Munich Re Group
Short Annual Report 2006

Münchener Rück
Munich Re Group

Key figures (IFRS)

Munich Re Group

		2006	2005	2004	2003	2002
Gross premiums written	€bn	**37.4**	38.2	38.1	40.4	40.0
Result before amortisation and impairment losses of goodwill	€m	**5,498**	4,150*	3,369	1,971	–20
Taxes on income	€m	**1,648**	1,014*	712	1,752	–605
Consolidated result	€m	**3,536**	2,751*	1,887	–468	214
Thereof attributable to minority interests	€m	**96**	72	54	–34	–74
Investments	€bn	**176.9**	177.2	178.1	171.9	156.3
Return on equity	%	**14.2**	12.5*	9.5***	–3.0***	1.1***
Equity	€bn	**26.4**	24.4*	20.5*	19.3	13.9
Valuation reserves not recognised in balance sheet**	€bn	**1.9**	2.6	3.2	1.8	1.1
Net technical provisions	€bn	**153.8**	154.0*	154.3	147.5	143.0
Staff at 31 December		**37,210**	37,953	40,962	41,431	41,396

*Adjusted owing to first-time application of IAS 19 (rev. 2004).
**Including amounts attributable to minority interests and policyholders.
***Previous years' figures adjusted owing to change in measurement basis.

Reinsurance*

		2006	2005	2004	2003	2002
Gross premiums written	€bn	**22.2**	22.3	22.4	24.8	25.4
Investments	€bn	**85.0**	87.0	81.2	80.4	68.6
Net technical provisions	€bn	**59.6**	63.4	58.2	56.7	55.3
Reserve ratio property-casualty	%	**280.9**	295.8	243.8	205.0	201.1
Large and very large losses (net)	€m	**854**	3,293	1,201	1,054	1,844
Thereof natural catastrophe losses	€m	**177**	2,629	713	288	577
Combined ratio property-casualty	%	**92.6**	111.7	98.9	96.5	123.7

*Before elimination of intra-Group transactions across segments.

Primary insurance*

		2006	2005	2004	2003	2002
Gross premiums written	€bn	**16.7**	17.6	17.5	17.6	16.6
Investments	€bn	**107.4**	105.9	115.0	108.3	104.4
Net technical provisions	€bn	**94.2**	90.6**	96.1	91.0	88.4
Reserve ratio property-casualty	%	**124.9**	113.1	116.8	114.5	116.3
Combined ratio property-casualty	%	**90.8**	93.1	93.0	96.4	99.9

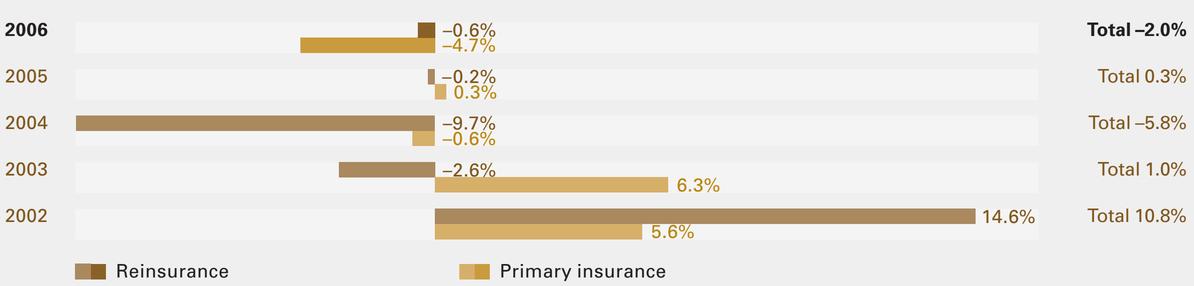
*Before elimination of intra-Group transactions across segments.
**Adjusted owing to first-time application of IAS 19 (rev. 2004).

Our shares

		2006	2005	2004	2003	2002
Earnings per share	€	**15.12**	11.74*	8.01	–2.25	1.54**
Dividend per share	€	**4.50**	3.10	2.00	1.25	1.25
Amount distributed	€m	**988**	707	457	286	223
Share price at 31 December	€	**130.42**	114.38	90.45	96.12	114.00
Munich Re's market capitalisation at 31 December	€bn	**29.9**	26.3	20.8	22.1	20.4

*Adjusted owing to first-time application of IAS 19 (rev. 2004).
**Taking into account the capital increase in November 2003.

Premium growth



The Munich Re Group

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

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

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

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

Munich Re Group

Reinsurance

- Munich Reinsurance Company — Münchener Rück Munich Re Group
- Munich Reinsurance America — Munich Re America Munich Re Group
- Munich American Reassurance Company — MARC Munich Re Group
- Munich Reinsurance Company of Canada — MROC Munich Re Group
- Temple Insurance Company — Temple Insurance
- Munich Holdings of Australasia — MHA Munich Re Group
- Munich Reinsurance Company of Africa — MRoA Munich Re Group
- Münchener Rück Italia — Münchener Rück Italia Munich Re Group
- New Reinsurance Company — nouvelle ré neue rück new re
- Great Lakes Reinsurance (UK) — Great Lakes Munich Re Group
- Munich-American RiskPartners — MARP Munich Re Group

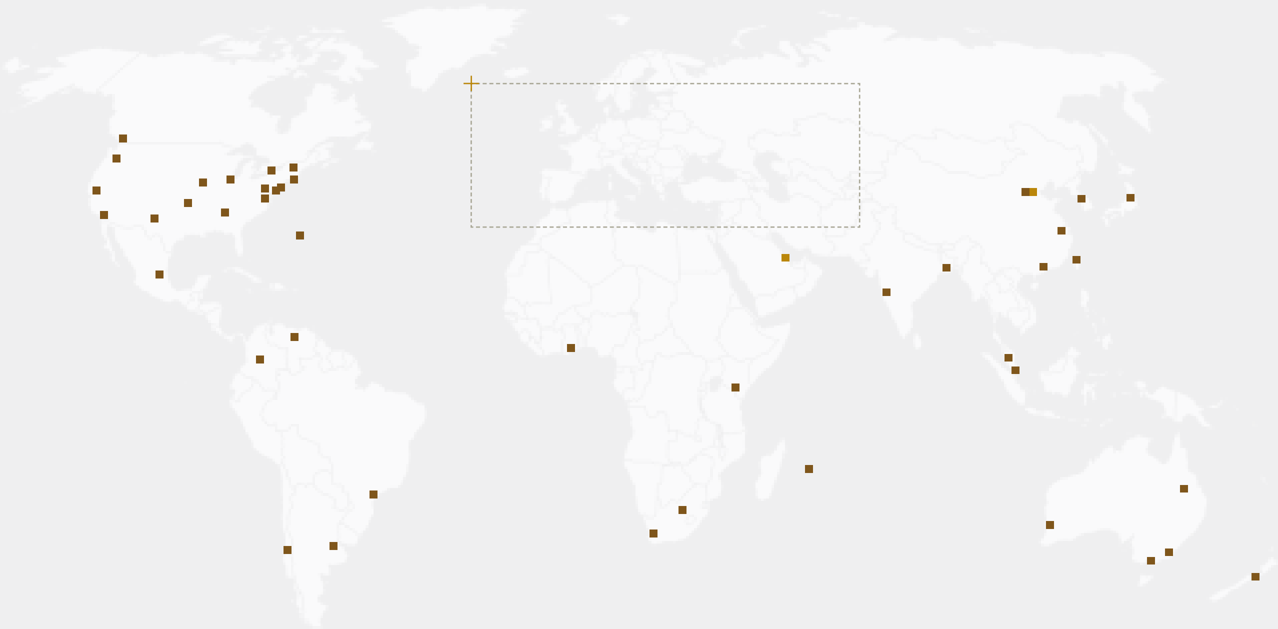
Primary insurance

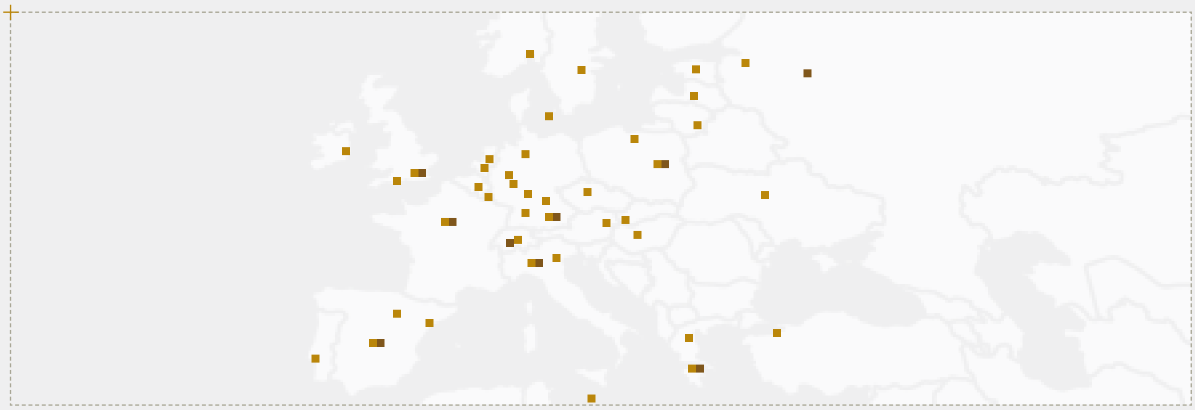
- ERGO Insurance Group — ERGO
- Victoria — VICTORIA
- Hamburg-Mannheimer — HAMBURG MANNHEIMER
- Deutsche Krankenversicherung — DKV
- Deutscher Automobil Schutz — DAS
- KarstadtQuelle Versicherungen — KarstadtQuelle Versicherungen
- ERGO Previdenza — ERGO Previdenza
- ERGO Hestia — HESTIA
- ERGO İsviçre — ERGOİSVİÇRE
- Europäische Reiseversicherung — DIE EUROPÄISCHE Europäische Reiseversicherung AG
- Mercur Assistance
- Munich Re Underwriting — Watkins Syndicate

Asset management

MEAG MUNICH ERGO AssetManagement — MEAG

Munich Re Group locations





Reinsurance

Europe: Munich, Athens, Geneva, London, Madrid, Milan, Moscow, Paris, Warsaw

Asia: Beijing, Hong Kong, Kolkata, Kuala Lumpur, Mumbai, Shanghai, Seoul, Singapore, Taipei, Tokyo

North America: Atlanta, Boston, Chicago, Columbus, Dallas, Hamilton, Kansas City, Los Angeles, Montreal, New York, Philadelphia, Princeton, San Francisco, Seattle, Toronto, Vancouver, Waltham

South America: Bogotá, Buenos Aires, Caracas, Mexico City, Santiago de Chile, São Paulo

Africa: Accra, Cape Town, Johannesburg, Nairobi, Réduit

Australia/Oceania: Auckland, Brisbane, Melbourne, Perth, Sydney

Primary insurance

Europe: Munich, Agrate Brianza, Amsterdam, Athens, Barcelona, Bratislava, Bristol, Brussels, Budapest, Cologne, Copenhagen, Dublin, Düsseldorf, Floriana, Frankfurt/Main, Fürth, Hamburg, Istanbul, Kiev, Lausanne, Lisbon, London, Luxembourg, Madrid, Milan, Munsbach, Nanterre, Oslo, Ostfildern, Prague, Riga, Rotterdam, Saragossa, Sopot, Stockholm, St. Petersburg, Strassen, Tallinn, Thessaloniki, Verona, Vienna, Vilnius, Warsaw

Asia: Beijing, Manama

Notable events in 2006

Another record result
Thanks to excellent results in reinsurance and primary insurance business, Munich Re achieves another record profit of €3.5bn. The dividend proposal of the Board of Management and Supervisory Board at the Annual General Meeting on 26 April 2007 will therefore be payment of an increased dividend of €4.50 (3.10) per share (45% higher than last year).

