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Munich Reinsurance Company
New Zealand Branch

(Münchener Rückversicherungs-Gesellschaft
New Zealand Branch)

Annual Financial Report
31 December 2009

Registered Office
Level 30, 23-29 Albert Street Auckland New Zealand

Munich Reinsurance Company – New Zealand Branch
Directors' Declaration

The Board of Directors is pleased to present the financial statements of its New Zealand Branch for the year ended 31 December *2009,and the auditor's report thereon.*

In the Directors' opinion, the financial statement and notes set out on pages 2 to 19:

(a) comply with New Zealand generally accepted accounting practice and give a true and fair view of the financial position of the Branch as at 31 December 2009 and the results of operations for the year ended on that date.

(b) have been prepared using the appropriate accounting policies, which have been consistently applied and supported by reasonable judgements and estimates.

The directors believe that proper accounting records have been kept which enable, with reasonable accuracy, the determination of the financial position of the Branch and facilitate compliance of the financial statements with the Financial Reporting Act 1993 and the Companies Act 1993. There are reasonable ground to believe that, as at the time this statement is made, the Branch will be able to pay all debts or claims as and when they are due.

The shareholders of the Company have exercised their right under Section 211(3) of the Companies Act 1993 and unanimously agreed that this Annual Report need not comply with any of paragraphs (a) and (e) to (j) of Section 211(1) of the Act.

Signed in Munich on 29 March 2010 in accordance with a resolution of the Directors.

For and on behalf of the Board of Management:

Member, Board of Management

Member, Board of Management

Munich Reinsurance Company – New Zealand Branch
Statement of comprehensive income for the year ended 31 December 2009

	Note	2009 $'000	2008 $'000
Revenue from operating activities	4	104,980	127,635
Expenses from operating activities	5	80,030	108,718
Profit from operating activities before income tax		24,950	18,917
Income tax expense attributable to operating profit	6	7,498	5,964
Total comprehensive income for the year		17,452	12,953

The statement of comprehensive income is to be read in conjunction with the notes to the financial statements set out on pages 5 to 19

Munich Reinsurance Company – New Zealand Branch
Balance sheet as at 31 December 2009

	Note	2009 $'000	2008 $'000
Current assets			
Cash and cash equivalents	9	2,568	5,597
Outstanding premiums	10	27,341	30,363
Deferred acquisition costs	13	5,855	7,001
Financial assets	11	64,847	78,730
Other	12	1,277	3,424
Total current assets		101,888	125,115
Non-current assets			
Financial assets	11	121,854	89,846
Total non-current assets		121,854	89,846
Total assets		223,742	214,961
Current liabilities			
Trade and other payables	14	8,914	8,628
Income tax payable	6(c)	465	24
Outstanding claims	15	60,045	38,785
Unearned premiums	16	40,626	46,933
Provisions	17	1,852	1,009
Total current liabilities		111,902	95,379
Non-current liabilities			
Outstanding claims	15	79,595	94,955
Deferred tax liabilities	18	1,126	1,473
Total non-current liabilities		80,721	96,428
Total liabilities		192,623	191,807
Net assets		31,119	23,154
Head Office account			
Accumulated surplus – Head Office		31,119	23,154
Total Head Office account		31,119	23,154

The balance sheet is to be read in conjunction with the notes to the financial statements set out on pages 5 to 19

Munich Reinsurance Company – New Zealand Branch
Statement of changes in equity for the year ended 31 December 2009

	Head Office Account $'000
Balance at 1 January 2008	*19,262*
Total comprehensive income for the year	
Profit after tax for the year	12,953
Transactions with owners in their capacity as owners	
Transfer of surplus to Head Office	(9,061)
Balance at 31 December 2008	23,154
Total comprehensive income for the year	
Profit after tax for the year	17,452
Transactions with owners in their capacity as owners	
Transfer of surplus to Head Office	(9,487)
Balance at 31 December 2009	31,119

The statement of changes in equity is to be read in conjunction with the notes to the financial statements set out on pages 5 to 19

Munich Reinsurance Company – New Zealand Branch

Notes to the financial statements for the year ended 31 December 2009

1. Summary of significant accounting policies

Munich Reinsurance Company – New Zealand branch ("the Branch") is registered to carry on inward reinsurance business in New Zealand for a foreign company, Münchener Ruckversicherungs-Gesellschaft AG, which is domiciled and incorporated in Germany. The Branch's principal activity is general reinsurance.

The financial report was authorised for issue by the directors on 29 March 2010.

(a) Statement of compliance

The financial statements have been prepared in accordance with New Zealand Generally Accepted Accounting Practice (NZ GAAP). They comply with the New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS) and other applicable Financial Reporting Standards as appropriate to profit-orientated entities that qualify for and apply differential reporting concessions. The Branch is a profit-orientated entity. The Branch is a reporting entity for the purposes of the Financial Reporting Act 1993 and its financial statements comply with that Act.

The Branch qualifies for differential reporting exemptions as it has no public accountability, and all its owners are involved in the governing of the Branch. The Branch has elected not to adopt the exemption available under NZ IAS 12 *Income Taxes* which allows a qualifying entity to account for income tax using the taxes payable method. All other available exemptions allowed under the Framework for Differential Reporting have been adopted.

Changes to NZ IFRS 4: *Insurance Contracts* has resulted in differential reporting exemptions previously available under this standard no longer being available for annual reporting periods beginning on or after 1 January 2009 and these additional reporting requirements have been incorporated into the financial statements.

(b) Basis of preparation

The financial statements are presented in New Zealand Dollars.

The financial statements are prepared in accordance with the fair value basis accounting unless otherwise stated below.

The accounting policies set out below have been applied consistently by the Branch to all periods presented in the financial statements.

(c) Premium revenue

The earned portion of premiums received and receivable including unclosed business is recognised as revenue.

The pattern of recognition of premium revenue over the policy or indemnity periods is based on time, where this closely approximates the pattern of risk underwritten. Where time does not approximate the pattern of risk previous claims experience has been used to derive the incidence of risk.

(d) Unexpired risk liability

At each reporting date the Branch performs a liability adequacy test and immediately recognises any deficiencies if the carrying amount of unearned premium less any related deferred acquisition costs does not meet estimated future cash flows relating to future claims covered by current reinsurance contracts.

If the present value of the expected future cash flows relating to future claims plus the additional risk margin to reflect the inherent uncertainty in the central estimate exceeds the unearned premium liability less related deferred acquisition costs then the unearned premium liability is deemed to be deficient.

The entire deficiency, if any, gross and net of reinsurance, is recognised immediately in the statement of comprehensive income. The deficiency is recognised first by writing down the related deferred acquisition costs with any excess being recorded in the balance sheet as an unexpired risk liability.

The liability adequacy test performed as at 31 December 2009 identified a surplus.

(e) Outwards reinsurance

There were no outwards reinsurance arrangements placed during the financial year.

(f) Claims

Claims incurred expense and a liability for outstanding claims are recognised in respect of the inwards reinsurance business. The liability covers claims incurred but not yet paid, incurred but not reported, incurred but not enough reported and the anticipated direct costs and where material indirect costs of settling those claims.

The liability for outstanding claims is measured as the present value of the expected future payments reflecting the fact that all claims do not have to be paid out in the immediate future. The expected future payments are estimated on the basis of the ultimate cost of settling claims which is affected by factors arising during the period to settlement such as normal inflation and superimposed inflation. The expected future payments are then discounted to a present value at the balance date using a discount rate.

1. Summary of significant accounting policies (continued)

(f) Claims (continued)

A risk margin is added to the outstanding claims provision to increase the probability that the liability is adequate at an adequacy level deemed appropriate by the management and set at a minimum confidence level of 75%.

(g) Acquisition costs

A portion of direct acquisition costs relating to unearned premium revenue is deferred where it represents future benefits to the Branch and can be reliably measured. Deferred acquisition costs are stated at the lower of cost and recoverable amount. Deferred acquisition costs are amortised over the financial years expected to benefit from the expenditure.

(h) Foreign currency translation

The financial statements are presented in New Zealand dollars, which is the Branch's presentation and main functional currency.

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions are recognised in the Statement of comprehensive income.

Assets and liabilities expressed in other currencies are translated to the functional currency using the closing exchange rate at the reporting date. Unrealised foreign exchange gains and losses resulting from this translation are recognised in the balance sheet. Income and expenses are translated using the average exchange rate for the year. Realised foreign exchange gains and losses resulting from this translation are recognised in the Statement of comprehensive income.

(i) Income tax

The income tax expense for the period is the tax payable on the current period's taxable income based on the national income tax rate and adjusted by changes in deferred tax assets and liabilities attributable to temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements.

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to apply when the assets are recovered or liabilities are settled. The tax rates are applied to the cumulative amounts of deductible and assessable temporary differences to measure the deferred tax asset or liability. Deferred tax assets are recognised for deductible temporary differences only if it is probable that future taxable amounts will be available to utilise those temporary differences.

(j) Rounding of amounts

Amounts in the financial statements have been rounded off to the nearest thousand dollars.

(k) Financial assets backing insurance contract liabilities

The Branch has determined that all financial assets are deemed to back insurance contract liabilities and are measured at fair value through profit or loss at each balance date as they meet the criteria under NZ IAS 39 *Financial Instruments: Recognition and Measurement*. Unrealised profits and losses on subsequent measurement to fair value are recognised in the statement of comprehensive income.

Fair value is measured as follows:

- Cash assets are carried at face value of the amounts deposited. The carrying amounts of cash assets approximate their fair value. Cash includes cash on hand, deposits held at call with banks and investments in money market instruments, such as Bills of Exchange.
- Fair value of fixed interest securities is taken as the bid price of the instrument.
- Receivables are carried at book value, which is the best estimate of fair value, as they are settled within a short period.

Interest income is brought to account as it is earned.

Purchases and sales of financial assets are recognised on trade date, being the date on which the Group commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

(l) Impairment of assets

All assets other than those which are set outside the scope of NZ IAS 36 *Impairment of Assets* are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying value exceeds its recoverable amount. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows.

(m) Receivables

Receivables are initially recognised and subsequently measured at book value less provision for doubtful debts, which is the best estimate of fair value. The collectability of receivables is reviewed on an ongoing basis. Debts that are known to be uncollectible are written off. A provision for doubtful receivables is established when there is objective evidence that the

1. Summary of significant accounting policies (continued)

(m) Receivables (continued)

Branch will not be able to collect all amounts that are due in accordance with the original terms of the receivable. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated cash flows, discounted at the effective interest rate.

(n) Payables

These amounts are carried at book value, which approximates fair value and represents liabilities for goods and services provided to the Branch prior to the end of the financial year that were unpaid. The amounts are unsecured and are usually paid within 30 days of recognition.

(o) Goods and Services Tax

All amounts are shown exclusive of Goods and Services Tax (GST), except for receivables and payables that are stated inclusive of GST.

2. Summary of significant actuarial methods and assumptions

The effective date of the actuarial valuation on outstanding claims liability is 31 December 2009. The liability valuation report was prepared by the Appointed Actuary, Mr. Kaise Stephan FIAA, FNZSA. The report indicates that the Appointed Actuary is satisfied with the nature, sufficiency and accuracy of the data provided upon which the outstanding claims liabilities have been determined. Methods utilised and assumptions made in determining the outstanding claims liability are in accordance with the requirements of NZ IFRS 4 *Insurance Contracts* and consistent with the New Zealand Society of Actuaries Professional Standard Number 4, "General Insurance Business".

(a) Key actuarial valuation methods and assumptions

(i) Outstanding claims liabilities

Provision is made at the end of the year for the estimated cost of claims incurred but not settled at balance date. These reserves include estimates for claims that have been reported, claims that have been incurred but not reported (IBNR), and claims that have been incurred but not enough reported (IBNER), and include estimates of expenses associated with processing and settling these claims.

The process of establishing reserves is subject to considerable variability as it requires the use of informed estimates and judgements. These estimates and judgements are based on numerous factors, and may be revised as additional experience and other data become available or as regulations change.

Outstanding claims liability is estimated by class of business. Historical experience and other statistical information are used to estimate the ultimate claim costs. To determine outstanding claims provision for a particular line of business, more than one method may be used to estimate ultimate losses and loss expenses and use the results to select a single point estimate. These methods may include, but are not necessarily limited to, extrapolations of historical reported and paid loss data, application of industry loss development patterns to the reported or paid losses, expected loss ratios developed by management, and historical industry loss ratios. Underlying judgements and assumptions that may be incorporated into these actuarial methods include, but are not necessarily limited to, adjustments to historical data used in models to exclude aberrations in claims data such as catastrophes that are typically analysed separately, adjustments to actuarial models and related data for known business changes and the effect of recent or pending litigation on future claims settlements.

(ii) Key actuarial assumptions

The following key assumptions have been made in determining the outstanding claims liabilities:

	2009	2008
Weighted average term to settlement (years)	1.7	2.0
Inflation rate	2.5%	2.5%
Discount rate	4.3% - 7.0%	4.3% - 5.2%
Claims handling expense ratio	1.5%	1.5%
Risk margin	7.8%	7.2%

2. Summary of significant actuarial methods and assumptions (continued)

(a) Key actuarial valuation methods and assumptions (continued)

(ii) Key actuarial assumptions (continued)

Process used to determine assumptions

A description of the processes used to determine these assumptions is provided below:

- **Weighted average term to settlement**

The weighted average term to settlement relates to the number of years or duration until the payments are made on average (inflated and discounted). The payment pattern is selected based on historical settlement patterns. The weighted average term to settlement, while not itself an assumption, provides a summary indication of the future cash flow pattern.

- **Inflation rate**

Insurance costs are subject to inflationary pressures. The inflation assumptions for the outstanding claim liabilities are set with reference to economic indicators such as Labour Cost Index and Consumer Price Index.

- **Discount rate**

In order to determine the interest rates used to discount the undiscounted liabilities, an analysis of the term structure of risk-free interest rates was prepared. The yield structure of New Zealand government bonds as at 31 December 2009 (the last business day in 2009) is used to derive the future effective annual interest rates.

- ***Claims handling ratio***

New Zealand and International Financial Reporting Standards require insurers to establish a provision for outstanding claims, which includes an allowance for claims handling expenses (CHE). The claims handling ratio is determined by conducting an expense analysis on the running costs related to claims personnel.

- ***Risk margin***

The overall risk margin was determined allowing for the relative uncertainty of the outstanding claims estimate for each class of business and the diversification between classes. The uncertainty margins were determined for each line of business and then reductions were applied on account of diversification across the various lines of business. The overall position is intended to approximate the 75% probability of sufficiency scenario.

(b) The effect of changes in key actuarial assumptions

Sensitivity analyses are conducted to quantify the impact of changes in the key underlying variables. The variations included in the reported results are calculated using certain assumptions about the variables as disclosed below. The movement in any key variable will impact the financial position and performance for a period. The following information describes how a change in each assumption will affect claims liabilities and provides an analysis of the sensitivity of the outstanding claims liabilities to changes in these assumptions.

- **Weighted average term to settlement**

A decrease in average term to settlement would imply that claims are being paid sooner than anticipated. Expected payment patterns are used in determining the outstanding claims liability. An increase or decrease in the weighted average term would have a opposite effect on outstanding claims liabilities.

- **Inflation rate**

Expected future payments are inflated. An increase or decrease in the assumed levels of either economic or superimposed inflation would have a corresponding change on outstanding claims liabilities.

- **Discount rate**

The outstanding claims liability is calculated with reference to expected future payments. These payments are discounted to adjust for the time value of money. An increase or decrease in the assumed discount rate will have an opposite impact on the overall outstanding claims liabilities.

- **Claims handling ratio**

An estimate for the internal costs of handling claims is included in the outstanding claims liability. An increase or decrease in the expense rate assumption would have a corresponding change on outstanding claims liabilities.

- **Risk margin**

The outstanding claims liability includes a risk margin to allow for the inherent uncertainty in the estimates of future claims cost. An increase or decrease in the percentage risk margin will have a corresponding change in the overall outstanding claims liabilities.

