	176,155	176,891	177,171
Equity	€m	22,278	21,107	25,294	26,292	24,298
Net technical provisions	€m	163,934	157,101	152,381	153,869	154,131
Balance sheet total	€m	223,412	215,362	214,268	215,872	218,707
Shares						
Dividend per share	€	5.75	5.50	5.50	4.50	3.10
Amount distributed	€m	1,088	1,073	1,124	988	707
Share price	€	108.67	111.00	132.94	130.42	114.38
Munich Re's market capitalisation	€bn	21.5	22.9	29.0	29.9	26.3
Other						
Combined ratio						
Reinsurance property-casualty	%	95.3	99.4	96.4	92.6	111.7
Primary insurance property-casualty	%	93.1	90.9	93.4	90.8	93.1
Number of staff		**47,249**	**44,209**	**38,634**	**37,210**	**37,953**

	€m	2009	2008	2007	2006	2005
Gross premiums written		41,423	37,829	37,256	37,436	38,199
Net earned premiums		39,526	35,724	35,670	35,714	36,210
Income from technical interest		5,794	4,804	–	–	–
Net expenses for claims and benefits		32,392	28,716	30,469	29,780	33,352
Net operating expenses		10,181	9,056	8,878	8,834	9,165
Technical result		2,747	2,756	–	–	–
Investment result		7,883	5,916	9,253	8,972	10,818
Other operating income		688	707	723	669	611
Other operating expenses		803	741	726	864	966
Deduction of income from technical interest		–5,794	–4,804	–	–	–
Non-technical result		1,974	1,078	–	–	–
Operating result		4,721	3,834	5,573	5,877	4,156
Other non-operating result		–472	–347	–505	–396	–6
Impairment losses of goodwill		117	175	11	4	7
Finance costs		304	361	333	310	378
Taxes on income		1,264	1,372	801	1,648	1,014
Consolidated result		2,564	1,579	3,923	3,519	2,751
Attributable to Munich Reinsurance Company equity holders		2,521	1,555	3,840	3,425	2,679
Attributable to minority interests		43	24	83	94	72

		2009	2008[1]	2007	2006	2005
Earnings per share	€	**12.95**	**7.74**	**17.83**	**15.05**	**11.74**

Quarterly figures

		31.12.2009	30.9.2009	30.6.2009	31.3.2009
Balance sheet					
Investments	€m	182,175	181,842	177,388	176,999
Equity	€m	22,278	22,658	21,126	21,530
Net technical provisions	€m	163,934	163,171	161,852	160,638
Balance sheet total	€m	223,412	223,270	219,125	220,649
Shares					
Share price	€	108.67	109.30	97.29	91.80
Munich Reinsurance Company's market capitalisation	€bn	21.5	21.6	19.2	18.9
Other					
Combined ratio					
Reinsurance property-casualty	%	95.3	96.3	97.7	97.3
Primary insurance property-casualty	%	93.1	94.2	94.7	96.3
Number of staff		47,249	47,462	47,280	47,220

€m	Total	Q4 2009	Q3 2009	Q2 2009	Q1 2009
Gross premiums written	**41,423**	**10,375**	**10,355**	**10,326**	**10,367**
1. Earned premiums					
Gross	41,227	10,884	10,449	10,508	9,386
Ceded	1,701	470	466	376	389
Net	39,526	10,414	9,983	10,132	8,997
2. Income from technical interest	5,794	1,452	1,858	1,334	1,150
3. Expenses for claims and benefits					
Gross	33,163	8,177	8,676	8,772	7,538
Ceded share	771	156	319	113	183
Net	32,392	8,021	8,357	8,659	7,355
4. Operating expenses					
Gross	10,586	3,079	2,763	2,408	2,336
Ceded share	405	111	131	79	84
Net	10,181	2,968	2,632	2,329	2,252
5. Technical result (1–4)	**2,747**	**877**	**852**	**478**	**540**
6. Investment result					
Investment income	13,575	3,311	3,221	3,452	3,591
Investment expenses	5,692	1,220	984	1,264	2,224
Total	7,883	2,091	2,237	2,188	1,367
Thereof:					
Income from associates	-123	-69	-25	18	-47
7. Other operating income	688	199	164	205	120
8. Other operating expenses	803	315	183	164	141
9. Deduction of income from technical interest	-5,794	-1,452	-1,858	-1,334	-1,150
10. Non-technical result (6–9)	**1,974**	**523**	**360**	**895**	**196**
11. Operating result	**4,721**	**1,400**	**1,212**	**1,373**	**736**
12. Other non-operating result	-472	-278	-43	-248	97
13. Impairment losses of goodwill	117	19	0	40	58
14. Finance costs	304	73	73	76	82
15. Taxes on income	1,264	250	446	312	256
16. Consolidated result	**2,564**	**780**	**650**	**697**	**437**
Thereof:					
Attributable to Munich Reinsurance Company equity holders	2,521	760	643	685	433
Attributable to minority interests	43	20	7	12	4

		Total	Q4 2009	Q3 2009	Q2 2009	Q1 2009
Earnings per share	€	**12.95**	**3.94**	**3.29**	**3.51**	**2.22**

Order number 302-06272

Important dates 2010

- // **28 April 2010:** Annual General Meeting
- // **29 April 2010:** Dividend payment
- // **7 May 2010:** Interim report as at 31 March 2010
- // **4 August 2010:** Interim report as at 30 June 2010
- // **4 August 2010:** Half-year press conference
- // **9 November 2010:** Interim report as at 30 September 2010

Important dates 2011

- // **10 March 2011:** Balance sheet press conference for 2010 consolidated financial statements
- // **20 April 2011:** Annual General Meeting
- // **21 April 2011:** Dividend payment
- // **9 May 2011:** Interim report as at 31 March 2011
- // **4 August 2011:** Interim report as at 30 June 2011
- // **4 August 2011:** Half-year press conference
- // **8 November 2011:** Interim report as at 30 September 2011