Life reinsurance subsidiary set up in Moscow
By establishing Munich Re Life E. E. C. A. in Moscow, Munich Re consolidates its outstanding market position in the Commonwealth of Independent States, where it opened its first foreign office in 1885, and strengthens contacts with clients and authorities. As the first foreign reinsurer to be incorporated there, it can now offer reinsurance solutions on a rouble basis.

D. A. S. expands business in Germany and abroad
ERGO subsidiary D. A. S., Europe's largest legal expenses insurer, sets up a subsidiary in Estonia and introduces the class of legal expenses business there, with initial focus on cover for car drivers. In the German market, D. A. S. continues its strategic development from a reimburser of costs to a legal services provider with a new product generation.

Scaled-down Munich Re Board of Management
Christian Kluge and Karl Wittmann retire as members of the Board of Management on 31 December 2006; Dr. Heiner Hasford retires on 28 February 2007. Dr. Ludger Arnoldussen, hitherto Chairman of the Board of Management of Swiss Re Germany AG, Munich, is appointed to the Board of Management to take over the Germany, Asia Pacific and Africa Division and also General Services.

New IT platform successfully introduced
In September 2006, Gloria (Global Reinsurance Application) replaces 17 legacy systems in Munich and in many directly connected business units in the international organisation, thereby accelerating processes and the handling of reinsurance transactions.

ERGO in India
DKV and the Apollo Group, Asia's largest chain of hospitals, establish a joint-venture health insurance company. It is scheduled to commence operations with inpatient indemnity, travel and expatriate insurance products in June 2007.

First signatory to the Principles for Responsible Investment
At the invitation of the United Nations, Munich Re participates in the formulation of principles that provide institutional investors with guidelines for applying social and ecological criteria when making investments. In August 2007, we will provide information on this subject in our first sustainability report, thus continuing our systematic involvement in this area.

MEAG goes to China
MEAG acquires a 19% stake in PICC Asset Management Company Ltd. (PAMC), Shanghai. Both companies aim to extend business with private and institutional investors in this fast-growing and promising market. The expected liberalisation of the Chinese financial services market will open up business opportunities for MEAG.

Catastrophe bond for earthquake risks in California
By transferring earthquake risks in California to the capital markets for subsidiaries of the Zurich Financial Services Group (Zurich), Munich Re again provides a capital market solution for peak risks. In the event of earthquakes in California leading to large losses, US$ 190m will be available either fully or in part as cover for reinsurance.

ERGO invests in the Turkish insurer İsviçre
ERGO expands its business in southern and eastern Europe by acquiring a 75% stake in the İsviçre Group, thus attaining a leading position in the dynamic Turkish insurance market.

Dear Shareholders,

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

The financial year 2006 was another excellent one for the Munich Re Group. We succeeded in posting a record result for the third year in a row: €3.5bn, after €2.7bn in the previous year and €1.9bn in 2004. Thus we markedly exceeded our original expectation of €2.6–2.8bn for 2006. The same applies to RORAC, our return on risk-adjusted capital, where we had set ourselves a target of 15%. What we actually achieved was 20.3%.

On the basis of this result, we will propose to the Annual General Meeting that the dividend be increased by 45% to €4.50 (3.10), which would mean a payout of €988m (707m) to shareholders. Together with the successfully concluded share buy-back of €1bn, we are consequently giving the capital markets nearly €2bn, or 58% of the consolidated profit for the year, by the end of April.

The result for the past financial year, with our outstanding component results in both primary insurance and reinsurance, vindicates our strategy. The profit increase at ERGO from €786m to €906m is a notable achievement. The excellent combined ratio of 90.7% (92.3%) in property-casualty insurance underscores once again the high quality of ERGO's business.

The reinsurance result – with a profit of €2.7bn (1.4bn) and a combined ratio of 92.6% (111.7%) – was also very positive. Admittedly, we were largely spared major natural catastrophes in 2006, unlike in 2005 with its severe hurricanes. But it is still apparent that we are reaping the rewards of our very selective and risk-commensurate underwriting, where we consistently give priority to profitability over growth in volume.

We therefore have every cause to be satisfied with the development of the last few years, and especially with the result of the past financial year. The path we have taken is proving to be the correct one. This applies particularly to our business model of conducting primary insurance as well as reinsurance in our Group: our success should convince even those who take a sceptical view of this strategy. For me, what is now important is to sustain this profit level whilst ensuring that our business grows more strongly again, without lowering our standards with regard to quality and earnings.

In practice, this means that we still have to be prepared to give up business that is no longer profitable. As I see it, there is no alternative. In the renewals of the majority of our reinsurance treaties at 1 January 2007, we therefore consciously accepted some reductions in business volume necessitated by the current state of the market cycle – in contrast to some competitors. I consider this approach to be absolutely right: it is acting in the interests of profitability and thus in your interests as Munich Re's shareholders.

But we intend to achieve growth in other areas to compensate – indeed, more than compensate – for business we have given up in segments that are no longer profitable. This is our aim, for example, with our overarching integrated health market strategy, from which I expect a great deal in the long term. The synergy potentials here between primary insurance and reinsurance are undeniable. As part of this strategy, we are also diversifying into areas of activity that complement our core insurance and reinsurance business. In primary insurance, we find opportunities for profitable growth in Germany, of course, but especially in selected markets abroad. And we develop reinsurance business in all areas where there is attractive potential, as we did last year in US agricultural insurance. In saying this, I wish to emphasise that reinsurance is also a promising field for "intelligent growth" in the medium and long term, but it requires staying power, since this business cannot be grown steadily across the board from year to year – experience indicates that expansion will take place in stages.

What about external opportunities for growth through the acquisition of companies, parts of companies or individual portfolios? We are basically very open to such options but will not be rushed into making rash decisions. There is certainly no lack of offers: on the contrary, we regularly consider a great many. However, in our opinion, the prices demanded are currently not acceptable in relation to our return requirements. As in our underwriting, we remain disciplined and will not compromise our position.

Ladies and gentlemen, we have frequently highlighted the Munich Re Group's guiding principles for a sustained profitable future: our mission statement headed "Turning risk into value", our three "cardinal virtues" – the professional handling of risk, integrated management as a means of optimum diversification, and the objective of excellence in management and operational processes. Lastly, there is the principle of "profit before growth". We want to preserve the values we have developed over many years in our Group and, at the same time, to respond to current and future challenges. Today I can say that in the financial year 2006, we remained true to our principles and kept firmly on course. The outcome, as I think you will agree, is most satisfactory. A large part of the thanks for this must go to our staff at all the companies in the Munich Re Group, with their commitment, know-how and will to succeed. I wish to thank everyone who has contributed, enabling us to present you with such a good result for the year.

The result targets we have set ourselves in the current year are again ambitious. We aim for an increase of around 10% on the result originally expected for 2006. Specifically, our target is an attractive return of at least 15% on our risk-adjusted capital. As far as the Group profit is concerned, we are looking to achieve a result of between €2.8bn and €3.2bn. Of course, I would prefer it to be in the upper part of this range and be able to report a "3" before the decimal point to you again this time next year. The growing demand for top-class primary insurance and reinsurance cover worldwide certainly provides a very promising business environment for the Munich Re Group, whose outstanding expertise and market presence in its core field of "risk" puts us in an excellent position.

Yours sincerely,

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

Perseverance means more than hard and persistent work. It builds leadership. It stimulates creative and flexible problem-solving. It saves energy.

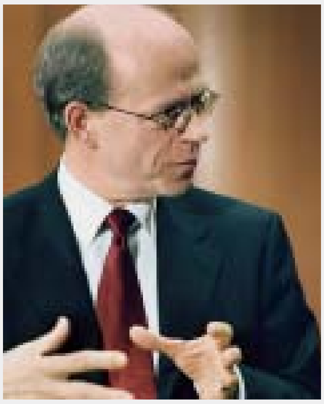
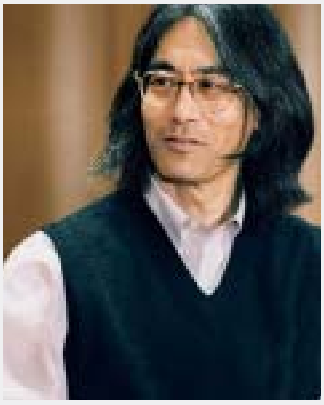
Dialogue
Kent Nagano, the Californian-born conductor of Japanese descent, is as much at home in classical and romantic music as in contemporary works. His global work focuses on offering new perspectives on the established repertoire and expanding horizons with provocative programmes. Since September 2006, he has held the position of General Music Director at the Bavarian State Opera in Munich.

Having joined Munich Re in 1985, Nikolaus von Bomhard spent many years in reinsurance (including a spell in Latin America) and four years as a member of the Board of Management, before becoming its Chairman in 2004. Since then, he has been consistently gearing the Munich Re Group to profitability.

Kent Nagano has just finished an orchestra rehearsal for an Academy concert. He has a few brief words with an orchestra musician about the final touches for the performance in a couple of days. A few moments later, he meets Nikolaus von Bomhard on the "Bridge of Sighs" between the opera and the rehearsal building. Artist and businessman are soon engaged in lively conversation. The fact that they already know each other from the Premium Circle of the Opera, in which Munich Re is a long-standing sponsor, makes it easy for them to get talking. They speak about perseverance, a topic of great relevance to both of them. What significance does this quality have for them as conductor and chief executive?

Kent Nagano_ Perseverance applies to everyone who has the will and ambition to achieve something. And when one attains a certain level of success, everyone benefits. Today our world is becoming faster, and much has been written about a generation that expects immediate gratification. The longer-term concept of perseverance sometimes takes an enormous amount of will.