2. Summary of significant actuarial methods and assumptions (continued)

(c) Sensitivity analysis of changes in key actuarial assumptions

Sensitivity analyses are conducted to quantify the impact of changes in the key underlying variables. The variations included in the reported results are calculated using certain assumptions about the variables as disclosed below. The movement in any key variable will impact the financial position and performance for a period. The following information describes how a change in each assumption will affect claims liabilities and provides an analysis of the sensitivity of the outstanding claims liabilities to changes in these assumptions.

The impact of changes in key actuarial assumptions is summarized below. Each change has been calculated in isolation of the other changes.

The movements are stated in absolute terms where the base assumption is a percentage, for example, if the base inflation rate assumption was 2.5%, a 1% increase would mean a 3.5% inflation rate. The movements in the net outstanding claims liability would have an opposing net impact on the profit before tax for a year.

Variable	Movement in variable	Change in discounted outstanding claim liability ($'000)
Weighted average term to settlement	+10%	(1,433)
	-10%	1,483
Inflation rate	+1%	1,919
	-1%	(2,018)
Discount rate	+1%	(1,919)
	-1%	2,018
Claims handling expense ratio	+1%	1,300
	-1%	(1,300)

3. Risk management policies and procedures

The Branch carries on inward reinsurance business in New Zealand in the non life insurance segment.

The financial condition and operating results of the Branch are affected by a number of key financial and non-financial risks. Risk management is the process of identifying, analysing, controlling, monitoring, and reporting risks that could have a material impact on the operations of the Branch. Insurance risk involves the consideration of the market, product design, pricing, underwriting, claims management and valuation risk. The Branch's disclosed objectives and policies in respect of managing these risks are set out in the remainder of this note.

(a) Risk management objectives and policies for mitigating financial risks

Objectives

Through its insurance operations the Branch is exposed to financial risks such as credit risk, liquidity risk and market risk. The Branch's risk management framework seeks to minimise the potential adverse effects of these risks on its financial performance.

The key objective of the Branch's financial management strategy is to ensure sufficient liquidity is available at all times to meet its financial obligations, including settlement of insurance liabilities, and to optimise the Branch's investment returns.

(i) Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss to the other party by failing to discharge an obligation.

The following policies and procedures are in place to mitigate the Branch's exposure to credit risks and concentration:

- A mandate is in place that limits all New Zealand dollar investments to be in New Zealand government bonds.
- The credit risk in respect of client balances: Premium paid by cedants are paid net of commission so that no commission liability exists until a premium is paid. Additionally claim payments may be deferred where there are outstanding client balances.

The carrying amounts of financial assets represent the maximum credit exposure. The table below provides information regarding the maximum exposure to credit risk for the components of the balance sheet.

	Note	Carrying amount 2009 $'000	Carrying amount 2008 $'000
Cash and cash equivalents	9	2,568	5,597
Financial assets at fair value through profit or loss			
- Debt securities	11	186,701	168,576
Amount due from ceding companies in respect of outstanding premium	10	27,341	30,363
Accrued income	12	1,277	3,424
Total		217,887	207,960
No financial assets are either past due or impaired			
Grade 1-3 (Standard & Poor's A- to AAA)		205,349	202,339
Grade 4-5 (Unrated or Standard & Poor's BB+ to BBB+)		12,538	5,621
Total		217,887	207,960

All financial assets carried at fair value through profit or loss are categorised as level 2 of the fair value measurement hierarchy. The fair value of level 2 financial assets are measured by using inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices).

The Branch has no significant concentration of credit risk.

3. Risk management policies and procedures (continued)

(a) Risk management objectives and policies for mitigating financial risks (continued)

(ii) Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial instruments.

The following policy and procedures are in place to mitigate the Branch's exposure to liquidity risk:

- The Branch maintains a sufficient portfolio of liquid financial assets that are readily converted to cash to meet the needs of the business, without incurring unacceptable losses or risking damage to the Branch's reputation.
- The Branch maintains financial assets with similar duration as the underlying reinsurance contract liabilities of the business in order to ensure sufficient funding is available to meet reinsurance contract obligations.

The table below summarises the maturity profile of the financial liabilities of the Branch based on remaining undiscounted contractual obligations.

	Note	Up to a year $'000	1-5 years $'000	Over 5 years $'000	Total $'000
2009					
Amount due to ceding companies	14	8,371	-	-	8,371
GST payables	14	543	-	-	543
Other creditors	14	-	-	-	-
Tax payable	6(c)	465	-	-	465
Outstanding claims		60,045	68,424	11,171	139,640
Total		69,424	68,424	11,171	149,019
2008					
Amount due to ceding companies	14	7,606	-	-	7,606
GST payables	14	657	-	-	657
Other creditors	14	365	-	-	365
Tax payable	6(c)	24	-	-	24
Outstanding claims		38,785	82,919	12,036	133,740
Total		47,437	82,919	12,036	142,392

3. Risk management policies and procedures (continued)

(a) Risk management objectives and policies for mitigating financial risks (continued)

(iii) Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: interest rate risk, currency risk and other price risk.

The following policy is in place to mitigate the Branch's exposure to market risk:

- The Branch manages its risk within an Asset and Liability Management (ALM) framework. The ALM framework forms an integral part of the reinsurance risk management policy and ensures the Branch maintains financial assets with similar duration and cash flow characteristics as the underlying reinsurance contract liabilities of the business. This minimises the risk of interest rate movements resulting in a mis-match between the value of the assets and the liabilities.
- The Branch does not trade in derivatives or use derivatives to manage exposures to interest rate risk, foreign currency risk and other price risk.

Interest rate risk

The Branch has determined that all assets held are assets backing insurance contract liabilities. The investment income of the Branch will decrease as interest rates decrease. This is offset to an extent by corresponding changes in the market value of fixed interest investments. The impact on profit and shareholder equity will be minimal for investment assets backing most insurance contract liabilities, as the asset and liability profile is closely matched.

The Branch's exposure to interest rate risk and the effective weighted average interest rate for each significant class of interest bearing financial asset are set out below:

	Weighted average interest rate	Floating interest rate $'000	---- Fixed interest maturing in:---- Up to 1 year $'000	1 to 5 years $'000	Over 5 years $'000	Total $'000
2009						
Cash	2.23%	2,568	-	-	-	2,568
Bills of exchange – bank endorsed	2.86%	-	64,847	-	-	64,847
Investments						
Government bonds	6.24%	-	-	121,854	-	121,854
Total		2,568	64,847	121,854	-	189,269
2008						
Cash	4.86%	5,597	-	-	-	5,597
Bills of exchange – bank endorsed	-	-	-	-	-	-
Investments						
Government bonds	6.62%	-	78,730	89,846	-	168,576
Total		5,597	78,730	89,846	-	174,173

Currency risk

The Branch operates predominantly in New Zealand. Assets are maintained in the local currency to match the expected liabilities. Hence the Branch's currency risk is not considered to be of a material nature.

Other price risk

The Branch does not trade derivatives or hold equity securities in another entity, therefore there is no material exposure to other price risk.

3. Risk management policies and procedures (continued)

(b) Risk management objectives and policies for mitigating insurance risks

Objectives

The Branch's objectives and policies in respect of managing insurance risks are:

- Understanding insurance risk as the risk of loss, of inadequate claims handling, or of adverse change in the value of insurance liabilities, due to inadequate pricing and provisioning assumptions.
- Measuring the frequency and severity of possible insurance risk loss events.
- Treating insurance risk with controls designed to assure:
  - Adherence to competency based underwriting guidelines and limits.
  - Improving underwriting platform and pricing tools.
  - Sufficient business pricing peer-reviews.
  - Competency based peer reviewing of all business.
  - *Rigorous analysis of: Contemporaneous & Periodic Renewal Monitoring Reports.*
- Monitoring insurance risk by reporting and responding to incidents.

(i) Concentrations of insurance risk

The Branch's exposure to concentrations of insurance risk is lessened by diversification across a number of different portfolio segments . The Branch conducts significant analysis of single-event exposures on an ongoing basis and continues to be well within the limits mandated by its head office.

(ii) Exposure to risk

The Branch actively manages its exposure to risks by applying prudent underwriting controls to renewals and new business and in managing claims in order to enhance its financial performance. The key policies in place to mitigate insurance risk include:

Management reporting

The Branch utilises comprehensive management information systems and actuarial models using historical information to calculate premiums and monitor claims.

Underwriting and claims management procedures

Underwriting procedures are documented and include limits to delegated authorities and signing powers. Internal auditors from the parent entity review the underwriting and claims management processes to ensure adequate controls are in place and that they are effective. Strict claims management procedures ensure the timely and correct payment of claims in accordance with treaty conditions.

(c) Capital management

(i) Regulatory capital

There is no prescribed capital standard for general insurers operating in New Zealand. The level of capital held by the Branch is regularly monitored relative to a Board approved buffer capital policy. It also takes into account the fit of the activity with the longer term strategic objectives of its parent company Münchener Rückversicherungs-Gesellschaft AG (refer note 24) in order to maximise shareholder value.

The goal of the current capital management plan for the Branch is to keep positive net assets at all times and to have a buffer of approximately $3.5m over and above the compulsory minimum statutory deposit of NZ$500,000. The capital structure is maintained or adjusted by the amount of capital repatriations/(injections) to/(by) its parent company Münchener Rückversicherungs-Gesellschaft AG.

(ii) Ratings capital

The Branch maintains the capital strength by reference to a target financial strength rating from an independent ratings agency. The ratings help to reflect the financial strength of the Branch and demonstrate to the stakeholders the ability to pay claims for the long term. Rating agencies assess the financial strength of the Munich Re Group. The Branch is classified as a core entity of Munich Re Group. Therefore the Branch obtained the same rating as Munich Re Group based on ratings published by Standard & Poor's Ratings services as 31 December 2009. The Branch manages its capital rating by performing periodical analysis using Standard & Poor's Capital model.

Munich Reinsurance Company – New Zealand Branch

Notes to the financial statements for the year ended 31 December 2009

3. Risk management policies and procedures (continued)

(d) Development of claims

Information about actual claims compared to previous estimates is provided below for claims for business for which uncertainty about the amount and timing of claim payments is not typically resolved within one year.

	Underwriting Year				
	2006 $'000	2007 $'000	2008 $'000	2009 $'000	Total $'000
Estimate of net ultimate claims cost					
At end of underwriting year	50,346	74,447	49,897	57,776	
One year later	53,020	92,554	52,019		
Two years later	53,248	85,909			
Three years later	51,443				
Current estimate of ultimate claims cost	*51,443*	*85,909*	*52,019*	*57,776*	*247,147*
Cumulative net payments	(33,698)	(33,848)	(18,056)	849	(84,753)
Net undiscounted outstanding claims for the four most recent underwriting years	17,745	52,061	33,963	58,625	162,394

4. Revenue from operating activities

	2009 $'000	2008 $'000
Reinsurance revenue		
Inwards reinsurance premium revenue	94,841	110,926
Reinsurance recoveries revenue	-	-
Total reinsurance revenue	94,841	110,926
Investment revenue		
Interest	10,075	10,042
Net realised and unrealised gains	-	6,643
Total investment revenue	10,075	16,685
Other revenue		
Other income	64	24
Total other revenue	64	24
Total revenue from operating activities	104,980	127,635

5. Expenses from operating activities

	2009 $'000	2008 $'000
Reinsurance expense		
Inwards reinsurance claims expense (note 7)	52,366	83,661
Outwards reinsurance expense	-	-
Acquisition expenses	16,904	19,392
Total reinsurance expense	69,270	103,053
Investment expense		
Net realised and unrealised losses on investments	4,548	-
Investment management expenses	151	136
Total investment expense	4,699	136
Other expense		
General and administration expenses	6,061	5,529
Total other expense	6,061	5,529
Total expenses	80,030	108,718

6. Income tax

(a) Income tax expense

	2009 $'000	2008 $'000
Current taxes	7,854	6,182
Deferred taxes	(356)	(493)
(Over) / Under provided in prior year – current tax	(9)	3,031
Under / (Over) provided in prior year – deferred tax	9	(2,756)
Income tax expense	7,498	5,964

(b) Reconciliation of prima facie tax payable to income tax expense

	2009 $'000	2008 $'000
Profit from operating activities before income tax	24,950	18,917
Prima facie income tax payable at the tax rate of 30%	7,485	5,675
Tax effect of amounts which are not deductible in calculating taxable income:		
Non-deductible expenses	13	289
Income tax expense	7,498	5,964

(c) Income tax payable

	2009 $'000	2008 $'000
Opening balance at 1 January	(24)	5,011
Additional provisions recognised	(7,854)	(6,182)
Liabilities paid	7,404	6,603
Tax loss transfer	-	(2,425)
Over / (under) provision prior year	9	(3,031)
Closing balance at 31 December	(465)	(24)

7. Net claims incurred

	2009			2008		
	Current year $'000	Prior years $'000	Total $'000	Current year $'000	Prior years $'000	Total $'000
Gross claims expenses						
Gross claims incurred - undiscounted	73,699	(21,649)	52,050	72,153	13,387	85,540
Discount movement	447	(131)	316	(1,585)	(294)	(1,879)
Discounted gross claims expenses	74,146	(21,780)	52,366	70,568	13,093	83,661
Reinsurance and other recoveries revenue						
Reinsurance and other recoveries revenue - undiscounted	-	-	-	-	-	-
Discount movement	-	-	-	-	-	-
Discounted reinsurance and other recoveries revenue	-	-	-	-	-	-
Net claims incurred	74,146	(21,780)	52,366	70,568	13,093	83,661

Current year claims relate to risks borne in the current financial year. Prior year claims relate to a reassessment of the risks borne in all previous financial years.

The decrease in net claims incurred relating to a reassessment of risk borne in previous financial years is mainly due to decreases in reserves for Treaty Proportional Fire segments and Extended Warranty products as a result of favourable run off experience.

	2009 $'000	2008 $'000
8. Underwriting result		
Inwards reinsurance premiums revenue (note 4)	94,841	110,926
Reinsurance recoveries revenue	-	-
Total reinsurance revenue	94,841	110,926
Inwards reinsurance claims expense (note 5)	52,366	83,661
Outwards reinsurance expense	-	-
Acquisition expenses (note 5)	16,904	19,392
Total reinsurance expense	69,270	103,053
Underwriting result	25,571	7,873

9. Current assets – cash and cash equivalents

	2009 $'000	2008 $'000
Cash at bank	1,268	1,097
Deposits at call	1,300	4,500
Total	2,568	5,597

(a) Cash at bank

Cash at bank is bearing floating interest rates between 2% to 4.5% (2008: 4.5% to 7.75%).

(b) Deposits at call

The deposits at call are bearing floating interest rates between 2.5% to 5% (2008: 5% to 8%).

10. Current assets – outstanding premiums

	2009 $'000	2008 $'000
Amounts due from ceding companies	27,341	30,363

11. Financial assets

Financial assets – fair value through profit or loss

	2009 $'000	2008 $'000
Debt securities – unsecured, including Bills of Exchange	186,701	168,576
Total financial assets – fair value through profit or loss	186,701	168,576
Current financial assets	64,847	78,730
Non-current financial assets	121,854	89,846
Total financial assets – fair value through profit or loss	186,701	168,576

Changes in the fair value of financial assets through the profit or loss are recorded as revenue/ expense in the statement of comprehensive income (note 1(k)).

12. Current assets – other

	2009 $'000	2008 $'000
Accrued income	1,277	3,424
Total	1,277	3,424

13. Deferred acquisition costs

	2009 $'000	2008 $'000
Total	5,855	7,001
Reconciliation of movement in deferred acquisition costs		
Balance brought forward	7,001	7,849
Costs deferred in financial year	4,980	5,784
Amortisation of costs deferred in previous financial years	(6,126)	(6,632)
Balance carried forward	5,855	7,001

14. Current liabilities –payables

Amount due to ceding companies	8,371	7,606
Sundry creditors and accrued expenses	543	1,022
Total	8,914	8,628

15. Outstanding claims liability

(a) Outstanding claims liability

	2009 $'000	2008 $'000
Central estimate	138,227	133,910
Claims handling cost	2,112	2,032
Risk margin	10,278	9,090
Total outstanding claims liability – undiscounted	150,617	145,032
Discount to present value	(10,977)	(11,292)
Discounted outstanding claims liability	139,640	133,740
Current	60,045	38,785
Non-current	79,595	94,955
Total	139,640	133,740

(b) Reconciliation of movement in discounted outstanding claims liability

Balance brought forward	133,740	83,760
Incurred claims recognised in the statement of comprehensive income (note 7)	52,366	83,661
Claim payments during the year	(46,466)	(33,681)
Balance carried forward	139,640	133,740

16. Unearned Premium

Unearned Premium	40,626	46,933
Total	40,626	46,933
Reconciliation of movement in unearned premium		
Balance brought forward	46,933	49,979
Deferral of premium on contracts written in the period	21,078	21,953
Earning of premium written in previous periods	(27,385)	(24,999)
Balance carried forward	40,626	46,933

17. Current liabilities – provisions

	2009 $'000	2008 $'000
Profit commissions	1,852	1,009
Total	1,852	1,009

18. Non-current liabilities – deferred tax liabilities

Deferred tax liabilities relates to timing differences and comprises the tax effect of the following amounts recognised in the profit or loss:		
Deferred acquisition costs	1,757	2,100
Insurance provisions	(631)	(600)
Other	-	(27)
Deferred tax liabilities	1,126	1,473
Movements:		
Opening balance at 1 January	1,473	4,722
Charged to the statement of comprehensive income	(347)	(3,249)
Closing balance at 31 December	1,126	1,473

19. Liability adequacy test

The liability adequacy test has been conducted using the central estimate of the present value of expected future cash flows and has identified a surplus.

	$'000	$'000
Central estimate of the present value of expected future cash flows	30,002	31,369
Risk margin	3,703	3,781
Percentage risk margin	12%	12%
Probability of adequacy to be achieved through adoption of the risk margin	75%	75%

The risk margin has been arrived at by determining margins for each line of business and then applying reductions on account of diversification over the various lines of business. This was done by applying a suitable correlation matrix to the expected values and uncertainties of the individual unexpired risk liabilities.

20. Remuneration of auditors

Amounts received or due and receivable by the auditors for the audit and assurance services provided to the Branch for the current year was $40,745 (2008: $40,962).

21. Contingencies

The Branch has no known contingent liabilities or contingent assets at the reporting date or the previous reporting date.

22. Commitments

(a) Capital commitments

There have been no capital commitments contracted for at the reporting date or the prior year reporting date that have not been recognised as a liability.

(b) Lease commitments

There have been no lease commitments contracted for at the reporting date or the prior year reporting date that have not been recognised as a liability.

(b) Guarantees

No guarantees have been given to or received from any related parties that are outside the normal trading arrangements involving the retrocession of reinsurance contracts.

23. Events occurring after the balance sheet date

No significant events have occurred subsequent to the balance sheet date.

24. Parent Entity

The parent entity is MÜnchener Ruckversicherungs-Gesellschaft AG, a company incorporated in Germany with limited liability.

25. Credit rating

The Branch does not have a separate credit rating on its own. At the date of this report, the parent entity has a credit rating of AA- from Standard & Poor's (2008: AA-) .

Audit report

To the shareholders of Munich Reinsurance Company – New Zealand Branch

We have audited the financial statements on pages 2 to 19. The financial statements provide information about the past financial performance of the New Zealand branch and its financial position as at 31 December 2009. This information is stated in accordance with the accounting policies set out on pages 5 to 7.

Directors' responsibilities

The Directors of the branch are responsible for the preparation of financial statements which give a true and fair view of the financial position of the branch as at 31 December 2009 and the results of its operations for the year ended on that date.

Auditors' responsibilities

It is our responsibility to express an independent opinion on the financial statements presented by the Directors and report our opinion to you.

Basis of opinion

An audit includes examining, on a test basis, evidence relevant to the amounts and disclosures in the financial statements. It also includes assessing:

- the significant estimates and judgements made by the Directors of the branch in the preparation of the financial statements;
- whether the accounting policies are appropriate to the branch's circumstances, consistently applied and adequately disclosed.

We conducted our audit in accordance with New Zealand Auditing Standards. We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to obtain reasonable assurance that the financial statements are free from material misstatements, whether caused by fraud or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Other than in our capacity as auditors we have no relationship with or interests in the branch.

KPMG

Unqualified opinion

We have obtained all the information and explanations we have required.

In our opinion:

- proper accounting records have been kept by the branch as far as appears from our examination of those records;

- the financial statements on pages 2 to 19:

  – comply with New Zealand generally accepted accounting practice;

  – give a true and fair view of the financial position of the branch as at 31 December 2009 and the results of its operations for the year ended on that date.

Our audit was completed on 29 March 2010 and our unqualified opinion is expressed as at that date.

KPMG

KPMG

Sydney

29 March 2010

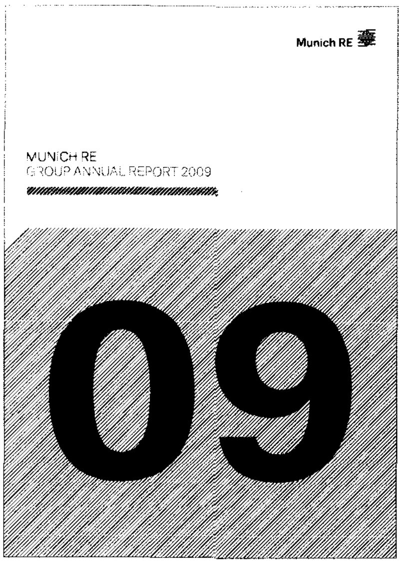
Munich RE

MUNICH REINSURANCE COMPANY
ANNUAL REPORT 2009

Key figures

Munich Reinsurance Company	2009	2008	2007
€m			
Gross premiums written	18,322	16,495	17,562
Investments	70,204	70,763	72,080
Net technical provisions	51,791	53,252	55,289
Shareholders' equity	10,760	9,782	9,306
Profit/loss for the year	2,458	2,987	1,443
Dividend	1,088	1,073	1,124
Dividend per share in €	5.75	5.50	5.50
Share price at 31 December in €[1]	108.67	111.00	132.94
Market capitalisation at 31 December	21,452	22,910	28,966

[1] Source: Datastream



In the lead – 3:0 for Munich Re. In this year's Group Annual Report, you can find out how our business is related to football, what formations we adopt to score in the markets, and which major goals we achieved last year. The report also contains all the important data and facts on the past financial year and our shares. More at www.munichre.com/report/2009.

MUNICH REINSURANCE COMPANY REPORT ON THE 130TH YEAR OF BUSINESS 1 JANUARY TO 31 DECEMBER 2009

Note: The abbreviation T€ used in this report stands for thousand euros.

Ladies and gentlemen,

Dr. Hans-Jürgen Schinzler
Chairman of the
Supervisory Board

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 56 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 123. 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 50.

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 49 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

H.J. Schinzler

Dr. Hans-Jürgen Schinzler
Chairman

MUNICH RE 2009

Management report 7

Munich Reinsurance Company

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). In the past year, Munich Reinsurance Company increased its 95% stake in ERGO by almost 5%. It is planned that the holders of the approximately 237,000 shares remaining, i.e. 0.31% of the share capital, will receive cash compensation. This measure will further simplify the Group's shareholding structures, reduce costs and facilitate Group-wide cooperation.

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 Reinsurance Company is Munich Re's parent company.

We conduct our business directly from our headquarters and also via a large number of branches. 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.

This management report summarises the business operations of Munich Reinsurance Company.

Reinsurance business handled by six divisions and Munich Health

Reinsurance business is organised in 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.

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.

The Munich Health business field has over 5,000 staff Group-wide 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.

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 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.

[1] Excluding travel insurance.

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 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.*

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

Integration of Munich Reinsurance Company in Group management system

Our corporate management is based mainly on a Group perspective, in which Munich Reinsurance Company is a significant component. Since our fields of business are managed on a Group-wide basis, it is difficult to "extract" the Company from this overall concept. A description of the Group's and reinsurance group's management system is provided in the following. If Munich Reinsurance Company is not mentioned specifically, the Group or reinsurance group is meant. A description of the implications of the Group's objectives for the Company's key performance indicators is provided in the last paragraph.

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 74). 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.

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 measured on the basis of a single year, we follow the current version of the Market Consistent Embedded Value (MCEV) Principles ©[1], published by the European Insurance CFO Forum in October 2009. A presentation of MCEV is available on the Company's website.

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.

[1] Copyright© Stichting CFO Forum Foundation 2008.

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.

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

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 16). 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%). This is the ratio of the investment result of €7.9bn to the average market value of the investment portfolio at the balance sheet 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 due 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 85. 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. 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.

What do these Group targets mean for Munich Reinsurance Company's individual financial statements?

Munich Reinsurance Company is managed as part of the Group rather than as a separate entity. However, parallel to Group-related business management, individual financial statement specifics, such as the calculation of the claims equalisation provision or the application of the strict lower of cost or market principle to investments, and their impact on the German Commercial Code result, are regularly reviewed, and measures taken where needed in order to manage results. Nevertheless, indicators for the Company result are derived from the Group targets.

In underwriting, we are proceeding on the assumption that with the solid quality of our business and in line with our Group objectives, we can achieve a combined ratio of 98% on the basis of a major-loss burden from natural catastrophes of 6.5% of our net premiums earned. This would be likely to result in an allocation in 2010 to our claims equalisation provision, following the substantial withdrawal made this year. Given the current capital market situation, our return on investment based on market values is unlikely to reach our previous target of 4%. As things stand at present, we expect that we will not be able to emulate the very good German Commercial Code result achieved in the financial year 2009.

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 life and health reinsurance, 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.

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 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. Munich Reinsurance Company, among the leaders in integrated risk management, can utilise the changing industry dynamics to its advantage and exploit the business opportunities they present.

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% over the year.

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 the January to ¥133.57 at the end of December.

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 reinsurance industry, 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 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 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 the Company's risk management and ICS can be found on page 73 in the risk report.

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.

Overview and key figures

Despite the difficult market environment, Munich Reinsurance Company's business performed favourably overall in the past year.

In the financial year 2009, the Company wrote gross premiums totalling €18.3bn (16.5bn), a year-on-year increase of 11.1%. Approximately €13.0bn or 71% of premium was written in foreign currency, of which 23% was in US dollars, 16% in Canadian dollars, and 11% in pounds sterling, with some 88% (85%) of our premium income coming from business with non-German clients. As in the past, we adhered strictly to our underwriting policy of risk-adequate prices, terms and conditions. The falling prices for reinsurance cover in the last few years were succeeded in 2009 by improved price levels in many areas. In addition, we achieved a marked rise in premium volume as a result of large-volume transactions in life and health reinsurance.

Our underwriting result before claims equalisation provisions showed a profit of €505m in 2009, compared with a loss of €266m in the previous year. The positive result reflects the fact that it was not necessary to strengthen reserves to the same degree as in the previous year. On the contrary, it was possible in some classes of business to reduce reserves because the claims estimates turned out to have been too conservative. At around €1.0bn (1.3bn), claims costs for major losses were approximately 19% lower than in the previous year. Unlike in 2008, we were largely spared major claims burdens from natural catastrophes in the year under review, but recorded a significant increase in man-made losses as a result of the financial crisis. Noteworthy natural catastrophe losses included the devastating bush fires in the Australian state of Victoria, for which we incurred expenditure of around €97m. Extensive damage was also triggered by Winter Storm Klaus (especially in France and Spain) in January 2009, costing us around €71m. The largest man-made losses were mainly claims in credit and surety reinsurance business, for which our claims costs totalled approximately €343m. An explosion in a Russian hydropower plant also caused a severe loss, giving rise to claims expenditure for us of some €96m.

The combined ratio, which reflects the relation of claims and costs to net earned premiums, came to 98.2% (102.4%). Excluding claims burdens from natural catastrophes, it amounted to 96.8% (97.1%).

The following table shows our expenditure for major losses in the past five years (with the percentage for natural catastrophe losses):

Major losses over €10m (net)[1]	2009	2008	2007	2006	2005
€m					
Major losses total	1,037	1,286	1,006	605	2,972
Thereof natural catastrophes	171	622	537	158	2,467

[1] 2007 and earlier adjusted owing to an increase in the threshold for major losses.

We had to withdraw €720m (786m) from the claims equalisation provisions in the year under review, the main reason being the losses caused by the financial crisis. After the changes in claims equalisation provisions, our underwriting result showed a profit of €1,225m (520m).

Our investment result totalled €3,104m, a decrease of €925m compared with the previous year, which had benefited in particular from the special dividend payment of €947m by ERGO Versicherungsgruppe AG. In accordance with German commercial law, some €653m (463m) of the investment result is incorporated in the technical result as interest on technical provisions.

The Company's return on investment (including deposits retained on assumed reinsurance) totalled 4.4% (5.6%) on the basis of carrying amounts. Based on market values, the return was 4.0% (5.0%).

Munich Reinsurance Company's results	2009	2008	2007	2006	2005
€m					
Technical result	1,225	520	-337	-122	-1,706
Investment result without interest on technical provisions	2,450	3,566	2,894	2,339	1,391
Other result	-297	-439	-465	-301	-278
Taxes	-920	-660	-649	-221	-399
Profit/loss for the year	2,458	2,987	1,443	1,695	-992
Net retained profits	**1,291**	**1,567**	**1,198**	**1,033**	**712**

In the financial year 2009, we posted a profit for the year of €2,458m. After the transfer of €1,229m to our revenue reserves and consideration of the profit carried forward, net retained profits totalled €1,291m. Of this amount, €1,088m has been earmarked for payment of a dividend of €5.75, and €156m for allocation to the revenue reserves.

Events after the balance sheet date

Under the share buy-back programme decided on by the Company's Board of Management in the fourth quarter of 2009, we repurchased a further 2,760,659 Company 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 Reinsurance Company is exposed in the regions concerned.

Classes of business

In **life reinsurance**, we posted a significant increase in premium volume in the year under review. This increase was primarily due to a number of large-volume transactions we were able to realise with clients in North America, Asia and Continental Europe thanks to our financial solidity and acknowledged risk expertise. On the other hand, the consequences of the global recession had a negative impact on our clients' business.

However, as hitherto, we expect fundamental growth impulses for our future new business to come from such developments as the restructuring of the European solvency regime (Solvency II), the continuing privatisation trends in the 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, our solutions in the area of solvency relief and capital strengthening met with rising interest not only in Germany but also in the Asian life insurance markets.

We achieved a very positive result in life reinsurance thanks to the increased business volume. We anticipate good growth opportunities in the coming years, given such factors as the demand for investment risk protection and the dynamic expansion of the Asian life insurance markets.

In **health reinsurance**, we also posted a strong increase in premium volume in the year under review, mainly owing to a new multi-year quota share treaty in the North American market.

For German statutory health insurance, the past year was dominated by the introduction of the new health fund, leading to a reorganisation of financing in this field as from 1 January 2009. The government 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. Given the strained financial situation in 2009, they had to minimise their investment risk, a fact that could increase their need for new types of reinsurance solution. Private health insurance, too, is beginning to show a greater need for reinsurance protection against large and catastrophe losses as new advances are made in medicine.

In the Gulf region, we succeeded in maintaining premium income levels, despite the general recession, thanks to our business model combining reinsurance and risk management through our managed care service organisation MedNet. The Gulf region – with its economic and population growth, rise in chronic diseases and increasing privatisation trend in the health sector – promises high growth in the medium to long term.

The result was satisfactory, being slightly up on the previous year.

In **accident reinsurance**, we recorded a marginal decrease in premium volume in the year under review, partly because business with inadequate original rates was scaled back in Germany.