Nikolaus von Bomhard_ A company with a history like ours gives us the strength to be more persevering than others because we have deeper roots. As you mention, the time-horizon today is unfortunately a shorter one in some respects, but I think it is longer than some people think. Trying to manage expectations of what can be delivered in a reasonable time – that is the challenge for us today.

Pressure is put on us to deliver on our strategies each and every quarter. But if you are really interested in our enduring results, this is misleading. Our business model has a much longer perspective and is a more sustainable one. That's why we made the issue of climate change and its risks public back in the seventies, as we felt that it was something of outstanding future importance. Climate risks were and are emerging in unprecedented dimensions. We are risk-scouts – that's where perseverance and innovation are needed in equal measure. Back then, we were a voice crying in the wilderness. Climate change wasn't fashionable at all. Now, 25, 30 years later, climate change is a topic high on the agenda everywhere. This is just one example of the type of situation in which I, in my leadership position, feel regularly challenged. People devote a great deal of attention to fashions, even to hype, whereas we at Munich Re are long- or at least medium-term-oriented: we may not have the same "sex appeal" as, for instance, competitors who are interested in action only for action's sake. Employees may get nervous and say: "Others may overtake us; they follow the trend and we look boring by comparison."

Kent Nagano_ "Fashionable" is by definition something that does not last. One should say that conviction and will touch humans as a kind of life force that can sometimes be completely uncoordinated with the natural rhythm of fashionable cycles and may take some dramatic forms. Think of Ludwig van Beethoven's great ninth symphony. When it was premiered, the audience was bewildered that the great and cherished master could write something so seemingly incoherent. The critics were unable to understand the depth of Beethoven's achievement. Because after the long period between the eighth symphony and the ninth symphony, people were expecting and waiting for something tremendous and enlightening to come. What did arrive was so visionary that it was apparently incomprehensible. Beethoven died before the ninth symphony was accepted as a universal statement. It is such an inspiration to us all that it managed to become a recognised masterpiece and has remained so over time. Beethoven had a very profoundly rooted conviction. If you look at it from the perspective of several hundred years, you can see that it broadened people's concepts of what music is and can be. But in Beethoven's lifetime the symphony was never "fashionable".

Nikolaus von Bomhard_ My experience is that if you lead or run an organisation and you have a long-term vision, one thing is indispensable: you must communicate, explain – and convince. Only if as many people as possible share your view, will this build the momentum that you need to remove obstacles. In addition, your vision must of course be based on some sort of hard experience and know-how. From that, you derive the power of conviction.

In other words, your vision must be deeply rooted. Just coming up spontaneously with an idea will not take you far.

Kent Nagano_ That reflects one aspect of perseverance that is not always apparent, at least superficially: Perseverance implies a great deal of past preparation as well as a commitment to the future. It also implies study, research, past experience, work and application. All of which the public does not see.

Stubbornness is a dangerous quality, because it is fundamentally a characteristic which is very egotistical.

I think to succeed in today's fast-moving and competitive business environment, you have to be incredibly creative, spontaneous and flexible. Flexibility presupposes being able to think in abstract terms. This enables one to come up with alternatives that are not immediately apparent in a completely linear way of thinking. This being said, there are a lot of parallels between the business and the arts world. That is one reason why arts education, and specifically musical education, is so important. The point would not be to try to generate thousands and thousands of new concert pianists and solo violinists. These are always rare and exceptional cases. But scientifically it has been proven that by being introduced to artistic concepts at an early age, a child learns to deal with problem-solving and to engage in his or her environment in abstract terms, to really approach things in a multi-dimensional, multi-level way, which of course encourages the flexibility that is also essential for successful chief executives and for successful companies.

Nikolaus von Bomhard_ You mention an important aspect: It is one thing to have a goal or a vision. It is another to have the flexibility and creative power to realise it. Perseverance is about knowing where you want to go and doing all you can to get there, which includes reacting quickly and flexibly. That's not a contradiction. Parameters and requirements are changing quicker than ever before – and we must and will respond to that challenge. In so doing, we must also be prepared to question things, even established practices. That's why we need staff in our company who are prepared to change, who show adaptability and flexibility whilst working steadily towards a goal. To come up with another example: we're criticised these days because we don't grow quickly enough. But for us as a reinsurer, the challenge is not just to grow but to grow profitably. That takes flexibility and innovation. Whether it is pushing back the borders of insurability or launching new business models spanning insurance and reinsurance: it involves a lot of hard work and is not something you can achieve overnight. This is what we call "intelligent growth" and it demands all the attitudes and talents that you mentioned.

Kent Nagano_ One danger we have to avoid, of course, is to arrive at the opposite end of the scale of perseverance, which is stubbornness. This is a dangerous quality, because it is fundamentally a characteristic which is very egotistical. Stubbornness is self-orientated, not necessarily based upon research or experience and implies inflexibility. The choice between these two opposite poles of perseverance and stubbornness can really make the difference as to whether a company is successful or not.

Nikolaus von Bomhard_ That's why I actually want everyone to be free to challenge my ideas. The two of us are also in danger of becoming stubborn about certain ideas if we are so convinced of them. Of course, if you say "This is what we do, this is how we do it", you save a lot of time, but you run the risk of getting it badly wrong. The art is to provoke criticism, check out its core message, and then decide whether this has implications for you. That's why I think it's very helpful to create space around you for other opinions.

Kent Nagano_ Just surround yourself with people who by their very competence will challenge you regularly and on a continuous basis – that incites the kind of constructive dialogue which is really essential. There is another aspect: if you achieve a goal through perseverance, the result is that you can help people broaden their minds: which is to say to encourage them to take action not limited by their expectations, to introduce them to a much wider world where many elements can far exceed their short-term calculations.

Nikolaus von Bomhard_ Every individual has a right to expect something different. There are many expectations relating to our company. The important thing is not to be arrogant but to offer an alternative perspective. It is the most successful way of differentiating yourself from competitors, to achieve a unique profile. If you leave the mainstream and do something a little bit different. We decided to do primary insurance along with reinsurance, and I have constantly been faced with comments like: "Why do you do it?" and "Don't do it!" Now, as then, I am absolutely convinced this is the right step. Because with this integrated model, we can best profit from the synergies of diversification and from the chances in both segments. We can combine the solutions and open up new business opportunities. Of course, it will only be possible to judge the long-term success of this strategy when I'm no longer in office; but it takes some courage to go your own way, as it did for the composers.

Kent Nagano_ You bring up a very important point. In order to persevere, you need at least some people who understand what you're talking about. Achievement is a very public-oriented task. The public in the end will form a consensus as to whether or not your efforts were successful or not successful.

Nikolaus von Bomhard_ On the one hand, a good track record helps. So if you have three good symphonies out there, you can risk more with the fourth.

If you get people on your side to accompany you rather than just follow you, then you are ultimately more efficient.

When I took over my position, I had one main goal: to make our business profitable by increasing our portfolio quality. This took time and much effort, and it was and is often hard to be consistent and let the unprofitable business go. But now we are starting to harvest the fruits.

Kent Nagano_ In the end, defining a leadership profile requires strong personality. And it's only through perseverance that you can develop a depth of conviction and therefore a depth of character. The strength of that conviction and what you are prepared to fight for are the elements from which we extract personality, character and refine and focus a sense of will. Personality, character and sense of will are integral parts of leader functions. If one is to assume the responsibility of leadership, it almost implies that you must have the skills which are only brought about through vision and perseverance.

Nikolaus von Bomhard_ One might say that all the really important achievements in human history have been accomplished thanks to people who persevered. Of course, some failed badly, even though they were great leaders and had the right ideas, but they just could not prevail in their time, so their ideas were not recognised until later. Having said that, I think perseverance can be the more efficient approach. If you get people on your side to accompany you rather than just follow you, then you are ultimately more efficient: you save time, energy and resources by concentrating your forces to come up with what you finally want to achieve.

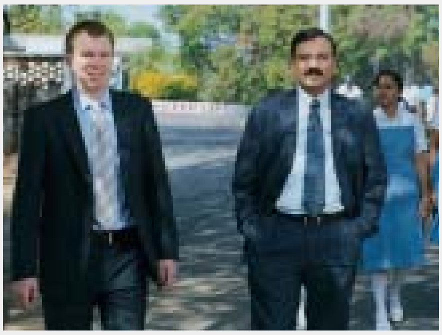
Daring to persevere

http://report.munichre.com/magazine

Stormy times for insurers – The risk of climate change

Heike Trilovszky, head of Corporate Underwriting at Munich Re

There has recently been emphatic confirmation of climate change – economies and insurers face major impacts. Heike Trilovszky explains how Munich Re is responding to the prospect of increasing natural catastrophe losses – and remaining successful.



http://report.munichre.com/magazine

Growth inclusive – A new health insurance company for India

Bernd Ottemann (left) and Chandra Sekhar Chivukula (right), members of the Board of Apollo DKV Insurance Company

DKV Deutsche Krankenversicherung has launched a joint venture with the Indian Apollo Hospitals Group to develop one of India's first health insurers, Apollo DKV Insurance Company. Bernd Ottemann and Chandra Sekhar Chivukula report on their pioneer work and the special features of the Indian health market.

http://report.munichre.com/magazine

Small cause, big effect – How Munich Re protects itself against the pandemic risk

Dr. Manuela Zweimüller, head of the Risk Identification & Control Department at Munich Re

How high is the pandemic risk? Dr. Manuela Zweimüller talks about the actual risk situation and her activities in an interdisciplinary working group which analyses the potential consequences of a pandemic for the Munich Re Group.

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Solvency II – New challenges for insurers

Claus Brinkmann, head of the Solvency Consulting Project Group at Munich Re, with Philippe Marie-Jeanne and Hubert Rodarie, members of the Board of SMABTP (from left to right)

The European Commission's Solvency II project aims to harmonise and modernise the European insurance market. Claus Brinkmann talks to Hubert Rodarie and Philippe Marie-Jeanne of French insurer SMABTP about the problems of smaller insurers.