Although the result was significantly better than in the previous year, it was still negative and below expectations. The chief reason for the improved performance was that, unlike in the previous year, there was no need to strengthen the reserves for workers' compensation business.

Our premium income in **liability reinsurance** showed a modest rise in the year under review. Market players' risk awareness was high, leading to realistic estimates of potential losses and therefore to risk-adequate prices. We consistently adhered to our profit-oriented pricing and underwriting discipline and withdrew from unprofitable business.

The year-on-year decrease in the result was essentially triggered by the strengthening of reserves for loss expenditure in the area of professional indemnity and in classes of business affected by the financial crisis, e.g. directors' and officers' liability, as well as by higher major-loss expenditure on account of large man-made losses.

We recorded a significant decline in premium volume in **motor reinsurance**, mainly because of the adverse developments in primary insurance premiums. The pressure on rates persisted on a broad front in Germany and Asia, causing us to systematically withdraw from business where our requirements with regard to risk-adequate prices, terms and conditions could not be realised.

By contrast, the result improved appreciably compared with the previous year and was positive - especially pleasing given that it had been negative in the previous year. The reason for this favourable development was that, unlike in 2008, there was no need to strengthen reserves for motor liability claims due to unexpectedly high losses reported. We will continue to participate very selectively in this business, provided it offers sufficient profitability on a sustained basis.

Premium income in **marine reinsurance** declined slightly over the previous year.

The result, however, was marginally up on the previous year, thanks to lower major-loss expenditure from a comparatively small number of natural catastrophes.

Premium income in **aviation reinsurance** showed a rise in the two volatile classes of aviation and space.

The market for aviation and space risks was impacted by major losses in the year under review. Space business continued to be characterised by overcapacity, in spite of several satellite losses. However, our position as market leader and the conclusion of long-term treaties enabled us to largely avoid the consequences of 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.

The result in aviation reinsurance rose moderately compared with the previous year.

In **fire reinsurance**, premium income grew year on year, mainly owing to better rates, e.g. for natural catastrophe treaties (especially with US hurricane exposure). As in the past, we systematically refrained from writing business that did not meet our requirements for risk-adequate prices, terms and conditions.

The result improved significantly compared with the previous year, chiefly due to the low claims costs for major losses.

There was a reduction in premium income in **engineering reinsurance** (machinery, EAR, CAR, EEI, etc.), partly due to our strict profitability criteria and a decline in treaty renewals as a consequence of reduced construction activity in the difficult financial market situation.

We were able to post a slight improvement in the result compared with the previous year.

Under **other classes of business**, we subsume the remaining classes of property reinsurance – burglary, plate glass, hail (including agricultural reinsurance), water damage, contingency, windstorm, livestock and householders' and homeowners' comprehensive reinsurance – as well as credit and fidelity guarantee reinsurance.

Premium volume in these classes was lower than in 2008. The reduction in premium income was especially pronounced in agricultural reinsurance, owing to reduced crop prices, treaty cancellations and lower shares.

While we were able to post a positive figure for the combined underwriting result of these classes of business in the previous year, the result for the year under review was highly negative, the main reason being the increase in major-loss expenditure compared with the previous year. Defaults triggered by the financial crisis led to high claims expenditure in credit and surety business.

	Gross premiums written		Underwriting result before claims equalisation provision and similar provisions	
€m	2009	2008	2009	2008
Life	5,415	4,050	303	34
Health	1,964	884	19	14
Accident	354	379	-160	-339
Liability	1,465	1,443	-786	-338
Motor	1,618	1,968	70	-296
Marine[1]	960	985	63	52
Aviation	590	519	56	38
Fire	3,282	3,055	1,356	328
Engineering	1,061	1,283	150	109
Other[1]	1,613	1,929	-566	132
Non-life combined	12,907	12,445	202	-301
Total	**18,322**	**16,495**	**505**	**-266**

[1] The previous years's figures have been adjusted owing to a change in class of business allocation.

Claims equalisation provision and similar provisions

The **claims equalisation provision and similar provisions**, whose calculation and recognition are largely governed by law, can substantially influence the underwriting result shown.

The claims equalisation provision serves to mitigate fluctuations in the annual claims requirements of future years, which even in the case of a homogeneous and adequately large insurance portfolio can be significant from one accounting period to the next. Based on past statistics, the provision can smooth the financial effects of the random occurrence of above-average and below-average claims in individual financial years. The claims equalisation provision is established for individual classes of property-casualty business.

The item "similar provisions" combines provisions for major risks established for exceptional cases in underwriting where it is not possible to form a risk community that is sufficiently large and homogeneous to balance the risk within a determinable period of time. Allocations to a provision for major risks have the character of advance claims payments and must be held in reserve until the maximum amount of a possible total loss or the maximum liability determined by actuarial models is reached. Major risks are only insurable if a balance of risks over time is provided through the establishment of reserves over several financial years. A provision for major risks therefore does not serve to balance annual fluctuations but to deal with very rare individual occurrences that have exceptional loss potential. This item embraces provisions for nuclear risks, pharmaceutical product liability risks and terrorism risks.

The balance-sheet item "claims equalisation provision and similar provisions" decreased by €720m to €8,024m in the financial year 2009. Significant withdrawals were made in liability (€475m) and credit business (€431m) to strengthen reserves in these classes because of negative performance, mainly on account of the financial crisis. In addition, the maximum amounts allowed for the claims equalisation provision in engineering and motor had to be reduced by €126m and €82m respectively, owing to lower premium income. By contrast, the positive results in fire and marine business triggered allocations of €208m and €110m to the statutory claims equalisation provisions for these lines. Further allocations made by the Company in the financial year 2009 were €6m (13m) to the provision for terrorism risks, €4m (-1m) to the provision for pharmaceutical/product liability risks, and €1m (-4m) to the provision for nuclear risks.

Investments

Investments 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 Company's the risk appetite. 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.

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 rating agency for sustainability, to advise us in this area.

Liquidity

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

Investment mix	**31.12.2009**	31.12.2008	31.12.2007	31.12.2006	31.12.2005
€m					
Land, land rights and buildings, including buildings on third-party land	**900**	863	824	981	1,005
Investments in affiliated companies and associates	**27,014**	23,675	21,831	12,293	12,054
Loans to affiliated companies and participating interests	**1,799**	2,002	703	247	211
Shares, investment certificates and other non-fixed-interest securities	**5,002**	5,163	7,839	14,590	15,385
Bearer bonds and other fixed-interest securities	**20,927**	21,707	21,419	21,915	19,266
Other investments	**717**	815	919	458	522
Total	**56,359**	**54,225**	**53,535**	**50,484**	**48,443**

Development and structure of investments

The carrying amount of the Company's investments (excluding deposits retained on assumed reinsurance) rose by 3.9% to €56.4bn in the financial year 2009. The following items involved significant changes:

Land, land rights and buildings, including buildings on third-party land

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 expanded our portfolio only slightly in the period under review.

Investments in affiliated companies and participating interests

Carrying amounts increased by €3.3bn. In the 2009 financial year, a further €1.8bn was put into investment companies holding special funds for fixed-interest securities. The profits achieved by these investment holding companies were withdrawn by Munich Reinsurance Company and reinvested in participations. This raised the carrying amount of participations by €0.5bn. A capital increase of €0.4bn was carried out at Munich-American Holding Corporation for the acquisition of the Hartford Steam Boiler Group. An amount of €0.5bn for the refinancing of intra-Group loans was allocated to the capital reserve of Itus (formerly Mercur Assistance Holding) in the year under review.

Loans to affiliated companies and to participating interests

The reduction in carrying amounts totalling €203m was mainly due to the granting of loans to ERGO Versicherungsgruppe AG.

Shares, investment certificates and other non-fixed-interest securities

The portfolio reduction of €161m is attributable to a significant decrease in our equity portfolio, the bulk of which comprises shares in European companies.

Bearer bonds and other fixed-interest securities

At €20.9bn, investments in fixed-interest securities decreased by around 4%, primarily due to reallocations from our direct portfolio to investment holding companies. This portfolio reduction was partly offset by positive currency translation effects.

Our balanced investment policy is reflected in our portfolio of fixed-interest securities: some 72% are government bonds or similarly secure instruments for which public institutions are liable; approximately 28% relates to German and US issuers. Additionally, around 8% of our investments are in securities and debt instruments with top-quality collateralisation, mainly German and European pfandbriefs. Over the course of the year, we cautiously expanded this portfolio of credit-exposed fixed-interest securities. Particularly in the first half-year, we took advantage of the extremely pronounced widening of risks spreads between corporate and government bonds to prudently improve our position and secure higher interest income. At 9%, the portfolio of corporate bonds remained practically unchanged compared with the previous year.

As protection against the risks of future inflation and the rise in interest rates typically associated with this, some 12% of our investments are held in bonds for which the interest and redemption amounts are linked to the rate of inflation (inflation-indexed bonds). In this way, we have also compensated to some degree for the risks arising from an inflation-related increase in our claims payment obligations.

Our portfolio of interest-bearing investments has a good rating structure. As at 31 December 2009, approximately 99% of our fixed-interest securities were investment-grade and 93% were rated "A" or better.

Deposits retained on assumed reinsurance business

Deposits retained on assumed reinsurance declined by €2.7bn to €13.8bn year on year, the decrease being mainly attributable to our withdrawal from a quota share treaty.

Valuation reserves

In accordance with Section 54 of the German Accounting Regulations for Insurance Companies, investments accounted for at nominal value are included in the off-balance-sheet valuation reserves as well as investments accounted for at amortised cost. Our off-balance-sheet valuation reserves, i.e. the difference between the fair value of our investments and their book value, increased by €19.5%, or €1.2bn. A detailed breakdown of the reserves is provided in the notes on page 109.

Valution reserves	31.12.2009	31.12.2008	31.12.2007	31.12.2006	31.12.2005
€m					
Real estate	1,344	1,303	1,309	1,632	1,509
Equity investments	4,920	3,878	9,009	8,884	7,683
Fixed interest securities[1]	918	829	697	531	844
Total	**7,182**	**6,010**	**11,015**	**11,047**	**10,036**

[1] As from 2007, investments recognised at nominal value are taken into account as well as investments at amortised cost.

The increase in the valuation reserves on equity investments is due on the one hand to higher earnings potential owing to a strategic realignment of our insurance participating interests and on the other hand to a change in the parameters for calculating discounted net profits. The fair value of investment holding companies with fixed-interest securities in funds was also higher.

Result

In the financial year 2009, our investment result was down €925m on the previous year, which had benefited from the special dividend payment of €947m from ERGO AG.

Investment result	2009	2008	2007	2006	2005
€m					
Regular income	2,480	3,751	3,797	3,166	2,873
Write-ups/write-downs	3	-643	-319	-152	-1,948
Net realised capital gains	1,005	1,647	1,028	981	1,846
Other income/expenses	-384	-726	-813	-687	-216
Total	**3,104**	**4,029**	**3,693**	**3,308**	**2,555**

The table below shows the investment result for the past five business years broken down by type of investment:

Breakdown of investments by type	2009	2008	2007	2006	2005
€m					
Real estate	-3	35	32	70	48
Investments in affiliated companies and participating interests	718	1,350	285	265	-104
Loans to affiliated companies and participating interests	69	73	9	6	-1,234
Shares, investment certificates and other non-fixed-interest securities	900	1,507	1,835	1,489	1,570
Bearer bonds and other fixed-interest securities	1,132	724	793	576	930
Other investments	288	340	739	902	1,345
Total	**3,104**	**4,029**	**3,693**	**3,308**	**2,555**

Financial position

Analysis of our capital structure

Investments on the assets side of the balance sheet serve mainly to cover technical provisions (69.1% of the balance sheet total). Equity (14.4% of the balance sheet total) and subordinated bonds classified as strategic debt (6.1%) are the most important sources of funds.

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. 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 €251m. A detailed analysis of the structuring of this type of funding is provided in the section on strategic debt on page 41.

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 €978m in 2009, owing to the high profit for the 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 €8.1bn (7.1bn).

Asset-liability management

The structure of our technical provisions and other liabilities is the basis for the Company'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 80 of the risk report.

Capital management

Through active capital management, we ensure that the Company's capital is maintained at an appropriate level. Our 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 return surplus capital to equity holders through attractive dividends and share buy-backs, within the scope permitted by Munich Reinsurance Company's revenue reserves, 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 proposed 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, we had bought back a total of 3.2 million Munich Re shares with a volume of €350m. 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 from the net retained earnings for the financial year 2009.

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 our results and capital 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. Further information on the internal risk model is provided in the risk report on page 85.

Equity

In the year under review, our equity increased by €978m to €10,760m, or by 10% compared with the previous year. 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 €406m in 2009, which we offset against the revenue reserves. €1,073m of the net retained profits for the previous year was distributed as a dividend to shareholders.

These withdrawals compare with a profit for the financial year 2009 of €2,458m. To strengthen our equity, a total of €1,229m from the profit for the financial year has been allocated to the revenue reserves. Of the remainder totalling €1,291m, €1,088m has been earmarked for the dividend payment and another €156m for allocation to the revenue reserves.

Equity	**31.12.2009**	31.12.2008	31.12.2007	31.12.2006	31.12.2005
€m					
Equity	10,760	9,782	9,306	11,155	10,417

Information in accordance with Section 289 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 (BaFin). 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 €56.5 m. 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.

Strategic debt	31.12.2009
€m	
Subordinated bond 2003/2023, €2,900m[1]	2,900
Subordinated bond 2003/2028, £300m	338
Subordinated bond 2007/perpetual, €1,349m[2]	1,349
Bank borrowing, US$ 250m	174
Total	**4,761**

[1] With original nominal value of €3,000m (thereof €2,900m outstanding).
[2] With original nominal value of €1,500m (thereof €1,349m outstanding).

The subordinated bond with an original volume of €1.5bn issued by Munich Reinsurance Company in June 2007 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 nominal values of €3.0bn 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 bought back and retired subordinated bonds with a nominal value of around €251m.

The Company strengthens its capitalisation with these subordinated bonds, which are recognised in part as own funds by the German Federal Financial Supervisory Authority (BaFin).

Furthermore, in 2009 Munich Reinsurance Company assumed a strategic bank loan totalling US$ 250m from Munich Re America Corporation, which we show under amounts owed to banks. The residual term of this liability is 2012.

Solvency

Solvency in the case of insurance companies is generally understood to be the ability of an insurer to always meet the obligations assumed under contracts. In concrete terms, this means an insurance company must fulfil specific minimum capital requirements. To calculate 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 company's financial statements. In determining the eligible capital elements, the equity is adjusted; specifically, it is increased by portions of the subordinated liabilities and reduced by intangible assets, participations in banks, financial services institutions and financial services companies. Munich Reinsurance Company's equity capital still amounts to several times the statutory minimum requirement.

Analysis of the cash flow

Munich Reinsurance Company's cash flow is strongly influenced by our operating business. 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 inflows from operating activities** remained clearly positive, owing to increased premium volume with a moderate overall claims burden. In addition, there was a reduction in accounts receivable and deposits retained on assumed reinsurance.

Opposite trends resulted in **cash outflows from investing activities**. On balance, outflows for allocations of capital to affiliated companies and company acquisitions exceeded inflows from reductions in our portfolio of equities and investment funds.

The share buy-back programme resumed in autumn 2009, the repayment of liabilities and Munich Reinsurance Company's dividend payment for the past financial year resulted in **cash outflows for financing activities**.

In the year under review, cash - which encompasses cash with banks, cheques and cash in hand - rose by €57m to €216m overall.

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 Reinsurance Company works 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).

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.

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.

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/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.

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 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.

An average of 3,969 (3,649) staff were employed at Munich Reinsurance Company in 2009, an increase of 9%.

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 also give high priority to the qualifications and personal development of our staff. 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.

An average of 37 (37) trainees were employed at the Company last year, while ten staff from four different years were enrolled on a training-integrated Master of Science course.

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%).

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 our investments in assets that are included in a sustainability index like the Dow Jones Sustainability or satisfy generally recognised sustainability criteria. In addition, we have tightened our sustainability criteria for corporate and bank bonds since 2007 and are convinced that taking account of such criteria in our investments will have a favourable effect 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.

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.

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) Purchasing 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.

Security and availability

Ensuring the protection of persons, information and infrastructure is of fundamental importance for the Company. 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.

Corporate governance statement

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.

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 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.

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 49.

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 120. 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 70 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.

Internal regulation and working procedure

An overview of the members of the Supervisory Board can be found on page 121 ff. Additional information on the current members of the Supervisory Board (shareholder representatives) is available on our website.

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 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 2 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 shareholder 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 56 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

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

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.

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 circumstances	-
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 16. 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 pages 118 to 119 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 116–117 in the notes to the financial statements.

Weighting of the 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 compensation 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 117 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. 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 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 members of the Board of Management 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 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 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	**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 €295,722 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 the 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 pages 117 and 119. 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 the 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 €3.4m (-0.2m) were incurred in the financial year 2009 to finance the pension entitlements for active members of the Board of Management. Of these, €0.7m was apportionable to defined benefit plans and €2.8m 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[2]	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**	**6,414**	**68**	**25,978**	**579,029**
	2008	407,100	-177,198	-	-	-
Dr. Ludger Arnoldussen	**2009**	**157,500**	**-227,435**	**59**	**10,742**	**216,319**
	2008	157,500	286,643	-	-	-
Dr. Thomas Blunck	**2009**	**120,000**	**43,624**	**65**	**13,375**	**256,762**
	2008	120,000	-33,085	-	-	-
Georg Daschner[3]	**2009**	**190,000**	**353,178**	**-**	**-**	**-**
	2008	180,000	83,894	-	-	-
Dr. Torsten Jeworrek	**2009**	**171,000**	**87,921**	**78**	**21,215**	**435,390**
	2008	171,000	-67,205	-	-	-
Dr. Peter Röder	**2009**	**90,000**	**105,708**	**81**	**12,547**	**260,752**
	2008	90,000	-102,093	-	-	-
Dr. Jörg Schneider	**2009**	**275,000**	**52,340**	**66**	**18,566**	**397,130**
	2008	275,000	-111,474	-	-	-
Dr. Wolfgang Strassl	**2009**	**120,000**	**110,423**	**84**	**15,249**	**339,944**
	2008	120,000	-36,287	-	-	-
Dr. Joachim Wenning[4]	**2009**	**-**	**11,741**	**102**	**12,159**	**278,755**
	2008	-	-	-	-	-
Total	**2009**	**1,530,600**	**654,337**		**129,831**	**2,764,081**
	2008	1,520,600	-156,805		-	-

[1] Value of vested pension at 31 December 2008.
[2] Expenses for defined benefit plan, including provision for continued payment of salary for surviving dependants.
[3] No transfer to defined contribution system, as Board member had already reached 55 at the conversion date.
[4] 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 payout amount 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 payout amount 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 16. 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 payout amount 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 payout amount is invested in Munich Reinsurance Company shares that the Board member must hold 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 with effect from 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 16. 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 58–59.

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 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 result-related annual 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,	**2009**	**57,808.22**	**50,000.00**	**0.00**	**107,808.22**
until 22.4.2009 Deputy Chairman	2008	67,500.00	22,500.00	20,250.00	110,250.00
Hans Peter Claußen,	**2009**	**52,191.78**	**17,397.26**	**0.00**	**69,589.04**
Deputy Chairman (from 22.4.2009)	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)	**2009**	**16,291.64**	**-**	**0.00**	**16,291.64**
(until 23.6.2009)	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.

Risk report

Risk governance and risk management system

The selective acceptance of reinsurance risks is at the core of our business model. Compliance of our risk early-warning system with the legal requirements is regularly examined independently, both by internal auditing units and by the external auditor as part of the annual audits. Whilst we are in a position to adequately assess risk situations, the growing complexity and dynamism of the environment in which we operate means that there are, naturally, limits. This risk report reflects the German Accounting Standard DRS 5-20.

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. In this process, Munich Reinsurance Company is included in the risk management of the reinsurance segment.

Organisational structure To ensure that its risk management is efficient and effective, 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.

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. 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.

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 We operate 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. Our 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 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

Risk measurement We are constantly refining the tools we use to measure risks. Our suite of tools is tailored to the business or operational segment we are monitoring. This enables us to properly assess the risks of Munich Reinsurance Company as a part of the reinsurance segment. 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 segment and risk type. We also regularly perform outside-in benchmarking of our capital-model results and participate in industry surveys to constantly challenge and continuously refine our risk measurement tools. We compare our model with the current status of Solvency II and take part in the Quantitative Impact Studies.

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

Risk limitation is 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 criteria, whilst simultaneously taking account of business interests. 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. 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. The Board of Management has 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 its 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 operational units 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, our published financial statements are correct.

Underwriting transactions and general business are in principle accounted for locally, i.e. in Munich and at our offices abroad, while accounting for investments is carried out centrally by our service provider MEAG. The centralisation and introduction of global sub-ledgers is not yet fully complete and is currently being implemented.

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 the Company's 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. The process of change in accounting is subject to stringent procedure as regards timing, responsibilities and circulation of information. A standardised "enforcement" process is used to ensure that the accounting regulations are implemented and complied with.

The financial statements are prepared using a fast-close procedure in a central system. Clearly documented instructions and controls are in place for the closing process.

At the branches included in the financial statements, transactions are posted using a globally standard ledger with harmonised basic data, standard processes and posting rules, and standard interfaces to the underwriting and investment sub-ledgers. The rules for access to accounting systems are clearly defined using systems of authorisation.

Dual control is applied throughout the process of producing the 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 as regards the individual risk categories (ongoing). 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 Company's risk situation. This includes information on our risk management methods and processes, our risk governance, and the individual risks to which the Company 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

We classify risks as significant if their implications are serious enough to endanger Munich Re's continued existence or reputation. Taking into account the relevant risk tolerance, we have applied this definition consistently to the individual business units. The assessment of whether a risk is significant for a unit within the meaning of this definition is carried out in the risk management unit IRM.

Specifically, we distinguish between the following categories from which significant risks can arise.

Underwriting risk: Property-casualty insurance This is defined as the risk that insured losses in property-casualty business may be 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 being insufficient to cover losses that have already been incurred.

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 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 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.

We are convinced that the reserves we have posted comply with accepted actuarial principles and are sufficient for all unpaid claims and actuarial liabilities that Munich Re has to meet on the basis of its contractual conditions and agreements.

The net run-off loss (excluding life business) after adjustment premiums decreased by €152m to €281m compared with the previous year. Significant run-off losses after adjustment premiums resulted in the year under review mainly in liability and credit reinsurance, owing to the aforementioned claims burdens from the financial crisis in the lines of D&O and credit and surety business. Further run-off losses were recorded in accident reinsurance. By contrast, run-off development was positive above all from fire, motor and engineering business, chiefly due to the fact that it was not necessary to strengthen reserves to the same degree as in the previous year. Also, we were able to reduce some reserves because the claims estimates turned out to have been too conservative.

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.

Besides other key indicators, combined ratios are important for us in monitoring the premium/claims risk in property-casualty reinsurance.

Combined ratios for the last ten years	2009	2008	2007	2006	2005[3]	2004	2003	2002[2]	2001[1]	2000
in %										
Including natural catastrophes	98.2	102.4	95.9	97.9	117.0	96.4	93.8	108.3	127.4	115.7
Excluding natural catastrophes[4]	96.8	97.1	91.5	96.6	97.5	91.2	92.3	105.0	126.2	111.9

[1] Thereof World Trade Center 15.9%.
[2] Thereof World Trade Center 3.5%.
[3] Thereof effect of assuming discounted claims provisions from Munich Re America: 8.7%.
[4] 2007 and prior years adjusted due to an increase in the threshold for large losses.

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 may be higher than expected.

In life reinsurance, biometric and lapse risks are especially relevant. Mortality and disability are the most significant biometric risks. 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 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.

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.

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. 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). Applying stress tests, sensitivity and duration analyses, we simulate market fluctuations and devise strategies for counteracting them where necessary.

We mainly use derivative financial instruments to hedge parts of the portfolio, optimise earnings or implement planned purchases and sales. For this, strict rules apply as regards the limitation of risks and the choice of top-quality business partners. Adherence to these rules is continually monitored.

Beyond this, derivatives are used in isolated cases to hedge against risks assumed in underwriting business. Securitisation of insurance risks and their placement on the capital markets is gaining in importance as an instrument of risk transfer to supplement traditional reinsurance. Here, an underwriting risk is ceded by way of a retrocession contract (swap contract) to a special-purpose vehicle (insurance derivatives I). The special-purpose vehicle covers potential liabilities arising from the contract by issuing insurance bonds (cat bonds). In addition, Munich Reinsurance Company itself has cat bonds in its portfolio. These in turn contain derivative components to be accounted for separately (insurance derivatives II). The options on catastrophe and reinsurance risks (insurance derivatives III) also serve a hedging purpose. Further information on the carrying amounts and fair value of the derivatives is provided on page 106 in the notes to the financial statements.

With the exception of equity futures, stock index futures, Bundfutures and interest-rate index futures, all the derivatives are over-the-counter products.

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.

The following sensitivity analyses for market risks serve to estimate potential changes in the value of investments under hypothetically possible market scenarios. The review is based on the Company's investments excluding participations in insurance companies, holding and service companies as at 31 December 2009. The changes in share price assumed in these scenarios, ±10% and ±20% respectively, a corresponding shift in the interest rate curve of ±100 and ±200 basis points (BP) respectively, and a fluctuation in exchange rates of ±10%, would produce the following changes in the market value of the investments:

Market risk - Share prices	Change in market value of investments sensitive to share prices
Increase of 20%	€0.691bn
Increase of 10%	€0.345bn
Decrease of 10%	-€0.345bn
Decrease of 20%	-€0.690bn
Market values at 31 December 2009	€2.713bn

Market risk - Interest rates	Change in market value of investments sensitive to interest rates
Increase of 200 BP	-€3.527bn
Increase of 100 BP	-€1.887bn
Decrease of 100 BP	€2.134bn
Decrease of 200 BP	€4.514bn
Market values at 31 December 2009	€37.156bn

Market risk - Exchange rates	Change in market value of investments sensitive to exchange rates
Increase of 10%	€1.745bn
Decrease of 10%	-€1.745bn
Market values at 31 December 2009	€21.948bn

A breakdown of investments if available on page 30.

Risks from our portfolio of participating interests are controlled by closely involving the companies concerned in our Group-wide planning and controlling process.

Credit risk We define credit risk as an economic loss which the Company could incur as a result of changes in the financial profile of a counterparty, issuer of securities or other debtor with liabilities towards us.

In addition to credit risks arising out of investments and transactions with suppliers and clients, we actively assume credit risk through the writing of 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.

Our internal risk model also takes account of a wide range of specific drivers that impact on our credit exposure. Credit risk emanating from the insurance and investment sides of the balance sheet are considered. On the insurance side, we model trade credit, surety and bonding, and political risks. We also take into consideration credit risks associated with claims on our retrocessionaires after allowing for any collateralisation. On the investment side, credit risks are measured and limited using the Credit-Value-at-Risk (CVaR) approach with a standard "asset value" model. The main input parameters are our investment volume, the migration matrix between different rating classes, interest-rate curves and recovery rates. The correlated rating class migrations and defaults of the respective bond issuers are modelled using a simulation. Revaluation of our investments under these rating scenarios ultimately leads to a future profit and loss distribution. Hence, we can then adequately capitalise for this risk and manage our portfolio with respect to its expected and unexpected loss.

In order to monitor and control our credit risks, we have implemented a cross-balance-sheet counterparty limit system. The limits per individual counterparty (a group of companies or country) are based on its financial situation and the risk tolerance defined by the Board of Management. The limit per counterparty is broken down for the 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.

In order 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 cessions in the reinsurance market.

Ceded claims provisions and provisions for future policy benefits	31.12.2009	Prev. year
%		
AAA	15.5	19.5
AA	83.0	78.7
A	0.1	0.0
BBB or lower	0.0	0.0
No rating available	1.4	1.8

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. In our fixed-interest investments, we control the related credit risk by selecting issuers of suitable quality and observing counterparty limits. We set very high standards for issuers, which are also reflected in our investment principles. There are additional limits on investments in structured products according to their risk profile.

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
€m	
AAA	0.1
AA	15.0
A	108.2
BBB or lower	0.1
Without external rating	10.5

€36.8m 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 total €2.8m.

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 75). 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 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.

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 takes account of the following:

// 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 Munich Re's success 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.

Overview of the risk situation

Munich Re's risk situation in 2009: manageable and under control

We assess our risk situation on the basis of qualitative and quantitative factors. This assessment is carried out by central risk management. Throughout the entire period under review, the Company'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 consciously take and can therefore assess very well (see below), there are a large number of other risks to which Munich Reinsurance Company - like every other company - 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 Company to identify such risks in good time and to take suitable measures to avert loss or damage.

Internal risk model

For a quantitative assessment of the overall risk situation, we use our internal model, whose design follows a bottom-up approach. We have selected the financial year as the period for evaluating risk capital requirements at Group level. Risks within this period are covered by risk-based capital derived from our risk tolerance. All risks beyond the annual timeline are accounted for by the costs of holding risk-based capital over time. In so doing, we follow the "cost of capital" approach. In determining the risk capital, we examine the risk segments "underwriting", "market", "credit" and "operational risks". Within underwriting risks, we distinguish between property-casualty and life and health risks. Further subcategories are applied to these risk types - for example, for the property-casualty reinsurance segment, we distinguish between natural catastrophe risks, other accumulation losses (such as terrorism or liability accumulations), large losses and basic losses. Those risks are first modelled separately. In a further step, the risks are aggregated using a combination of empirical and judgemental techniques that allow for the risks of so-called "tail dependencies" (e.g. the risk that extreme events happen at the same time in different lines of business, geographies, and risk types) and the overall risk is thereby quantified.

Regulatory and rating-agency capital requirements

Munich Reinsurance Company meets the regulatory solvency requirements stipulating a specified minimum capitalisation supplemented by the criteria of specific ratings from the major rating agencies. More information is given in the "Financial position" section.

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 in the financial sector – measured at market values – amounted to around €4.6bn at the end of the financial year. Much of our exposure (around 16%) is to the German financial sector. We took various measures during the year to counter the risk arising out of our exposure to the financial sector, 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 and 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 interactions 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 of Munich Reinsurance Company 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 the Company 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. 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 CEIOPS (Committee of European Insurance and Occupational Pensions Supervisors) at the 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 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 Reinsurance Company'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
// After systematic reallocation of investments from equities to interest-bearing instruments, expected return on investment distinctly below 4%
// Adherence to long-term result target of 15% on risk-adjusted capital (RORAC) after tax over the cycle
// Dividend proposal for 2009: €5.75 per share

Predictions about the forthcoming development of our Company 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 by repositioning ourselves in reinsurance. Our new Munich Re brand highlights our sharpened value proposition in offering clients tailor-made insurance solutions.

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 German economy is likely to recover in line with 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. Growth dynamics in the emerging countries should be somewhat more pronounced. 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

Underwriting

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. 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 Market Consistent Embedded Value 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. Outside Germany the connections between our Group's health insurers and their 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.

Renewals at 1 January 2010: Munich Re's stability, global presence and diversification have paid off

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.

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 property-casualty reinsurance overall, our expectation for 2010 is a combined ratio of around 98% of our net earned premiums, and we project a combined ratio of some 97% over the market cycle as a whole. This projection is based on an average major-loss burden of 6.5% from natural catastrophes, which takes account of shifts in the portfolio. Since we were affected by very severe accumulation loss events at the end of February 2010, i.e. the earthquake in Chile and Windstorm 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. This estimate involves a number of imponderables deriving from the random incidence of major individual losses and from the fact that recession-related exceptional burdens cannot be disregarded in view of the still uncertain and 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 carbon emissions in Europe and thus curbing global warming.