Supervisory Board

Chairman
Dr. jur. Hans-Jürgen Schinzler
Former Chairman of the Board of Management
of Munich Reinsurance Company

Deputy Chairman
Herbert Bach
Employee of Munich Reinsurance Company

Hans-Georg Appel
Employee of Munich Reinsurance Company

Holger Emmert
Employee of Munich Reinsurance Company

Ulrich Hartmann
Chairman of the Supervisory Board of E.ON AG

Dr. rer. nat. Rainer Janßen
Employee of Munich Reinsurance Company

Prof. Dr. rer. nat. Henning Kagermann
Chairman of the Executive Board and Chief Executive Officer of SAP AG

Prof. Dr. rer. nat. Drs. h. c. mult. Hubert Markl
Former President of the Max Planck Society
Emeritus Professor of Biology

Wolfgang Mayrhuber
Chairman of the Board of Management of Deutsche Lufthansa AG

Kerstin Michl
Employee of Munich Reinsurance Company

Prof. Karel Van Miert
Professor at the University of Nyenrode

Ingrid Müller
Employee of Munich Reinsurance Company

Prof. Dr. jur. Dr.-Ing. E. h. Heinrich v. Pierer
Chairman of the Supervisory Board of Siemens AG

Dr.-Ing. e. h. Bernd Pischetsrieder
Chairman of the Board of Management of Volkswagen AG
(until 31 December 2006)

Dr. rer. nat. Jürgen Schimetschek
Employee of Munich Reinsurance Company

Dr. jur. Dr. h. c. Albrecht Schmidt
Former Chairman of the Supervisory Board of Bayerische Hypo- und Vereinsbank AG

Dr. phil. Ron Sommer
Former Chairman of the Board of Management of Deutsche Telekom AG

Wolfgang Stögbauer
Employee of Munich Reinsurance Company

Josef Süßl
Employee of Munich Reinsurance Company

Judy Võ
Employee of Munich Reinsurance Company

Membership of the Supervisory Board Committees

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

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

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

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

Board of Management

Dr. jur. Nikolaus von Bomhard

(Chairman of the Board of Management)
* 1956, lawyer,
with Munich Re since 1985
Group Investments; Group Development;
Press; Internal Auditing; Executive Offices,
Group Top Executives

Dr. rer. pol. Ludger Arnoldussen

(since 1 October 2006)
* 1962, graduate in commercial studies,
with Munich Re since 2006
Germany, Asia Pacific and Africa;
General Services

Dr. rer. pol. Thomas Blunck

* 1965, graduate in business management,
with Munich Re since 1999
Special and Financial Risks;
Organisational Design and Development;
Information Technology

Georg Daschner

* 1949, chartered insurer,
with Munich Re since 1965
Europe and Latin America;
Corporate Communications

Dr. jur. Heiner Hasford

(until 28 February 2007)
* 1947, lawyer,
with Munich Re since 1978
Group Investments, Corporate Finance,
M&A; Legal and Regulatory Affairs, Compliance;
General Services; Organisational Design and Development

Dr. rer. nat. Torsten Jeworrek

(Chairman of the Reinsurance Committee)
* 1961, mathematician,
with Munich Re since 1990
Corporate Underwriting/Global Clients;
Reinsurance Investments;
Accounting, Controlling and Central
Reserving for Reinsurance

Christian Kluge

(until 31 December 2006)
* 1941, chartered marine insurer,
with Munich Re since 1964
Europe 1; Corporate Communications

John Phelan

* 1947, underwriter,
with Munich Re since 1973
North America

Dr. jur. Jörg Schneider

* 1958, graduate in business management,
lawyer, with Munich Re since 1988
Group Accounting; Group Controlling;
Corporate Finance, M&A; Integrated Risk
Management; Legal and Regulatory Affairs, Compliance;
Taxes; 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)
* 1956, graduate in economics,
with Munich Re since 1988
Life and Health; Human Resources

Karl Wittmann

(until 31 December 2006)
* 1945, chartered insurer,
with Munich Re since 1961
Asia, Australasia, Africa


Dr. jur. Nikolaus von Bomhard


Georg Daschner


Christian Kluge


Dr. oec. publ. Wolfgang Strassl


Dr. rer. pol. Ludger Arnoldussen


Dr. jur. Heiner Hasford


John Phelan


Karl Wittmann


Dr. rer. pol. Thomas Blunck


Dr. rer. nat. Torsten Jeworrek


Dr. jur. Jörg Schneider

Intelligent solutions for profitable growth

We consistently provide distinctive risk solutions – in insurance, in reinsurance and across the segments – thus turning risk into value.

Our paramount strategic objective continues to be a sustained increase in the Munich Re Group's value, with a positive share price performance in relation to the market and our peers. Through a combination of strategic initiatives, we are equipping ourselves to meet these goals on a long-term basis.

In the past year, the Munich Re Group's management closely analysed the future prospects of the financial services sector until the year 2015 and defined the main thrusts of our activities in reinsurance, primary insurance and international health business. Our markets will continue to grow more strongly than the economy as a whole. Opportunities for us will come not only from economic growth but also from demographic change, the restructuring of social security systems, and increasingly complex relationships between risks. We see particular potential in the emerging economies and the global health market.

Geared to profitable growth

Our efforts are geared to strategies that can generate long-term profitable growth. For us, premium growth is not an end in itself: it must also offer sufficiently good earnings prospects. Naturally, we have to reckon with and be able to absorb result fluctuations, given the volatile nature of reinsurance business (which offers exceptional profit opportunities as well as undisputed risks) and the capital markets. We do not dismiss any options for expansion out of hand, whether they be initiatives for organic growth or growth through acquisitions, where we can exploit the financial scope that is available to us as a result of our strong capital base and our high earnings level. But we will proceed very selectively and not allow ourselves to be put under pressure – for example, by competitors growing as a result of measures that are not suitable for us.

As an integrated insurance and reinsurance group, we can take advantage of opportunities in either field of business. In addition, we devise cross-segment models – as in our international health business – which extend our activities beyond actual insurance as such. This broadly based strategy gives us a distinct competitive edge. It provides us with many options, enabling us to channel our growth initiatives flexibly into those segments and regions that promise the largest value increase.

Extending the boundaries of insurable risk

In reinsurance, we continue to see extensive growth opportunities in the medium and long term. Nevertheless, we are not prepared to lower our quality standards and write treaties that do not offer risk-commensurate prices: we consistently withdraw from unprofitable business. That is why we expect premium income in our reinsurance business to show little growth in the short term. It is therefore all the more important to acquire a predominant position in segments where intelligent growth is possible. This means venturing down new avenues, offering unconventional solutions and devising business models with which we extend the boundaries of insurable risks or win new clientele. With the setting-up of our own Risk Trading Unit last year, for instance, we improved our opportunities for making active and extensive use of the capital markets beyond the usual securitisation models. Another example is agricultural insurance in the US market, where we have tapped substantial new business potential through innovative solutions in collaboration with our cedants. In these and other activities for expanding our reinsurance business, we build on our renowned franchise strength, which we not only cultivate through active client management but also constantly adapt to changing requirements. Our aim is to achieve a unique position in the eyes of our clients that singles us out from our competitors. We were thus highly delighted to be voted "best reinsurer overall" by European primary insurers again in 2006.

We intend to exploit the global potential for profitable growth in primary insurance mainly by selectively and systematically extending our regional activities. Currently, we are focusing on selected countries in eastern and southeastern Europe (hence the purchase of İsviçre in Turkey) as well as emerging markets like India. Naturally, we would also like to build on our already very strong position in Germany, ERGO's traditional main market, chiefly by enhancing our distribution strength. However, the current political climate, as reflected in the recently adopted legislation for the so-called health reform, is an impediment to the realisation of this objective.

Profitably exploiting the value chain

In our international health market strategy, we have set ourselves significant profit and growth targets. Our integrated Group-wide approach is geared to covering the profitable elements of the health segment's value chain, as well as possible, in selected regions. We aim to link the different competences in our Group and respond to individual market situations with specifically tailored business models. Just over a year ago, we decided to coordinate all our international health market activities Group-wide. In this comparatively short time, we have launched a range of initiatives, of which the following are a few examples: the formation of Apollo DKV Insurance with a view to entering the Indian health insurance market via a joint venture; the application for a primary insurance licence in South Korea in order to set up a local health insurer there; and the development of a public health insurance system in Abu Dhabi, thereby generating reinsurance business as well as fixed management fees. With these and comparable projects, we are implementing our health market strategy and can report that we are making good progress.

All the initiatives mentioned here are based on our "cardinal virtues": excellent operative management at all executive levels and outstanding administration processes at both Group and business-field level. These virtues require persistent striving to optimise and improve our systems.

Clear management responsibility

At the beginning of 2006, we systematically divided responsibilities on the parent company's Board of Management between Group issues and reinsurance business. This has proved its worth: the "virtual holding company" that we created in this way enables us to clearly distinguish between the tasks of the Group Committee and responsibility for the individual fields of business and to focus resources on the respective core issues.

With our management and information systems, we want to set standards and achieve a clear competitive advantage. This means anchoring value-based management even more firmly in all business fields and segments, further refining integrated risk management and active capital management, and supporting our operative business with effective administration and underwriting systems. We took a major step in this direction last year with the launch of Gloria, our global reinsurance core administration system. Starting with our Munich location, this new standard software provides for a high degree of process efficiency and flexibility, and will leverage Group-wide synergies.

Knowledge counts

Even more important for our success than excellent processes is outstanding knowledge and its practical application in competing for business. Maintaining and constantly expanding our staff's knowledge is the crucial challenge for the future. This applies not only to the know-how available in our organisation with regard to risks, underwriting and clients, but also to leadership skills and management expertise. We therefore devote great attention to promoting, consolidating and expanding knowledge both in our staff development activities and through the design of our organisational structures. We ensure that expertise is suitably pooled and concentrated at those places in the Group where it can best be deployed to create value.

In 2007, we will continue to pursue our strategic objectives with perseverance and determination. Our "cardinal virtues" – risk as our core business, risk diversification and operative excellence – will guide our actions. We are impatient when it comes to innovation, but we will not let ourselves be rushed into taking unconsidered steps. By combining the above qualities, we aim to achieve ambitious results on a sustained basis and to continually build on them, thus satisfying our shareholders' interest in the long-term appreciation of the Munich Re Group's value.