In 2010, reinsurance (including health reinsurance written by Munich Health) should post a slight increase in gross premiums 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.

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 holdings of corporate bonds with 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 nominal government bonds compared with the previous year.

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.

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.

In previous years, we cut back our investment in real estate and kept it more or less constant at a market value of €2.2bn in 2009. Real estate thus accounts for a share of 3.5% of Munich Reinsurance Company's investments (excluding deposits retained on assumed reinsurance). 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 distinctly below 4% on the portfolio for reinsurance business.

Munich Reinsurance Company

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.

The Company 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.

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. In addition, given the volatility of the claims equalisation provision, a result forecast is subject to considerable uncertainty. We are generally proceeding on the assumption of a combined ratio of 98%, based on a major-loss burden from natural catastrophes of 6.5%. 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. The good unadjusted technical result expected would lead to an allocation to the claims equalisation provision. Since investment income is likely to decline at the same time, we anticipate that the annual result for the financial year 2010 will be below that of 2009. This is also our current expectation for 2011.

Since November 2006, Munich Reinsurance Company has 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. 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.

MUNICH REINSURANCE COMPANY REPORT ON THE 130TH YEAR OF BUSINESS 1 JANUARY TO 31 DECEMBER 2009

Balance sheet as at 31 December 2009

Assets	Notes	T€	T€	T€	T€	Prev. year T€
A. Intangible assets	**(1)**				**38,970**	**41,079**
B. Investments	**(2, 3)**					
I. Land, land rights and buildings, including buildings on third-party land				**900,228**		863,291
II. Investments in affiliated companies and participating interests						
1. Shares in affiliated companies			26,783,953			23,481,291
2. Loans to affiliated companies			1,772,415			1,975,556
3. Participating interests			229,538			194,380
4. Loans to participating interests			26,970			25,860
				28,812,876		**25,677,087**
III. Other investments						
1. Shares, investment fund certificates and other non-fixed-interest securities			5,001,698			5,163,281
2. Bearer bonds and other fixed-interest securities			20,927,378			21,706,773
3. Loans secured on property			3,134			3,774
4. Other loans						
a) Registered bonds		3,354				3,597
b) Loans and promissory notes		20,000				278,572
c) Miscellaneous		126				128
			23,480			282,297
5. Deposits with banks			572,466			271,310
6. Miscellaneous investments			117,936			257,166
				26,646,092		27,684,601
IV. Deposits retained on assumed reinsurance				13,845,062		16,538,263
					70,204,258	**70,763,242**
C. Receivables						
I. Accounts receivable on reinsurance business				**3,260,431**		2,815,329
Thereof from						
- affiliated companies: T€863,804 (644,739)						
- participating interests: T€59,793 (90,229)						
II. Other receivables				**776,733**		623,962
Thereof from						
- affiliated companies: T€87,162 (65,416)						
- participating interests: T€10,148 (0)						
					4,037,164	**3,439,291**
D. Other assets						
I. Tangible assets and inventories				**28,209**		31,047
II. Cash at bank, cheques and cash in hand				**216,225**		159,120
III. Own shares				**28**		28
					244,462	**190,195**
E. Deferred items						
I. Accrued interest and rent				**409,751**		408,099
II. Miscellaneous deferred items				**42,540**		50,784
					452,291	**458,883**
Total assets					**74,977,145**	**74,892,690**

Equity and liabilities	Notes	T€	T€	T€	Prev. year T€
A. Equity	(4)				
I. Issued capital			587,725		587,725
II. Capital reserve			6,832,037		6,832,037
III. Revenue reserves			2,049,215		794,659
IV. Net retained profits			1,291,060		1,567,418
				10,760,037	**9,781,839**
B. Subordinated liabilities	(5)			**4,586,793**	**4,810,286**
C. Special reserve	(6)			**344,948**	**344,948**
D. Technical provisions	(7)				
I. Unearned premiums					
1. Gross amount		3,416,862			3,100,139
2. Less for retroceded business		156,240			162,998
			3,260,622		**2,937,141**
II. Provision for future policy benefits					
1. Gross amount		10,481,573			11,902,063
2. Less for retroceded business		371,111			119,640
			10,110,462		**11,782,423**
III. Provision for outstanding claims					
1. Gross amount		30,842,996			30,299,321
2. Less for retroceded business		1,111,396			1,110,557
			29,731,600		**29,188,764**
IV. Provision for premium refunds					
1. Gross amount		26,425			7,718
2. Less for retroceded business		-			-
			26,425		**7,718**
V. Claims equalisation provision and similar provisions			8,024,439		8,744,424
VI. Other technical provisions					
1. Gross amount		692,915			617,944
2. Less for retroceded business		55,216			26,075
			637,699		**591,869**
				51,791,247	**53,252,339**
E. Other accrued liabilities	(8)				
I. Provisions for employees' pensions and similar commitments			656,451		618,114
II. Provisions for tax			2,028,893		1,380,524
III. Other provisions			957,184		996,475
				3,642,528	**2,995,113**
F. Deposits retained on retroceded business				**546,279**	**248,257**
G. Other liabilities					
I. Accounts payable on reinsurance business			2,318,691		2,146,992
Thereof to					
– affiliated companies: T€620,061 (846,615)					
– participating interests: T€36,681 (29,871)					
II. Amounts due to banks	(9)		501,541		1,000,005
III. Miscellaneous liabilities			466,829		309,667
Thereof towards					
– affiliated companies: T€45,076 (13,738)					
Thereof from taxes: T€130,433 (9,784)					
Thereof for social security: T€498 (15)					
				3,287,061	**3,456,664**
H. Deferred items				**18,252**	**3,244**
Total equity and liabilities				**74,977,145**	**74,892,690**

Income statement for the financial year 2009

Items	Notes				Prev. year
		T€	T€	T€	T€
I. Technical account					
1. Earned premiums for own account					
a) Gross premiums written		18,322,432			16,494,559
b) Retroceded premiums		-1,165,254			-917,500
			17,157,178		15,577,059
c) Change in gross unearned premiums		-54,220			-141,040
d) Change in retroceded share of unearned premiums		-20,052			10,202
			-74,272		**-130,838**
				17,082,906	**15,446,221**
2. Interest on technical provisions for own account	(11)			**637,263**	456,231
3. Other underwriting income for own account				**60,570**	4,035
4. Claims incurred for own account					
a) Claims paid					
aa) Gross amount		-13,001,039			-11,478,776
ab) Retroceded amount		712,554			859,855
			-12,288,485		**-10,618,921**
b) Change in provision for outstanding claims					
ba) Gross amount		*363,962*			*-164,967*
bb) Retroceded amount		-67,058			-352,075
			296,904		**-517,042**
				-11,991,581	**-11,135,963**
5. Change in other technical provisions for own account					
a) Net provision for future policy benefits			-121,554		-395,714
b) Other net technical provisions			-6,544		211
				-128,098	**-395,503**
6. Expenses for premium refunds for own account				**-21,526**	-6,157
7. Operating expenses for own account	(12, 16, 17)				
a) Gross operating expenses			-5,322,554		-4,770,785
b) Less commission received on retroceded business			298,159		184,605
				-5,024,395	**-4,586,180**
8. Other underwriting expenses for own account				**-110,356**	-49,001
9. Subtotal				**504,783**	-266,317
10. Change in claims equalisation provision and similar provisions	(10)			**719,985**	785,870
11. Underwriting result for own account	(10)			**1,224,768**	519,553

Items	Notes	T€	T€	T€	T€	Prev. year T€
II. Non-technical account						
1. Investment income	(13)					
a) Dividends from participating interests						
Thereof from affiliated companies: T€608,527 (1,358,451)			619,653			1,365,483
b) Income from other investments						
Thereof from affiliated companies: T€429,809 (359,210)						
ba) Rents from land and buildings, including buildings on third-party land		110,161				104,872
bb) Income from other investments		1,749,848				2,280,866
			1,860,009			**2,385,738**
c) Income from write-ups			300,565			262,972
d) Realised gains on the disposal of investments			1,763,809			4,163,775
e) Income from profit-transfer agreements			2,300			3
f) Income from release of special reserve			–			18,752
				4,546,336		**8,196,723**
2. Investment expenses	(12, 14, 15, 16, 17)					
a) Expenses for the management of investments, interest paid and other expenses for investments			-367,474			-742,926
b) Write-downs of investments			-297,526			-906,039
c) Realised losses on the disposal of investments			-759,032			-2,516,931
d) Expenses from loss transfers			-18,569			-1,376
				-1,442,601		**-4,167,272**
				3,103,735		**4,029,451**
3. Interest income on technical provisions				**-653,285**		-462,983
					2,450,450	3,566,468
4. Other income					**515,007**	538,803
5. Other expenses					**-812,409**	-977,649
6. Operating result before tax					**3,377,816**	3,647,175
7. Taxes on income				**-914,752**		-656,666
8. Other taxes				**-5,419**		-3,833
					-920,171	-660,499
9. Profit/loss for the year					**2,457,645**	2,986,676
10. Profit brought forward from previous year					**62,238**	74,079
11. Withdrawals from revenue reserves					**406,464**	1,386,527
12. Transfers to revenue reserves					**-1,228,823**	-1,493,337
13. Offset against shares bought back for retirement					**-406,464**	-1,386,527
14. Net retained profits					**1,291,060**	**1,567,418**

Notes to the financial statements

Recognition and measurement

Accounting basis The financial statements and management report have been prepared in accordance with the German Commercial Code and the German Stock Companies Act, the German Statutory Order on Insurance Companies' Accounting and the German Insurance Control Act, observing conservative accounting principles.

Intangible assets Intangible assets are measured at the acquisition cost less admissible straight-line amortisation or, where applicable, write-downs for impairment.

Investments Our real estate is valued at the acquisition or construction cost less depreciations admissible under German tax law, taking into account lower fair values where necessary.

The carrying amount of shareholdings in affiliated companies and other participating interests is generally the acquisition cost, written down for impairments in value where applicable.

Loans to affiliated companies and to participating interests, mortgage loans, registered bonds, and loans and promissory notes are generally recognised in the balance sheet at their nominal values. An exception are zero bonds, which are accounted for at amortised cost. The relevant premiums and discounts are shown as deferred items and placed to account pro rata temporis.

Shares, investment fund certificates, bearer bonds, fixed-interest and non-fixed-interest securities, and other investments are valued at acquisition cost or at the market price at the balance sheet date, whichever is the lower. Investments with participating interests have been classified under Section 341b of the German Commercial Code but have been valued according to the strict lower of cost or market principle, despite the alternative valuation option provided for.

Lower valuations from previous years are maintained for all our investments if the impairment in value is probably permanent. Where the market value at the balance sheet date was higher than the previous year's valuation, we have written back the value to the acquisition cost or the amortised cost.

Receivables Deposits retained on assumed reinsurance business, accounts receivable on reinsurance business and other receivables are recognised at the nominal values less any necessary adjustments of value.

Other assets Inventories are recognised at acquisition cost. Office furniture and equipment is valued at acquisition cost less admissible depreciations. The purchase price of low-value items is fully written off in the year of acquisition. Own shares are recognised at the lower of cost or fair value. Those earmarked for retirement are offset against the revenue reserves.

Deferred taxes Deferred taxes result from temporary differences between financial statement valuations and valuations prescribed for determining taxable income. We have not availed ourselves of the option under Section 274 para. 2 of the German Commercial Code to recognise deferred tax assets.

Technical provisions The technical provisions are calculated in accordance with the requirements of German commercial law. In all cases, we have taken into account the necessity of ensuring that our obligations from reinsurance business can always be met.

Unearned premiums are accrued premiums already written for future risk periods. They have been calculated in accordance with the principles of German commercial law, partly on the basis of information received from our ceding companies and partly using nominal percentages. Where unearned premiums are calculated using such percentages, these are based on many years of experience and the latest knowledge available.

The provision for future policy benefits is generally set up in accordance with the amounts reported to us by our ceding companies. Sufficient provisions, calculated using actuarial methods, have been posted for claims that have been incurred but not yet reported or not reported enough.

The actuarial assumptions used for their calculation include, in particular, assumptions relating to mortality, disablement, morbidity, 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, and only if, the original provisions for adverse deviation are no longer considered sufficient.

Provisions for outstanding claims are generally established in accordance with the amounts reported to us by our cedants. They are posted for payment obligations arising from reinsurance contracts 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 which are are 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 basically 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 parameters) and using appropriate actuarial methods. Future payment obligations are not discounted but recognised at the future settlement value.

The item "claims equalisation provision and similar provisions" contains the amounts required in accordance with commercial law to mitigate fluctuations in claims experience in future years, plus the provisions for major risks.

The "other technical provisions" mainly comprise provisions for profit commission and the provision for anticipated losses.

Technical provisions apportionable to the business retroceded by us have been calculated in accordance with the terms of the retrocession agreements.

Other accrued liabilities Following the IFRS approach, the provision for pensions is shown as the present value of the pension obligations.

In 2003, the 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 is calculated using an actuarial interest rate equivalent to the expected investment return. Moreover, based on studies of the Company's portfolio of pensioners, the mortalities of the currently used Heubeck 2005 G tables were also modified. We likewise take these mortalities into account in calculating the provisions for semi-retirement and anniversaries.

The reserve amount is €281m (278m) higher than the reserve amount pursuant to Section 6a of the German Income Tax Act, applying an actuarial interest rate of 6%. For calculating the liability, we apply an actuarial interest rate of 3.8% to 5.0%.

Except for the semi-retirement and anniversary provisions, which are measured using an actuarial interest rate of 3.3% and 5.0% respectively, the other provisions are posted in accordance with the probable requirements.

Liabilities Subordinated liabilities, deposits retained on retroceded business, accounts payable on reinsurance business, amounts owed to banks and other liabilities are stated at the amount repayable.

Foreign currency translation All business transactions are generally booked in the original currencies and recorded using the respective day's exchange rate in euros. The foreign currency amounts are retranslated for the balance sheet at the year-end exchange rate.

Realised exchange gains and realised and unrealised exchange losses are recognised in "other income" and "other expenses" respectively; unrealised exchange gains are neutralised through the formation of an appropriate provision.

The following table shows the exchange rates of the most important currencies for our business (exchange rate for €1 in each case):

Foreign currency translation	31.12.2009	Prev. year
Australian dollar	1.5953	1.99375
Japanese yen	133.56800	126.00800
Canadian dollar	1.5041	1.71600
Pound sterling	0.88845	0.96685
Taiwan dollar	45.89050	45,61860
US dollar	1.43475	1.39005
Chinese renminbi	9.79505	9.48430

Notes to the balance sheet – Assets

(1), (2) Intangible assets and investments

	Carrying amount 31.12.2008	Currency translation	Additions	Reclassi-fications	Disposals	Write-ups	Write-downs	Carrying amount 31.12.2009
	T€	T€	T€	T€	T€	T€	T€	T€
(1) Intangible assets	**41,079**	**-**	**33,442**	**-**	**-289**	**-**	**-35,262**	**38,970**
(2) Investments								
Land, land rights and buildings, including buildings on third-party land	863,291	-	127,212	-	-4,202	262	-86,335	900,228
Investments in affiliated companies and participating interests								
Shares in affiliated companies	23,481,291	21,362	3,672,373	-	-327,860	8	-63,221	26,783,953
Loans to affiliated companies	1,975,556	13	618,383	-	-821,537	-	-	1,772,415
Participating interests	194,380	112	21,462	23,441	-	-	-9,857	229,538
Loans to participating interests	25,860	1,840	270	-	-1,000	-	-	26,970
	25,677,087	**23,327**	**4,312,488**	**23,441**	**-1,150,397**	**8**	**-73,078**	**28,812,876**
Other investments								
Shares, investment fund certificates and other non-fixed-interest securities	5,163,281	24,819	1,370,209	-23,441	-1,671,996	144,617	-5,791	5,001,698
Bearer bonds and other fixed-interest securities	21,706,773	770,813	24,362,914	-	-25,942,251	155,603	-126,474	20,927,378
Loans secured on property	3,774	-	476	-	-1,116	-	-	3,134
Other loans								
Registered bonds	3,597	-112	-	-	-131	-	-	3,354
Loans and promissory notes	278,572	22,817	-	-	-281,389	-	-	20,000
Miscellaneous	128	1	-	-	-3	-	-	126
Deposits with banks	271,310	7,706	293,450	-	-	-	-	572,466
Miscellaneous investments	257,166	-	2,545,836	-	-2,679,270	75	-5,871	117,936
	27,684,601	**826,044**	**28,572,885**	**-23,441**	**-30,576,156**	**300,295**	**-138,136**	**26,646,092**
Total investments (2)	**54,224,979**	**849,371**	**33,012,585**	**0**	**-31,730,755**	**300,565**	**-297,549**	**56,359,196**
Total (1) + (2)	**54,266,058**	**849,371**	**33,046,027**	**0**	**-31,731,044**	**300,565**	**-332,811**	**56,398,166**

The statement of changes in assets and investments is shown at year-end exchange rates.

Intangible assets consist mainly of purchased insurance portfolios and software.

The carrying amount of owner-occupied property totals €241m.

Of our total investments (excluding deposits retained on assumed reinsurance) with a carrying amount of €56,359m, an amount of €7,619m is deposited with ceding companies or foreign governments or in the custody of trustees nominated by us. In addition, investments of €459m are subject to a restraint on disposal and have been transferred to the custody of a trustee solely to safeguard pension commitments and the provision for comparable benefits.

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 Re has taken up €108.3m of this bond, €37.3m in trust for companies of the ERGO Group. The bond is shown under "bearer bonds and other fixed-interest securities".

Derivatives	Balance sheet item	Carrying amount T€	Fair value T€	Notional principal amount T€
Equity and index risks				
Long stock options	–	–	–	2,152
Short equity forwards (hedging)	Other provisions	-1,460	-1,460	56,856
Stock index futures	–	–	164	6,762
Total return swaps (hedge fund certificates)	Other deferred items	21,638	11,801	290,000
Interest-rate risks				
Interest-rate swaps	Other provisions	-3,758	19,517	2,994,376
Interest-rate currency swaps	Other provisions	-3,055	-3,055	362,432
Interest-rate swaps (subordinated bond)	–	–	130,008	1,349,050
Interest-rate futures	Other provisions	-111	373	606,871
Inflation swaps	Other provisions	-514	-514	100,000
Bundfutures	Other provisions	-9,943	25,454	8,509,848
Currency risks				
Long currency options	Shares, investment fund certificates and other non-fixed-interest securities	20	20	2,500
Short currency options	Other liabilities	-34	-11	2,500
Currency forwards	Other provisions	-113,401	-105,791	6,727,294
Other transactions				
Insurance derivatives I (swaps)	Other provisions	-2,185	14,305	1,001,321
Insurance derivatives II (cat bonds)	Other provisions	-5,054	-3,183	254,603
	Other deferred items	-2,993		
Insurance derivatives III (long options)	Other investments	4,275	4,275	119,852
Credit default swaps (long options)	Other investments	104	104	12,000
Single credit default swaps (swaps)	Other provisions	-17,482	-16,920	528,623
	Other deferred items	1,434		
Basket credit default swaps	Other provisions	-11,877	-24,828	2,210,000
	Other deferred items	-9,768		
Commodity swaps	Other provisions	-789	11,558	244,293

Derivative financial instruments (derivatives) are financial instruments whose fair value is derived from one or more underlying assets.

Derivatives are generally valued at the acquisition cost or their fair value at the balance sheet date, whichever is the lower. A pending liability is taken into account through the posting of a provision for anticipated losses. Upfront payments are capitalised and amortised over the term. In the case of the interest-rate swaptions, we deviate from this rule: these investments are always accounted for at fair value.

Total return swaps are part of the hedge fund certificates. They are calculated as the difference between the total market value of the funds and the respective capital component (zerobonds), in line with the accounting requirement to divide items into a capital component and a derivative component. The carrying amounts of the insurance derivatives (swap contracts and derivatives embedded in cat bonds) are derived in the same way from the market values of the related insurance risk bonds.

The equity forwards held for hedging purposes form a single valuation unit with the hedged portfolio – the derivative is not recognised in the balance sheet; any loss on the underlying business is thus shown only to the extent that it is not compensated for by the hedging transaction. The same applies to interest-rate swaps in connection with the fixed-interest subordinated bond of €1.5bn issued by the Company in June 2007.

Recognised valuation methods are used to determine the fair values of derivatives not traded on the stock exchange. Details may be obtained from the following table.

Derivatives	Pricing method	Parameters	Pricing model
Equity and index risks			
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)
Equity forwards	Theoretical price	Money-market interest rate Share price Dividend yield	Present-value method
Equity/index futures	Quoted price	-	-
Total return swaps (hedge fund certificates)	Theoretical price	Market values of the funds Interest-rate curve	Present-value method
Interest-rate risks			
Interest-rate swaps	Theoretical price	Swap curve Money-market interest-rate curve	Present-value method
Interest-rate currency swaps	Theoretical price	Swap curve Money-market interest-rate curve Currency spot rates	Present-value method
Interest-rate futures	Quoted price	-	-
Inflation swaps	Theoretical price	Zero coupon inflation swap rates Interest-rate curve	Present-value method
Bundfutures	Quoted price	-	-
Currency risks			
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
Other transactions			
Insurance derivatives	Theoretical price	Market values of the cat bonds Interest-rate curve	Present-value method
Credit default swaps	Theoretical price	Credit spreads Recovery rates Interest-rate curve	Present-value method
Commodity swaps	Quoted price	-	-

The fair value of investments (excluding deposits retained on assumed reinsurance) amounts to €63.54bn. The relevant carrying amount totals €56.36bn. This results in valuation reserves of €7.18bn for the financial year 2009.

The valuation reserves contain hidden losses of €119m for investment holding companies, of which €33m is apportionable to one company whose sole object is the holding of shares in a listed company. Owing to current fluctuations on the capital markets, we regard a fair value based on the shares' stock market price as inappropriate. This is confirmed by the stock market price determined for these shares by the central reporting office of the German Insurance Association, which gives a fair value of the particpating interest well above the book value. We have therefore refrained from making a write-down.

Further hidden losses of €15m are apportionable to an investment holding company whose sole purpose, too, is the holding of shares in a listed company. However, due to the low trading volume involved and small free float, the stock market price of these shares is not very meaningful. No write-down has been made because the net asset value per share is higher than the stock market price and also higher than the carrying amount per underlying share in the holding company.

There are also hidden losses of €71m for a subsidiary. Since these mainly reflect foreign-exchange effects in the valuation, we do not consider the impairment to be permanent. We have therefore refrained from making a write-down.

The valuation reserves also contain hidden losses of €5m for loans. No write-downs have been made, because the impairments in value are only temporary (the carrying amount corresponds to the loans' redemption amount).

The fair values of real estate are determined once a year, generally using the capitalised earnings value; new buildings are valued at cost at the balance sheet date. In the case of shares in affiliated companies, participating interests, equities, investment fund certificates and other non-fixed interest securities, the market prices on the balance sheet date are used if the investments concerned are listed on the stock market. If no market prices are available, we calculate the value using the discounted earnings method or use net asset values. In the case of unlisted new acquisitions, we use the acquisition cost.

The fair values of fixed-interest securities listed on the stock market are determined on the basis of the market prices at the balance sheet date. In the case of fixed-interest securities not listed on the stock market, we determine the values using recognised valuation methods in accordance with the present value principle on the basis of interest-rate curves.

Investments - Fair values and valuation reserves	Carrying amounts	Fair values	Valuation reserves
€m	31.12.2009	31.12.2009	31.12.2009
Land, land rights and buildings, including buildings on third-party land	**900**	**2,244**	**1,344**
Investments in affiliated companies and participating interests			
Shares in affiliated companies	26,784	30,861	4,077
Loans to affiliated companies	1,772	1,891	119
Participating interests	230	307	77
Loans to participating interests	27	33	6
	28,813	**33,092**	**4,279**
Other investments			
Shares, investment fund certificates and other non-fixed-interest securities	5,002	5,768	766
Bearer bonds and other fixed-interest securities	20,927	21,724	797
Loans secured on property	3	3	0
Other loans	23	19	-4
Deposits with banks	573	573	0
Miscellaneous investments	118	118	0
	26,646	**28,205**	**1,559**
Total investments	**56,359**	**63,541**	**7,182**

(3) Information on shareholdings

The list of all our shareholdings is filed with the Company Registry in Munich under registration number HRB 42039.

Notes to the balance sheet – Equity and liabilities

(4) 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.

The capital authorised for capital increases comprises the following items:

€m	31.12.2009
Authorised Capital Increase 2009 (until 21 April 2014)	280
Authorised Capital Increase 2006 (until 18 April 2011)	5
Total	***285***

The contingent capital is as follows:

€m	31.12.2009
To safeguard conversion rights or subscription rights from convertible bonds or bonds with warrants (Contingent Capital Increase 2005)	100
Total	***100***

The withdrawal from the revenue reserves due to the share buy-back programme amounts to €406m, whilst the allocation to the revenue reserves totals €1,229m. Net retained profits include a profit of €62m carried forward from the previous year.

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. The Annual General Meeting on 22 April 2009 renewed this resolution, thereby authorising the Board of Management to buy back shares amounting to a maximum of 10% of the share capital up to 21 October 2010.

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 Re's Board of Management decided on a share buy-back programme, thus availing itself of the authorisation granted by the Annual General Meeting on 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 Re 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 then 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 Re's Board of Management decided on a further share buy-back programme, thus availing itself of the authorisation granted by the Annual General Meeting on 22 April 2009, in accordance with Section 71 para. 1 item 8 of the German Stock Companies Act. The share buy-back is 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 ERV and almeda, formerly called Mercur Assistance, which now belong to ERGO). At Munich Reinsurance Company, there is a total of 255 shares left over from the 2008 employee share programme.

In addition, one subsidiary holds 1,831,795 shares to safeguard stock appreciation rights granted to the Board of Management and top Munich Reinsurance Company executives since 1999. In 2009, no shares were acquired to hedge 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 safeguard the stock appreciation rights granted in previous 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 and sold 2,319 shares at an average price of €106.16 in the financial year 2009 to safeguard obligations from its long-term incentive plan and thus has 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.

The Company has received the following notifications pursuant to Section 21 of the German Securities Trading Act regarding voting-right percentages (status at 31 January 2010):

In December 2009, BlackRock Inc., New York, USA, notified us that on 1 December 2009 its share of the voting rights in our Company had exceeded the threshold of 3% and totalled 4.58% (9,039,588 voting rights). These voting rights are attributable to BlackRock in accordance with Section 22 of the German Securities Trading Act (para. 1 item 6 in conjunction with sentence 2).

In January 2010, Warren E. Buffett, USA, notified us that on 19 January 2010 he held, either directly or indirectly, 3.084% of the voting rights (6,088,300 voting rights) in accordance with Section 21 para. 1 in conjunction with Section 22 para. 1 sentence 1 item 1 of the German Securities Trading Act. He also notified us, in accordance with Section 25 of the German Securities Trading Act, that on 19 January 2010 he held additional financial instruments directly or indirectly that gave him the right to subscribe for shares in our Company carrying 1.945% of the voting rights (3,840,000 voting rights). On 19 January 2010, he would on that basis have exceeded the threshold of 5% of voting rights in our Company, holding a total share of 5.029% (9,928,300 voting rights). The exercise date of the financial instruments is 11 March 2010.

In the past financial year 2009, AXA S.A., Paris, France, and the fund manager Alliance-Bernstein, which belongs to the AXA Group, notified us in accordance with Section 21 para. 1 of the German Securities Trading Act that their share of the voting rights in our Company had fallen below the notifiable thresholds of 5% and 3%.

(5) Subordinated liabilities

The subordinated bonds issued in 2003 with nominal values of €3,000m and £300m will mature in 2023 (euro tranche) and 2028 (pound sterling tranche) and are callable by us for the first time on 21 June 2013 and 21 June 2018 respectively.

In June 2007, the Company issued another subordinated bond with a volume of €1,500m. We have hedged the interest-rate risk by means of an interest-rate swap on the nominal amount of the bond. It is a perpetual bond, callable by us from ten years after the date of issue.

In 2009, we bought back and retired subordinated bonds with a nominal value of around €251m.

The remaining term of the subordinated liabilities with a total amount of €4,587m is more than five years.

Subordinated liabilities	31.12.2009
€m	
Subordinated bonds 2003/2023, €2,900m[1] 6.75% until 2013, thereafter floating	2,900
Subordinated bonds 2003/2028, £300m 7.625% until 2018, thereafter floating	338
Subordinated bonds 2007/perpetual, €1,349m[2] 5.767% until 2017, thereafter floating	1,349
Total	**4,587**

[1] With original nominal value of €3,000m (thereof €2,900m outstanding).
[2] With original nominal value of €1,500m (thereof €1,349m outstanding).

The Company's subordinated bonds have been given the following ratings by the leading rating agencies:

Rating Bonds	Identification numbers	A.M. Best	Fitch	Moody's	S&P
Subordinated bond 2003/2023 €2,900m[1] 6.75% until 2013, thereafter floating	WKN: 843278 ISIN: XS0166965797 Reuters; DE016696579= Bloomberg: MUNRE	a+	A	A2	A
Subordinated bond 2003/2028 £300m 7.625% until 2018, thereafter floating	WKN: 843449 ISIN: XS0167260529 Reuters; DE016726052= Bloomberg: MUNRE	a+	A	A2	A
Subordinated bond 2007/perpetual €1,349m[2] 5.767% until 2017, thereafter floating	WKN: A0N4EX ISIN: XS0304987042 Reuters; DE030498704= Bloomberg: MUNRE	a	A	A3	A

[1] With original nominal value of €3,000m (thereof €2,900m outstanding).
[2] With original nominal value of €1,500m (thereof €1,349m outstanding).

(6) Special reserve

The special reserve has been posted in accordance with Section 6b of the German Income Tax Act. In the financial year 2010, owing to the introduction of the German Act to Modernise Accounting Law (BilMoG) and the related abolition of the "tax dictates financial accounting" principle, we will reverse the special reserve and add the amount concerned to the revenue reserves with no impact on profit or loss.

(7) Technical provisions by class of business

€m	Unearned premiums	Provision for future policy benefits	Claims provision	Claims equalisation provision and similar provisions	Other provisions	Total	**Reserves as % of net premiums**
Life	571	8,772	912	10	585	10,850	220
Health	149	1,038	246	5	22	1,460	77
Accident	60	300	3,747	14	25	4,146	1,253
Liability	212	-	10,587	716	-26	11,489	809
Motor	386	-	5,660	414	-84	6,376	406
Marine	231	-	1,130	548	8	1,917	214
Aviation	215	-	1,135	942	-1	2,291	438
Fire	595	-	2,583	3,559	64	6,801	220
Engineering	587	-	1,999	646	6	3,238	325
Other classes	255	-	1,733	1,170	65	3,223	215
Non-life combined	2,690	1,338	28,820	8,014	79	40,941	335
Total	**3,261**	**10,110**	**29,732**	**8,024**	**664**	**51,791**	**302**

The claims provisions shown have been influenced both by payments made in the year under review and by expenses or income from increasing or reducing the provision respectively.

Claims expenses for the year under review less the payments already made in the same year increase the provisions. The provisions for previous years are reduced by the payments made in the year under review for these years. As the provisions are determined using best estimates based on claims information and past claims experience, as well as estimates of future claims development, it is inevitable that the relevant estimate will regularly change as knowledge of claims cases grows in the year under review.