Price rally in the second half of the year

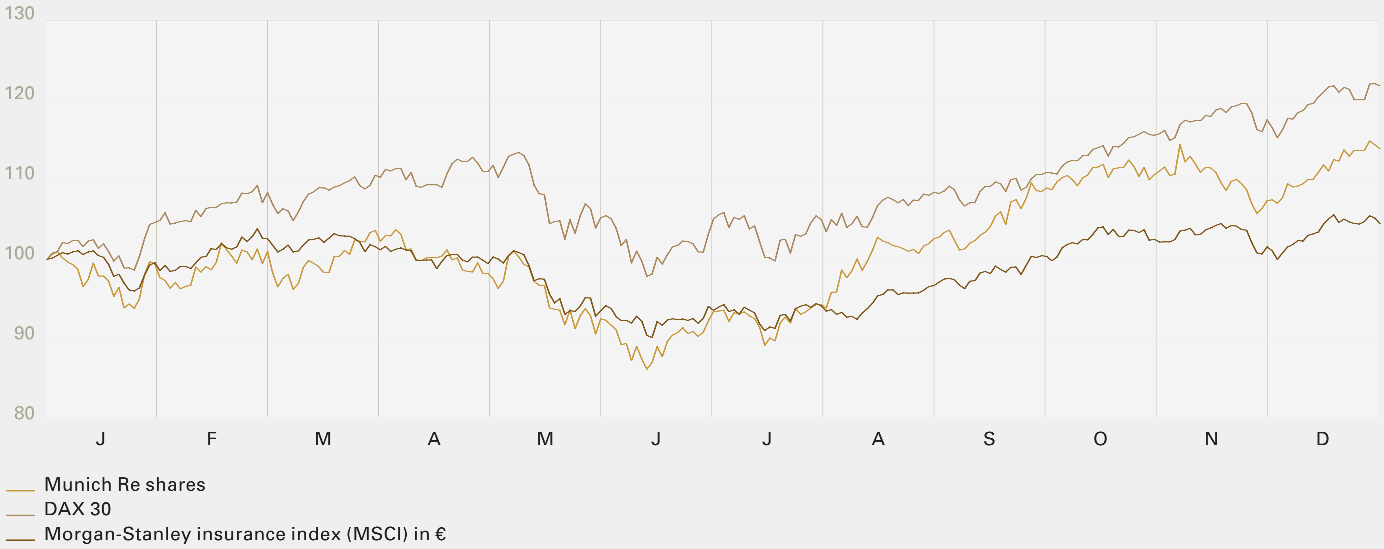
Our excellent business performance and share buy-back programme led to further price gains for Munich Re shareholders. Overall, our shares climbed in value by 14% in 2006.

The major international stock markets developed favourably in 2006, especially in the second half of the year. Back in May, there had been substantial setbacks triggered by high energy and commodity prices and fear of interest-rate hikes. Nevertheless, most indices finished the year with a pronounced rally due mainly to strong company profits, ebbing worries about inflation, and the high degree of liquidity in the markets. Closing 2006 at 6,597 points, the DAX was up 22% for the year. The most important German stock market barometer thus rose considerably more than the EURO STOXX 50. After a weak 2005, the US stock exchanges also achieved marked gains.

Insurance stocks advanced as well in 2006, the MSCI insurance index (in euros) increasing by 4.5% in the course of the year.

Share price performance

1 January 2006 = 100, Source: Datastream



With a gain of 14% and a year-end price of €130.42, Munich Re shares performed better than the MSCI insurance index, but not as well as the DAX. They started 2006 at just under €115. During the first half of the year, our share price fell and reached its year low of €97.15 in mid-June. Thereafter it rose strongly, with investors rewarding the excellent performance of our business and the prospect of another record result coupled with a higher dividend. The growth in our share price was supported by our share buy-back programme and a rating upgrade from Standard & Poor's towards the end of the year.

As with the insurance sector in general, a likely reason for the weaker performance of our shares compared with the DAX in 2006 is the assumption by some investors that – after the lower claims burdens in 2006 – the scope for further premium increases is small. However, Munich Re will continue to adhere closely to its "profit before growth" strategy, which should benefit our shareholders.

Analysts see potential for further price gains

More than 40 analysts regularly evaluate Munich Re shares. At the end of the financial year 2006, around half of them rated our shares positively, in some cases seeing substantial scope for further price gains. Only 9% of analysts gave the shares a negative assessment.

Another dividend increase

Given the record result in 2006, the dividend proposal of the Board of Management and Supervisory Board at the Annual General Meeting on 26 April 2007 will be the payment of an increased dividend of €4.50 (3.10) per share (45% higher than last year). Altogether, we will thus distribute a record amount of €988m (707m) to shareholders.

With a dividend yield of approximately 3.5% (in relation to the year-end share price), Munich Re shares are also included in the DivDax, a subindex of Deutsche Börse AG that features the 15 DAX companies with the highest dividend yields.

Since 2004, Munich Re has been pursuing a flexible dividend policy – in conjunction with our active capital management – where the amount distributed mainly depends on the result for the year and our capital requirements. Nonetheless, our aim is to pay out at least 25% of the annual result to our shareholders.

Share buy-back programme with a volume of €1bn

In addition to our shareholder-friendly dividend policy, we are intent on reducing capital costs – to the benefit of our shareholders – by employing our capital efficiently and thus managing the amount of our equity in line with operational requirements. Consequently, on 7 November 2006, the Board of Management decided to buy back Munich Re shares with a value of up to €1bn via the stock exchange in the period up to the Annual General Meeting on 26 April 2007. This step is intended to further strengthen the confidence of our shareholders and optimise our capital management.

Share buy-back as an additional yield

If a company buys back shares and then retires them, the number of shares issued consequently falls. Future profits are divided between fewer shares – the earnings per share increase. Besides the dividend, shareholders will thus receive an additional yield in 2006; altogether, the payout ratio to shareholders will amount to 58% of the profit for the year.

The share buy-back was concluded by the end of February. Just over eight million shares were acquired at an average price of €124.36. These shares will be retired prior to the Annual General Meeting. Further details of the buy-back programme can be viewed under "Investor Relations > Our Shares" at www.munichre.com.

Key figures for our shares

		2006	2005
Share capital	€m	**587.7**	587.7
Number of shares at 31 December	m	**229.6**	229.6
Year high	€	**131.99**	121.88
Date		**28.12.2006**	5.12.2005
Year low	€	**97.15**	83.32
Date		**14.6.2006**	13.5.2005
Year-end closing price	€	**130.42**	114.38
Annual performance (excluding dividend)	%	**14.0**	26.5
Beta relative to DAX		**0.9**	1.0
Market capitalisation at 31 December	€bn	**29.9**	26.3
Market value/equity* at 31 December		**1.1**	1.1
Average daily turnover	'000	**1,910**	1,825
Earnings per share	€	**15.12**	11.74
Dividend per share	€	**4.50**	3.10
Dividend yield at 31 December	%	**3.5**	2.7
Overall dividend amount	€m	**988**	707

*Including minority interests.

Investor relations activities

Munich Re organised more than 30 roadshows during the past year to present the Group, primarily in the USA and Europe. Management also held over 150 individual meetings with investors and analysts at our offices. Additionally, as in previous years, Munich Re participated in several investor conferences around the world.

But our activities are not only geared to institutional investors: private investors can contact Munich Re directly at any time as well. They obtain prompt answers to their enquires via our shareholder hotline or e-mail.

We publish all important investor relations information on our website where, besides annual and quarterly reports and investor presentations, we provide details about our shares, our current shareholder structure, analysts' opinions, important dates in the financial calendar, and much more. The service pages of our shareholder portal (www.munichre.com/register) offer our shareholders various facilities, such as registering to receive documents for the Annual General Meeting by e-mail or updating their registered shareholder data online.

Group management report (excerpt)

Important tools of corporate management

Munich Re's value-based management philosophy

The Munich Re Group's objective is to analyse risk from every conceivable angle and to handle it successfully, thereby creating lasting value for its shareholders, clients and staff. A guiding principle of our corporate thinking and activity is to increase Munich Re's share price on a sustained basis. The main features of this shareholder value approach in practice are the consistent application of robust, value-based management systems within the Group and a clear focus on future prospects of success.

Besides value-based performance measures, we observe a range of important additional conditions in managing our business. These conditions may be reflected in supplementary targets within the Group, or in isolated cases may even determine a unit's short-term orientation in a particular situation. They include the rules of local accounting systems, tax aspects, liquidity requirements, supervisory parameters, and our shareholders' legitimate interest in attractive regular cash distributions and an appropriate return on the overall capital invested.

The key factor in our business decisions is to increase corporate value, which we do in the following ways:

- 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. Only the risk-return relationship reveals how beneficial an activity is from the shareholder's point of view.
- With clearly defined value-based performance indicators, we ensure the necessary comparability of alternative measures and initiatives as the basis for setting priorities.
- We clearly assign responsibilities and make the levers for adding value transparent for both management and staff.
- We closely link strategic and operative planning. All initiatives are ultimately geared to the overriding financial objective of enhancing corporate value.

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

In our non-life business, which is mainly of a short-term nature, we employ the following simple formula for measuring the value added annually by our insurance business and for managing and monitoring our business activities:

Adjusted result – **Cost of equity** (Necessary operating equity X Target rate) = 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 correspondingly adjusted result with the requisite cost of equity. A significant factor in the calculation of the cost of equity is the risk-based capital, which we determine using our internal model. In the property-casualty business and health reinsurance measured on a single-period basis, value is added to the extent that the adjusted result exceeds the cost of equity.

The products of life primary insurance and reinsurance, and the bulk of our health primary insurance business, are characterised by their long-term nature and the distribution of results over the duration of the policies. For valuing such long-term portfolios, whose performance cannot be reasonably measured on the basis of a single year, we use the European Embedded Value method. Embedded value is the present value of future net earnings from business in force plus the value of shareholders' equity, less the cost of holding capital. All assets and liabilities are valued consistently with how financial markets price tradeable instruments ("market-consistent embedded value"). Policyholders' options and guarantees are explicitly taken into account using stochastic simulations. By setting a minimum return requirement, we aim through value-based management to ensure an adequate return on the capital employed and an appropriate value added.

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 "neutral position". This involves a synthetic investment portfolio which – taking into consideration significant additional parameters in the investment of capital – best reflects the characteristics of our liabilities towards clients. The target return, i.e. the expected income from the neutral position, is compared with the return from the actual portfolio, bearing in mind the risk capital required for deviating from the neutral position. Finally, a comparison with the returns of relevant stock market indices provides important insights into the performance of our own investments.

In addition to these purely financial performance factors, non-financial performance measures like market share, speed of processes, staff-training level and client satisfaction play a major 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 objectives in structured overviews or "scorecards", from which we derive initiatives, performance measures and responsibilities within a framework of four perspectives: "financial", "market and client", "process" and "employee". We promote an entrepreneurial culture among staff through the clear allocation of responsibility and accountability, recognising how much the individual, unit or field of business contributes to increasing value. The consistent integration of the financial and non-financial objectives into Board, executive and staff incentive systems supports the clear orientation towards value creation.

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

What we aim to achieve

Starting point 2006

In the past year, the Munich Re Group's business performed very well. Thanks to the excellent business experience in reinsurance, the gratifying performance in primary insurance and the very good investment result, we recorded an outstanding consolidated profit of over €3.5bn. We achieved a return of 20.3% on our risk-adjusted capital, thus surpassing our target of 15%. Our return on investment was a very satisfying 5.0% (5.9%). This is the ratio of the investment result of €8.9bn to the average market value of the investment portfolio at the balance sheet and quarterly reporting dates, totalling €178bn.

Our combined ratio, a much-heeded performance indicator in property-casualty insurance, was convincing in both reinsurance and primary insurance. For better comparability, we divide the combined ratio into property-casualty and health. The combined ratio in property-casualty includes all the business attributable to this segment, whereas in health it refers only to health insurance that is not conducted like life insurance. Calculated as the percentage ratio of the sum of net expenses for claims and benefits plus net operating expenses to net earned premiums, the combined ratio corresponds to the sum of the loss ratio and the expense ratio. Put simply, a combined ratio of 100% means that premium income was exactly sufficient to cover claims and costs. Net expenses for claims and benefits mainly include paid claims, the change in claims provisions, and the bulk of other underwriting expenses. The portion of other underwriting expenses not considered includes, for example, German fire brigade tax. Net operating expenses chiefly comprise the costs arising in the acquisition of new business (e.g. commission) and for the ongoing administration of insurance contracts.

In the property-casualty reinsurance segment, there were net expenses for claims and benefits of €8,925m (11,329m) and net operating expenses of €3,846m (3,827m) in 2006, compared with net earned premiums of €13,795m

(13,565m). The combined ratio thus amounts to 92.6% (111.7%), an excellent figure, significantly due to the fact that we were largely spared major losses from natural catastrophes last year.

The combined ratio in the health reinsurance segment amounts to 96.3% (93.0%), with net expenses for claims and benefits of €748m (658m) and net operating expenses of €303m (324m) comparing with net earned premiums of €1,091m (1,056m).

The combined ratio in primary insurance is determined solely for the property-casualty segment (including legal expenses insurance), as most of the health primary insurance business is conducted like life insurance. In 2006, paid claims and the change in claims provisions totalled €2,218m (2,338m) and net operating expenses €1,390m (1,390m), compared with net earned premiums of €3,975m (4,005m). Our combined ratio in primary insurance thus amounts to 90.8% (93.1%), an outstanding figure both in absolute terms and in comparison with competitors.

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

- The more the claims burden fluctuates over time, the greater the risk is, and so the premiums needed to cover the risk must be higher. Loss ratios in good years, as well as average loss ratios, have to be all the lower to provide the reinsurer with an adequate return for assuming this 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 premium 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.

Rather, the key factor we consider is economic value added, which cannot be properly reflected by the combined ratio. We pursue this target internally through the performance metrics of value added and European Embedded Value, both of which are more meaningful and better tailored to the characteristics of the relevant business segments. Their common feature is that they measure value creation not only on the basis of current and forecast profits but also taking into account the size of the risks taken. Thus, when considering Group performance, we gear targets (by way of a common, linking element) to a risk-adjusted return. Although this is not a direct performance measure, it is a strong indication of the Group's value creation.

Risk-based Group return target for the financial year 2007

We have set ourselves ambitious targets again for 2007, to follow up the successful performance of the past financial year. For this purpose, we are employing a risk-based performance measure which we used for external communication for the first time in 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. 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.

On the basis of further assumptions we make and publish regarding key indicators, our shareholders can form their own opinion regarding our target's achievability, and can assess Munich Re's business performance and economic value added.

RORAC is defined as follows:

$$\textbf{RORAC} = \frac{\text{Net income} - \text{Interest rate } (1 - \text{tax rate}) \text{ x Additional available equity}}{\text{Risk-based capital}}$$

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 (additional available equity). This is calculated as follows: the starting point is the equity recognised in the IFRS financial statements, from which the "economic equity" is derived by means of various adjustments. These include the addition of the unrecognised valuation reserves and the unrecognised portion of the embedded values in life and health insurance, and the subtraction of goodwill and deferred tax assets. From this economic equity a margin is deducted for the settlement of expected claims payments in following years. The difference between the amount then remaining and the required risk-based capital is the additional available equity, which is also necessary for rating and solvency purposes, as well as for profitable growth, but which we strive to keep lean through our active capital management. This is because the additional available equity in the system presented here only earns a risk-free interest rate, as all the risk components of the investment and underwriting are covered with risk-based capital by the internal risk model, and thus assigned appropriate return requirements. Even though we take a risk-adjusted return as our target, we aspire to meet the high, but fair expectations of our investors also with regard to the return on total capital placed at our disposal.

At what level should the RORAC target be set?

Our RORAC target is a sustained return on risk-adjusted capital of 15% over the whole cycle. We will not finalise and publish the risk-adjusted capital applicable for 2007 until May, when we have comprehensively assessed our current risk positioning. As things stand, however, our assumption is that the RORAC figure will correspond to an expected consolidated profit of between €2.8bn and €3.2bn, which is equivalent to a return on equity ranging from nearly 11% to 12%.

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 below 97% in property-casualty reinsurance, which includes an amount equivalent to approximately 5.0% of premiums as projected claims expenditure for natural catastrophes costing over €5m per event. In property-casualty primary insurance, we expect a combined ratio of under 95%.

On the investment side, we anticipate a result equivalent to 4.5% of the average market values of the investments.

Lastly, our target is based on a largely stable currency environment. Changes in tax treatment are only considered to the extent that they are already known today.

Embedded values as additional performance indicators

In life primary insurance and reinsurance and in German health primary insurance, we will use key indicators primarily based on European Embedded Value (EEV).

We aim to achieve EEV earnings of between 8% and 9% both in primary insurance and reinsurance business in relation to the value of the overall business in force at the beginning of the year. 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 follow the narrower individual financial-year perspective.

Our targets – Ambitious but attainable

In selecting suitable targets, contrasting aspects have to be considered and weighed up. On the one hand, undue complexity has to 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 complex, especially as the parallel use of different performance indicators is unavoidable. That is why we have devoted considerable space to this topic. We are convinced that we are on the right track with the key performance indicators of RORAC and embedded value. Taking into account all the relevant factors, we consider that our targets are economically meaningful – ambitious, but attainable nonetheless.

Binding standards for underwriting and pricing

In reinsurance, CUGC is not only responsible for business with our global clients but also develops guidelines and best-practice principles for the underwriting of our reinsurance business. Corporate Underwriting defines standards for the underwriting, pricing and claims management of the reinsurance group. Besides this, regular reviews are conducted to make sure that these standards are complied with. In this way, we ensure that the quality of our business is consistently high throughout our reinsurance operations and that we respond swiftly to changes and new developments. Since Corporate Underwriting is closely linked to our operative business, we can generate needs-oriented products and services for our clients there as well.

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

Overview and key figures

Outstanding consolidated result of €3.5bn
Return on risk-adjusted capital (RORAC) of 20.3% after tax
Planned dividend increase to €4.50 per share

		2006	2005	2004	2003	2002
Gross premiums written	€bn	**37.4**	38.2	38.1	40.4	40.0
Combined ratio – Reinsurance property-casualty	%	**92.6**	111.7	98.9	96.5	123.7
– Primary insurance property-casualty	%	**90.8**	93.1	93.0	96.4	99.9
Consolidated result	€m	**3,536**	2,751*	1,887	–468	214

*Adjusted owing to first-time application of IAS 19 (rev. 2004).

The Munich Re Group's business performed very well in the past year. With an outstanding consolidated result of €3.5bn, we clearly surpassed our expectation of €2.6-2.8bn in 2006, making it the third record year in succession. Our return on risk-adjusted capital (RORAC) amounted to 20.3% after tax, thus markedly exceeding our long-term target of 15%. This was due to the very good results of our primary insurers and reinsurers, which were successful both in their underwriting business and in the investment of their managed assets.

Compared with the previous year, reinsurance experienced significantly fewer large losses in 2006. With an attractive environment in many areas, we were able to maintain and – where necessary – even improve the terms and conditions of our basic business. This helped us to achieve a combined ratio that was well within our target of 97%. At 92.6%, it is the most satisfactory of recent years. In the property-casualty segment, business experience was thus very positive. The life and health segment achieved a good result, albeit not as high as the previous years' figure, which had benefited from special factors. Thanks partly to the contribution from investments, we achieved an excellent overall operating result in reinsurance, where total premium volume remained more or less steady as a consequence of our strictly risk-adequate underwriting policy.

In primary insurance, too, our annual result of €1,062m was well above our target, which we had set at €600–700m. Gross premiums written fell, but still exceeded our expectations of €16.5–17bn. The reduction is solely due to our sale of the Karlsruher Insurance Group and the Dutch Nieuwe Hollandse Lloyd Verzekeringsgroep (NHL) in 2005. We were unable to fully compensate for the lower premium income in life insurance with growth in property-casualty insurance and the health segment. Particularly the sale of the Karlsruher Insurance Group, whose business focused on life insurance, made itself felt in life premiums. The very satisfactory development in the health segment, where gross premiums rose by 4.3%, was driven mainly by extensive new business in supplementary health insurance, where we recorded growth of 15.6%. Claims experience in property-casualty insurance, including legal expenses insurance, was again very favourable in the year under review. This enabled us to achieve a combined ratio that was considerably better than our target of 95%.

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

Result

Compared with the previous year, the consolidated result improved by €785m to an outstanding €3.5bn (2.8bn).

The largest contribution of €2.1bn (0.4bn) came from the reinsurance property-casualty segment, where we benefited from our excellent basic business and the near absence of serious natural catastrophes in 2006.

Consolidated result

All figures in €m	2006	2005*	2004	2003	2002
Result before amortisation and impairment losses of goodwill	**5,498**	4,150	3,369	1,971	–20
Operating result	**5,494**	4,143	3,025	1,284	–391
Consolidated result	**3,536**	2,751	1,887	–468	214

*Adjusted owing to first-time application of IAS 19 (rev. 2004).

Primary insurance again contributed substantially to the Munich Re Group's success as well, achieving an above-plan consolidated result of €1,062m.

The share of the investment result in the Group's performance amounted to €8.9bn (10.8bn). Our operating result rose by 32.6% to €5.5bn (4.1bn), but it should be remembered that the previous year's figure included large profits from the sale of the Karlsruher Insurance Group and HypoVereinsbank shares.

The operating result was influenced in particular by the following factors:

– In reinsurance, we were largely spared large claims burdens from natural catastrophes. Only 1.3 (19.4) percentage points of the property-casualty combined ratio were attributable to natural catastrophe losses.
– Provisions for prior-year losses from our US reinsurance business, in particular for claims for asbestos-related diseases, were further increased using appropriate reserves for which general provision had previously been made at Group level.
– In primary insurance, the pleasingly low claims expenditure and appreciably lower administration costs were significant factors in the successful result. The combined ratio, including legal expenses insurance, was 90.8% (93.1%), yet another year-on-year improvement.
– Strong regular income and realised capital gains (especially from the sale of non-fixed-interest securities) increased the investment result in both reinsurance and primary insurance. At 5.0%, the return on investment (based on the average investment portfolio at market values) outperformed our target of 4.5%.