The claims equalisation provision and similar provisions break down as follows:

	31.12.2009	31.12.2008
T€		
Claims equalisation provision	**7,664,244**	8,395,207
Provision for major risks	**360,195**	349,217
Thereof:		
For nuclear facilities	72,608	72,015
For pharmaceutical products liability	74,457	70,442
For terrorism risks	213,130	206,760
Total	**8,024,439**	**8,744,424**

(8) Other accrued liabilities

We have agreed to pay pensions to nearly all our staff and their surviving dependants. These commitments are to be met partly by the company itself and partly by the Munich Re staff pension fund. There are pension provisions of T€95,612 for former members of the Board of Management or their surviving dependants.

The tax provisions contain deferred taxes of T€160,764.

The other provisions include, in particular, a provision of T€524,490 for unrealised currency gains.

For personnel expenses not yet payable on the balance sheet date, provisions of T€188,371 have been posted.

There are provisions of T€169,630 for anticipated losses from derivatives.

(9) Amounts due to banks

The amounts due to banks at the balance sheet date had a remaining term of less than five years.

Notes to the income statement

(10) Reinsurance underwriting result by class of business

	Gross premiums written		Underwriting result before claims equalisation provisions and similar provisions		Change in claims equalisation provisions and similar provisions		Combined ratio in %	
€m	2009	2008	2009	2008	2009	2008	2009	2008
Life	5,415	4,050	303	34	0	-1	-	-
Health	1,964	884	19	14	0	-1	99.1	98.4
Accident	354	379	-160	-339	-13	-	147.7	196.3
Liability	1,465	1,443	-786	-338	468	3	155.3	122.6
Motor	1,618	1,968	70	-296	82	142	95.7	116.2
Marine[1]	960	985	63	52	-110	-138	92.8	94.6
Aviation	590	519	56	38	-52	3	88.3	91.7
Fire	3,282	3,055	1,356	328	-214	962	55.4	87.9
Engineering[1]	1,061	1,283	150	109	126	42	85.6	91.1
Other classes[1]	1,613	1,929	-566	132	433	-226	136.3	92.6
Non-life combined	12,907	12,445	202	-301	720	787	98.2	102.4
Total	**18,322**	**16,495**	**505**	**-266**	**720**	**786**	**-**	**-**

[1] The previous year's figures have been adjusted owing to a change in class-of-business allocation.

(11) Interest on technical provisions

We have calculated the interest on technical provisions in accordance with Section 38 of the German Accounting Regulations for Insurance Companies and – where prescribed there – have transferred it from the non-technical to the technical account.

(12) Personnel expenses

The management expenses include the following personnel expenses:

	2009	Prev. year
T€		
Wages and salaries	340,242	329,325
Social insurance contributions and voluntary assistance	63,877	66,001
Expenses for employees' pensions	35,641	67,507
Total	**439,760**	**462,833**

In 2008, a reduction in the actuarial interest rate gave rise to expenses for pensions. In 2009, the actuarial interest rate remained virtually unchanged, so that the expenses for pensions are lower than in the previous year.

(13) Investment income

The write-ups result from the reversal of write-downs, in accordance with Section 280 para. 1 of the German Commercial Code, because the reasons for these write-downs no longer apply.

(14) Investment expenses

T€231,990 of the write-downs are apportionable to impairments as per Section 253 para. 2 sentence 3 of the German Commercial Code.

(15) Tax accounting influences

There are no tax accounting influences.

(16) Long-term incentive plans

Every year since 1 July 1999, Munich Reinsurance Company has set up long-term incentive plans, each with a term of seven years. Entitled to participate in these share-price-related remuneration plans are members of the Board of Management, senior management in Munich, and top executives in Munich Re's international organisation. Participants receive a certain number of stock appreciation rights.

The relevant initial share price for the stock appreciation rights is calculated from the average of closing prices for Munich Re shares in Frankfurt Xetra trading over the last three months prior to plan commencement. The initial price for the 2009 long-term incentive plan is €97.57. 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 stock appreciation rights were granted, 151,667 of these to Board of Management members. The future obligations arising from the long-term incentive plans are covered by Munich Re shares.

The personnel expenses and income incurred for the stock appreciation rights are determined on the basis of the change in the fair value of the underlying options. The fair value recognises not only the intrinsic value (difference between current share price and initial share price of the stock appreciation rights) but also the possibility of growth in value up to the date of forfeiture or expiry of the rights and is determined on the basis of recognised valuation models, taking into account the exercise conditions. At each balance sheet date, the fair value is calculated and reserved; this amount is recognised in full. In the year under review, related provisions of €29.5m had to be posted. The personnel expenses recognised in the income statement correspond to the change in the provision in the year under review, taking into consideration any rights exercised. This resulted in income of €33.3m in 2009. 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 at the balance sheet date amounted to €11.6m.

Munich Reinsurance Company's incentive plans 2002–2009	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 December 2002	**132,466**	-	-	-	-	-	-	-
Additions	6,696	439,581	-	-	-	-	-	-
Exercised	-	-	-	-	-	-	-	-
Forfeited	3,962	-	-	-	-	-	-	-
Number of rights on 31 December 2003	**135,200**	**439,581**	-	-	-	-	-	-
Additions	-	-	456,336	-	-			
Exercised	-	-	-	-	-	-	-	-
Forfeited	748	2,354	-	-	-	-	-	-
Number of rights on 31 December 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 December 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 December 2005	**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 December 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 December 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 December 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**	-	-

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.

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 the Company's group of shareholders changes significantly due to a merger or comparable transaction or intended business combination ("change of control"), all plan participants 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.

(17) 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. 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 an average target to be achieved over the years of the plan 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 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 liability. 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	**56,741**
Additions	-
Forfeited	-
Number of rights (for 100% achievement of objectives) on 31 December 2009	**56,741**

In the financial year 2009, expenses of T€9,962 were recognised for the Mid-Term Incentive Plan. At the balance sheet date, the provision came to T€9,962.

(18) Remuneration report

The total remuneration of Munich Reinsurance Company's Board of Management amounted to €17.8m and that of the Supervisory Board to €1.5m. All other disclosures on the remuneration of and loans to Board members, share trading and shares held by the members of the Board of Management and the Supervisory Board, and the structure of the Board of Management's remuneration system can be found in the remuneration report on page 56.

Payments to retired members of the Board of Management or their surviving dependants totalled T€5,709.

Personnel expenses of T€0 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 former members of the Board of Management and their surviving dependants amounted to T€95,612.

The members of the Supervisory Board and Board of Management did not receive any cash advances or loans in the year under review; no contingent liabilities were entered into for their benefit.

(19) 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)

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.

(20) Number of staff

The number of staff employed by the Company in Munich and at its offices abroad in the financial year 2009 averaged 3,969 (3,649).

(21) Auditor's fees

Information on the auditor's fees can be found in Munich Re's Group annual report.

(22) Contingent liabilities, other financial commitments

Munich Reinsurance Company has assumed a guarantee for certain reinsurance liabilities of Munich American Reassurance Company (MARC Life). In addition, an agreement has been signed under which Munich Reinsurance Company guarantees to maintain the company's solvency capital above the level required by supervisory law.

There is an agreement between Munich Reinsurance Company and Munich American Capital Markets in which a target minimum capitalisation and the liquidity of the subsidiary is guaranteed.

For three foreign subsidiaries, a guarantee for office rents in the full amount, equivalent to €3.2m per annum, has been assumed.

Moreover, Munich Reinsurance Company has assumed a guarantee of €500,000 for a small German subsidiary's pension obligation towards a former member of its Board of Management.

In isolated cases, we have given guarantees concerning the correctness of individual items warranted in the sales contract when buying or selling investments. An obligation to pay compensation for disadvantages is included in some of these guarantees, most of which are for a limited period of time.

For one of its subsidiaries, Munich Reinsurance Company has assumed a guarantee to fulfil all financial obligations resulting from the sale of equities and interests.

As a member of the German Reinsurance Pharmapool and the German Nuclear Insurance Pool, we are committed - to the extent of our proportional share - to assuming the payment obligations of another pool member if the latter is not able to meet these obligations.

In the event of the need to repay state subsidies totalling €68,000, Munich Reinsurance Company has guaranteed sufficient capital resources for one of its subsidiaries.

There are other financial commitments amounting to €511m (€417m of these towards affiliated companies). They result mainly from commitments to inject capital into various investment funds, agency and leasing agreements, and initiated investment projects.

Beyond this, there are no off-balance-sheet transactions which are material for the assessment of the Company's financial position.

Information on open forward transactions can be found on page 106 of this annual report.

(23) Declaration of conformity with the German Corporate Governance Code in accordance with Section 161 of the German Stock Companies Act

In November 2009, Munich Re's Board of Management and Supervisory Board published an updated declaration of conformity with the German Corporate Governance Code as per Section 161 of the German Stock Companies Act and made this declaration publicly available on the internet.

(24) Proposal for appropriation of profit

The net retained profits at the disposal of the Annual General Meeting amount to €1,291,060,272.38. The Board of Management proposes that this amount be appropriated as follows: payment of a dividend of €5.75 on each share entitled to dividend and allocation of €156,000,934.38 to "other revenue reserves", with the dividend amount apportionable to own shares held directly or indirectly 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

Auditor's report

The following is a translation of the auditor's opinion in respect of the original German financial statements and management report:

We have audited the financial statements prepared by the Münchener Rückversicherungs-Gesellschaft Aktiengesellschaft in München, Munich, comprising the balance sheet, the income statement, and the notes to the financial statements, together with the bookkeeping system and management report for the business year from 1 January to 31 December 2009. The maintenance of the books and records and the preparation of the annual financial statements and management report in accordance with German commercial law and supplementary provisions in the Articles of Association are the responsibility of the Company's Board of Management. Our responsibility is to express an opinion on the annual financial statements, together with the bookkeeping system, and the management report based on our audit.

We conducted our audit of the annual 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 annual financial statements in accordance with the principles of proper accounting and in the management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Company 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 books and records, the annual financial statements and the management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the accounting principles used and significant estimates made by the Board of Management, as well as evaluating the overall presentation of the annual financial statements and 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, the annual financial statements give a true and fair view of the net assets, financial position and results of operations of Münchener Rückversicherungs-Gesellschaft Aktiengesellschaft in München in accordance with principles of proper accounting. The management report is consistent with the annual financial statements and as a whole provides a suitable view of the Company'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 financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company, and the management report includes a fair review of the development and performance of the business and the position of the Company, together with a description of the principal opportunities and risks associated with the expected development of the Company."

Munich, 9 March 2010

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Responsible for content
Reinsurance Accounting
Group Communications

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The official German orginal of this report is also available from the Company. In addition, you can find our annual report and interim reports, along with further information about Munich Re, on the internet at www.munichre.com.

Service for investors and analysts
If you have general questions on Munich Re shares, please use our shareholder hotline:
Tel.: +49 89 3891-2255
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Greenhouse gas emissions resulting from paper production for this annual report are offset through Munich Re's carbon-neutral strategy.

Order number 302-06274

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

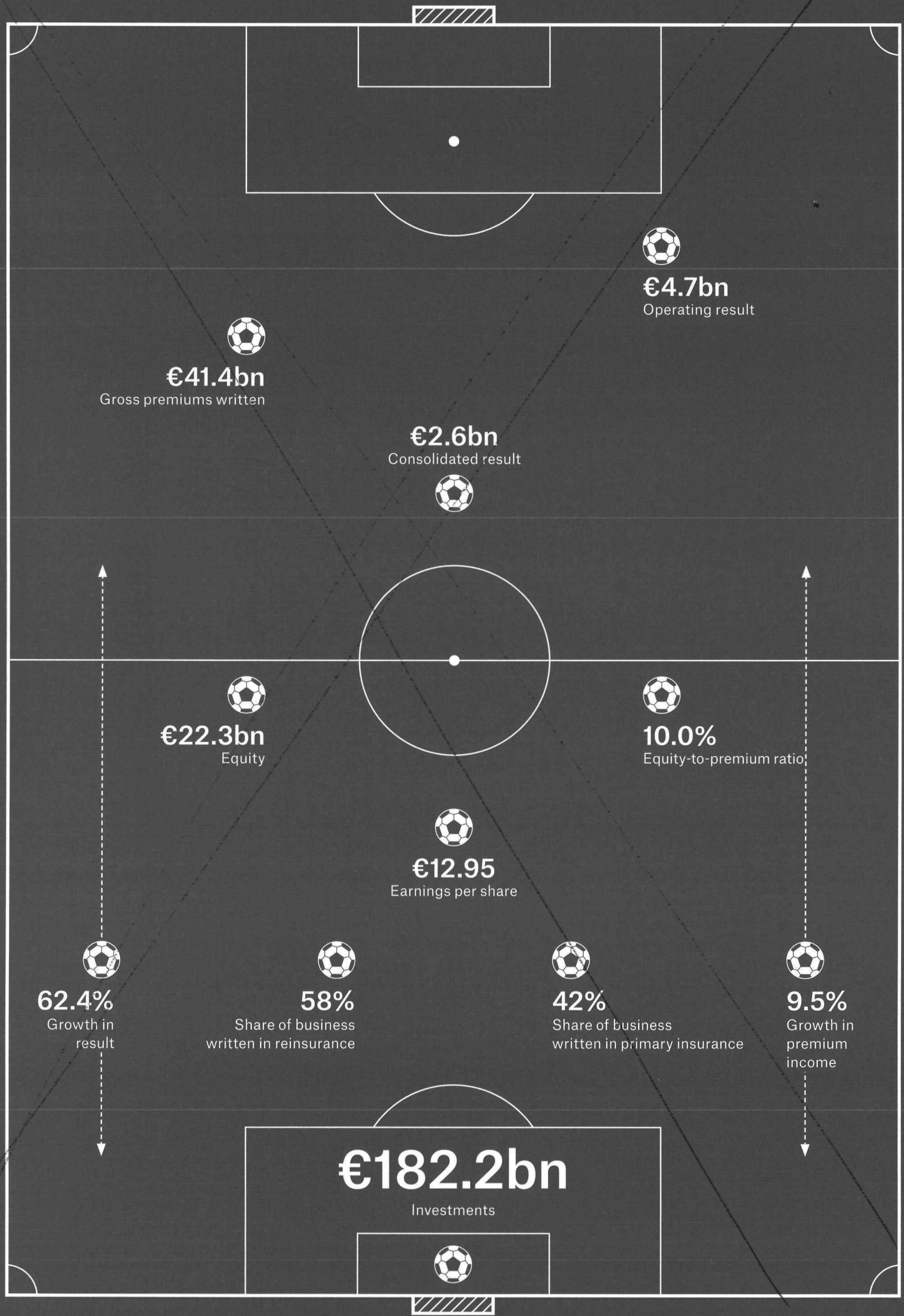
// **10 March 2011:** Balance sheet press conference for 2010 consolidated financial statements
// **20 April 2011:** Annual General Meeting
// **21 April 2011:** Dividend payment
// **9 May 2011:** Interim report as at 31 March 2011
// **4 August 2011:** Interim report as at 30 June 2011
// **4 August 2011:** Half-year press conference
// **8 November 2011:** Interim report as at 30 September 2011

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.


€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

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**
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 Bangardsposten), 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% 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.	8–9%

[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				Primary insurance						Total	
	Life and health		Property-casualty		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
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				Primary insurance						Total	
	Life and health		Property-casualty		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
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	31.12.2009		Prev. year		Opening balance sheet prev. year	
€m	Assets	Liabilities	Assets	Liabilities	Assets	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	Ceded share	Net	Prev. year Gross	Ceded share	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	2009	Prev. year
€m		
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	2009	Prev. year
€m		
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	2009	Prev. year
€m		
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]	Reinsurance				Primary insurance						Total	
€m	Life and health		Property-casualty		Life		Health		Property-casualty			
	2009	Prev. year	2009	Prev. year	2009	Prev. year	2009	Prev. year	2009	Prev. year	2009	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]	Reinsurance				Primary insurance						Total	
€m	Life and health		Property-casualty		Life		Health		Property-casualty			
	2009	Prev. year	2009	Prev. year	2009	Prev. year	2009	Prev. year	2009	Prev. year	2009	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		
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	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		
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		
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