The tax expenditure totalling €1,648m (equivalent to 32% of the pre-tax profit) was influenced by two countervailing one-off factors:

– Under new legislation on German corporate tax which entered into force in December 2006, corporate tax credits from the former imputation system will be paid out in equal annual amounts over a ten-year period, commencing in 2008. This gives rise to total tax income of €379m.
– Deferred tax assets from loss carry-forwards at our subsidiary Munich Re America were written off in our accounts for 2006, producing deferred tax expenses totalling €770m.

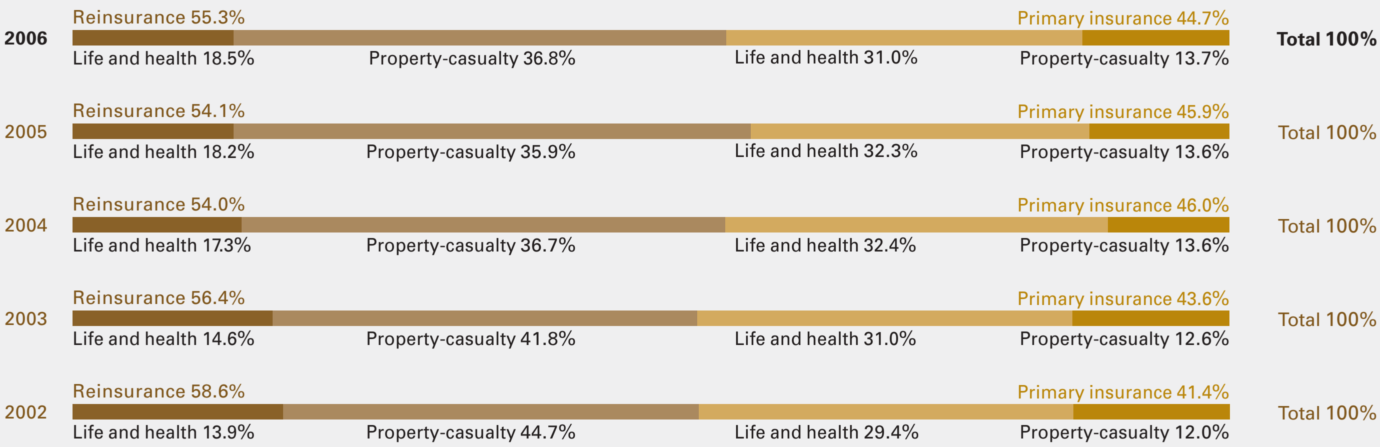
Premium

Approximately 55% of our Group premium income was earned from reinsurance and 45% from primary insurance. Whereas in reinsurance we operate on a global basis, in primary insurance 78% of our premium comes from the German market; but in both fields of business, the share of premium from outside Germany is increasing appreciably.

In reinsurance, we continue to adhere to our strictly profit-oriented underwriting policy. The realisation that risk-commensurate terms and conditions are absolutely essential is becoming more and more prevalent in the reinsurance markets. Although capacities increased, we were able to obtain attractive terms and conditions for both new business and renewals. Premium income was stable at €22.2bn compared with the previous year (22.3bn).

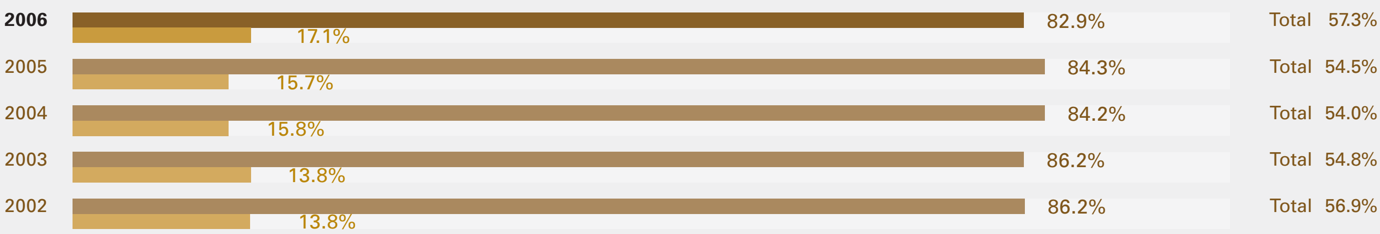
In primary insurance, gross premiums were down on the previous year, falling by 4.7% owing exclusively to changes in the consolidated group, above all to the sale of the Karlsruher Insurance Group and NHL (Nieuwe Hollandse Lloyd Verzekeringsgroep). Adjusted to eliminate the effect of these changes, premium rose by 0.5%. Growth was again driven by health insurance in 2006, where the notable expansion in premium volume was attributable to premium increases and additional sales of supplementary insurance policies. The property-casualty business of our ERGO companies in Poland and the Baltic States developed pleasingly, achieving double-digit growth rates.

Share of reinsurance and primary insurance – Life and health and property-casualty – in Group premium income*



*After elimination of intra-Group transactions across segments.
Reinsurance   Primary insurance

Percentage of premium from foreign business*



*After elimination of intra-Group transactions across segments.
Reinsurance   Primary insurance

Group premium income

All figures in €bn	**2006**	2005	2004	2003	2002
Reinsurance	**22.2**	22.3	22.4	24.8	25.4
Primary insurance	**16.7**	17.6	17.5	17.6	16.6
Consolidation	**–1.5**	–1.7	–1.8	–2.0	–2.0
Total	**37.4**	**38.2**	**38.1**	**40.4**	**40.0**

Events after the balance sheet date

On 18/19 January 2007, Winter Storm Kyrill crossed central Europe with wind speeds of well over 100 km/h on a widespread scale. The countries hardest hit by the storm were Germany and the UK, but it also affected the Benelux countries, Austria, Poland, the Czech Republic, and to a lesser degree Switzerland. The Munich Re expects its claims costs in primary insurance and reinsurance to be significantly lower than the €600m before tax originally anticipated on the basis of initial estimates.

Of the owner-occupied and investment property recognised in the consolidated balance sheet as "held for sale", ownership of items with a carrying amount of €215m had been transferred by the end of February 2007, realising a gain on disposal of €294m.

The share buy-back launched in November 2006 was concluded at the end of February 2007. A total of just over eight million shares were acquired at an average price of €124.36, which will be retired prior to the Annual General Meeting.

Reinsurance

Exceptionally favourable claims experience in property-casualty
Good business development in life and health

		2006	2005	2004	2003	2002
Gross premiums written						
– Life and health	€m	**7,665**	7,811	7,540	6,876	6,561
– Property-casualty	€m	**14,551**	14,547	14,857	17,919	18,884
Loss ratio health	%	**68.5**	62.3	65.6	65.7	74.7
Loss ratio property-casualty	%	**64.7**	83.5	71.2	69.6	97.2
Thereof natural catastrophes	Percentage points	**1.3**	19.4	5.0	1.8	3.4
Expense ratio health	%	**27.8**	30.7	30.9	30.5	28.1
Expense ratio property-casualty	%	**27.9**	28.2	27.7	26.9	26.5
Combined ratio health	%	**96.3**	93.0	96.5	96.2	102.8
Combined ratio property-casualty	%	**92.6**	111.7	98.9	96.5	123.7
Consolidated result life and health	€m	**561**	977*	432	262	1,548
Consolidated result property-casualty	€m	**2,134**	420*	1,234	1,370	788

*Adjusted owing to first-time application of IAS 19 (rev. 2004).

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

Until 31 December 2006, our reinsurance business was divided between seven divisions: Life and Health; Europe 1; Europe 2 and Latin America; Asia, Australasia, Africa; North America; Corporate Underwriting/Global Clients; and Special and Financial Risks.

Marketing

As reinsurers, we write our business predominantly in direct collaboration with the primary insurers, but also via brokers. This includes business offered to us by industrial clients through their captives or risk retention groups (alternative market business), which we accept via Munich-American RiskPartners (MARP).

Overview and key figures

Our reinsurance business performed most satisfactorily again in the past year. On the one hand, we benefited from the high quality of our basic business, whose current profitability is the outcome of the consistent steps we have taken in recent years. On the other hand, unlike in the previous year, we were largely spared severe natural catastrophe losses. This is reflected particularly in the share of natural catastrophes in our combined ratio. Whereas in the previous year, especially as a result of the devastating Atlantic hurricanes, this share totalled 19.4 percentage points, in the past business year it amounted to only 1.3 percentage points. For the above-mentioned reasons, we recorded a significantly improved combined ratio – an excellent 92.6% (111.7%). This enabled us to clearly surpass the ambitious targets we had set ourselves for the past year. The positive development was underpinned by a good business performance in life and health and a solid investment result.

A comparison of the major-loss burden from natural catastrophes with that of the last two financial years (€177m in 2006 and €2,629m in 2005) indicates the extent to which insurance business – and particularly reinsurance business – is subject to random fluctuations in certain segments. A better understanding essentially requires a longer-term view of our business. We see the situation as endorsing our strategy of systematically optimising our risk management in the Group and refining the models with which we evaluate loss potentials. With this range of tools, we can determine risk-adequate prices, terms and conditions, despite the volatilities in our business. The Munich Re Group has maintained its overall liability for natural catastrophe covers at a virtually unchanged level, reflecting our firm conviction that this insurance segment is still very attractive in the long term.

In the year under review, we continued to gear our underwriting policy closely to the principle of profit before growth. Despite the increased reinsurance capacities in the market, we obtained attractive terms and conditions for both new business and treaty renewals. Losses of premium volume from treaties which did not meet our requirements were compensated for by new business elsewhere. The substantially improved prices, terms and conditions that we had achieved in the previous years proved necessary and therefore sustainable. In loss-affected sectors of property business, we were able to increase prices. Above all, premiums for natural hazards covers in the regions concerned again rose appreciably. Where treaties had remained claims-free, pressure on prices grew. Altogether, however, we succeeded in further optimising the profitability of our portfolio at appropriate terms and conditions.

We have taken the first big step in the global standardisation of our business processes and data resources on the new reinsurance platform Global Reinsurance Application (Gloria). In spring 2006, the first productive version of the SAP-supported IT system, which is tailored to our requirements, was successfully implemented at Munich Reinsurance Company in Munich. Once Gloria has been introduced worldwide, the internationally integrated data resources will allow us to analyse, manage and control our reinsurance business even better.

Result

The two reinsurance segments life and health and property-casualty accounted for €0.6bn (1.0bn) and €2.1bn (0.4bn) of the consolidated result respectively. Our overall result for reinsurance was thus 92.9% higher than in the previous year.

The operating result in property-casualty reflects the reduction of €2,439m in the burden from major losses, due above all to the lower frequency of severe natural catastrophe losses.

This was paralleled by the good business performance in life and health which, together with a solid investment result, enabled the operating result for reinsurance to climb overall by 84.5% to €4.4bn (2.4bn).

The result improvements extended across all divisions and are generally reflected in substantially lower combined ratios.

Reinsurance result

All figures in €m*	2006	2005	2004	2003	2002
Operating result	**4,408**	2,389*	2,642*	2,606	1,639
Consolidated result	**2,695**	1,397*	1,666*	1,632	2,336

*Adjusted owing to first-time application of IAS 19 (rev. 2004).

Combined ratio by division

All figures in %	2006	2005	2004	2003	2002
Life and Health*	**96.3**	93.0	96.5	96.2	102.8
Europe 1	**97.1**	94.2	89.1	96.5	117.7
Europe 2 and Latin America	**97.2**	100.1	98.5	96.6	96.4
Asia, Australasia, Africa	**93.9**	95.0	102.3	91.8	86.8
North America	**96.9**	134.0	119.3	99.1	168.1
Corporate Underwriting/Global Clients	**88.1**	126.0	94.0	98.0	120.8
Special and Financial Risks	**81.1**	110.5	78.9	92.9	116.5

*Figures for health reinsurance only, excluding health insurance conducted like life insurance; previous years' figures adjusted.

Premium

Premium income remained steady in 2006 at €22.2bn (22.3bn). With the euro rising on average against the most important foreign currencies for our business, we also recorded a decline in premium income due to changes in exchange rates (without these currency translation effects, our premium income would have been 0.1% higher). Approximately €16bn or 71.9% of premium was written in foreign currency, of which 48.9% was in US dollars and 15.3% in pounds sterling. 28.1% of our premium volume was transacted in euros.

The main reason for the decline in premium income was the continuation of our strictly risk-adequate underwriting policy. Where prices or conditions were not commensurate with the risks, we refrained from renewing treaties or writing new business.

In addition, as part of our portfolio management, we converted our reinsurance treaties in certain market segments and for specific clients to non-proportional covers if this allowed us to create higher added value. We are prepared to accept that the premium volume generated in these cases is lower than under proportional treaty forms of cover. Nevertheless, we largely offset the lower volume with the substantial rate increases we achieved in the last renewals for property and offshore energy risks with natural catastrophe exposure in the USA and Latin America (especially oil platforms).

In life and health reinsurance, the unrelenting demand worldwide for privately financed provision products largely made up for premium reductions from individual high-volume treaties. This kept our premium income stable, despite our selective underwriting policy and our stringent profitability requirements. About 34.5% of our total premium income was attributable to life and health reinsurance and 65.5% to the property-casualty segment.

Gross premiums by segment

All figures in €m	**2006**	2005	2004	2003	2002
Life and health	**7,665**	7,811	7,540	6,876	6,561
Property-casualty	**14,551**	14,547	14,857	17,919	18,884
Total	**22,216**	**22,358**	**22,397**	**24,795**	**25,445**

Primary insurance

Result target clearly surpassed
Excellent combined ratio of 90.8%

		2006	2005	2004	2003	2002
Gross premiums written						
– Life and health	€m	**11,606**	12,330	12,324	12,558	11,752
– Property-casualty	€m	**5,147**	5,242	5,202	5,082	4,841
Loss ratio property-casualty	%	**55.8**	57.8	57.5	60.2	62.7
Expense ratio property-casualty	%	**33.8**	33.5	33.8	35.4	36.4
Combined ratio property-casualty	%	**89.6**	91.3	91.3	95.6	99.1
Combined ratio legal expenses insurance	%	**95.3**	99.8	98.9	99.2	101.8
Combined ratio property-casualty, including legal expenses insurance	%	**90.8**	93.1	93.0	96.4	99.9
Consolidated result life and health	€m	**336**	594*	25	–960	–591
Consolidated result property-casualty	€m	**726**	585*	292	–131	–348

*Adjusted owing to first-time application of IAS 19 (rev. 2004).

The Group's primary insurers essentially comprise the ERGO Insurance Group, Europäische Reiseversicherung and the Watkins Syndicate.

Together, they are active in nearly all branches of life, health, and property-casualty insurance. Approximately 79% of their premium income derives from Germany, the remaining 21% stemming largely from other European countries. The bulk of the business is transacted in euros. The ERGO Insurance Group accounts for most of the premium volume (95.1% in 2006).

Marketing

The brands of ERGO's operative insurance companies continue to be of great significance. They are the cornerstones of ERGO's franchise strength, as its strategy involves using multiple sales channels to gain access to clients. In addition to working with a variety of independent insurance agents, ERGO also cooperates with brokers and strong business partners. Its exclusive cooperation with HypoVereinsbank accounted for new business of €342m (298m) in 2006. KarstadtQuelle Versicherungen, a member of the ERGO Insurance Group and Germany's most popular direct insurer, welcomed its three millionth client in the year under review.

Europäische Reiseversicherung, with more than 17,000 partners in the tourist industry, is the leading provider in its field. For almost 100 years, travel agents have been its main sales partners, although nowadays its sales avenues include major tour operators, cooperation agreements with travel offices, internet platforms and hotels as well. With its international network of subsidiaries and affiliated enterprises, Europäische Reiseversicherung is represented in all major European countries. In the year under review, it also entered into partnerships in selected Asian markets.

The Watkins Syndicate, which operates within Lloyd's of London, is one of the leading primary insurers in international marine business. In addition, the syndicate has a wide and efficient distribution network – with branch offices in Hong Kong, Singapore and, since 2005, Dubai.

Overview and key figures

ERGO Insurance Group

		2006	2005	2004	2003	2002
Gross premiums written	€m	**15,930**	15,919	15,569	15,566	14,775
Net earned premiums	€m	**14,339**	14,253	13,736	13,700	12,954
Combined ratio	%	**89.4**	90.0	90.1	89.7	97.6
Consolidated result	€m	**906**	786*	236	–1,431	–1,212
Investments	€m	**101,853**	100,193	97,001	91,370	87,012

*Adjusted owing to first-time application of IAS 19 (rev. 2004).

Europäische Reiseversicherung

		2006	2005	2004	2003	2002
Gross premiums written	€m	**359**	343	316	305	307
Net earned premiums	€m	**300**	286	267	255	260
Combined ratio	%	**95.3**	97.1	94.6	96.4	102.7
Consolidated result	€m	**4.3**	2.0	10.8	5.0	–4.5
Investments	€m	**161**	151	179	156	148

Watkins Syndicate

		2006	2005	2004	2003	2002
Gross premiums written	£m	**323**	248	208	229	208
Net earned premiums	£m	**208**	189	172	162	103
Combined ratio	%	**87.0**	109.0	83.5	87.2	93.3
Consolidated result	£m	**36**	–11	33	23	10
Investments	£m	**419**	410	378	282	187

*Financial statements in accordance with national accounting law.

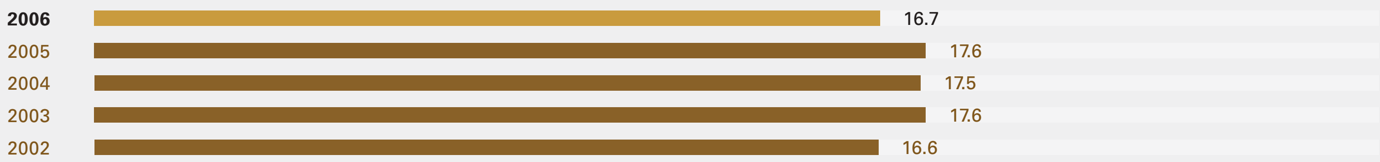
Our primary insurance business was very successful in the past year.

Despite a decline in premium income, our primary insurers achieved very good results thanks to continued positive underwriting and good investment returns. Nevertheless, a comparison with the previous year's results is difficult because of three significant effects.

- Firstly, the changes in the consolidated group: our sale of the Dutch Nieuwe Hollandse Lloyd Verzekeringsgroep (NHL) on 30 June 2005 and the Karlsruher Insurance Group on 30 September 2005, and our acquisition of the Turkish İsviçre Group as at 1 October 2006.
- Secondly, the conversion of our HVB shares into UniCredit stock in the fourth quarter of the previous year, which had a very favourable impact on results. Both effects are reflected in all the main items of our income statement, although their influence on life and health was greater than on property-casualty.
- The third factor is a positive one-off tax effect in 2006. As a result of new German corporate tax legislation, tax credits for prior years will become payable in the years 2008 to 2017 and had to be recognised in the balance sheet in 2006 as accounts receivable at their present value of €224m, resulting in a one-time positive entry of €202m in the income statement.

A look at the result shows a very gratifying picture. The unadjusted figures amounted to €1,278m (1,526m) for the operating result and €1,062m (1,179m) for the consolidated result. Without the effects mentioned above, both our operating result after tax and consolidated result clearly exceeded the previous year's figures.

Gross premiums overall in €bn



Our primary insurers posted a total premium income of €16.7bn (17.6bn) for 2006, around 45% (46%) of the Munich Re Group's overall premium volume. Without consolidation effects, their premium volume thus remained stable.

Expansion of international activities

In July 2006, ERGO signed an agreement with the Balci family of Turkey for the acquisition of a majority stake in the İsviçre Insurance Group effective 1 October 2006. ERGO now holds a 75% stake in the İsviçre Group, whilst the Balci family has retained 25%.

The group includes Turkey's fifth-largest property-casualty insurer (İsviçre Sigorta), which focuses on personal lines business, but it also operates in the strongly growing segments of life and health. Thus we are now very well positioned to tap the great opportunities offered by the Turkish market in the years ahead.

In November 2006, a new D. A. S. company commenced operations in Estonia. This is the 16th European country in which we are active in legal expenses insurance – and we are the market leader in 11 of them.

We made headway in our efforts to enter the Indian market. DKV International founded a joint venture with the Apollo Group – Asia's largest chain of hospitals. In the areas of life and property-casualty, ERGO is holding discussions with potential joint-venture partners as well.

Asset management

Group investment result at a high level
Pleasing stock market performance brings price gains
MEAG acquires stake in Chinese asset manager PAMC

Total assets under management

		2006	Prev. year*
Group's own investments	€bn	**172.4**	168.6
Third-party investments	€bn	**11.2**	10.5
Group asset management result	€m	**53**	31*

*Adjusted owing to first-time application of IAS 19 (rev. 2004).

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

Overview and key figures

We have consolidated the investment management of the Munich Re Group in MEAG MUNICH ERGO AssetManagement GmbH, a wholly owned subsidiary of Munich Re and ERGO, in order to exploit the efficiency gains that can be made with central, overarching asset management.

MEAG manages the Group's assets, which totalled €172.4bn (168.6bn) as at 31 December 2006. The other Group investments are mostly deposits retained on assumed reinsurance business, and are handled by the insurance companies of the Munich Re Group themselves.

MEAG also offers its expertise in asset management to private and institutional clients outside the Group, thus tapping additional sources of earnings. As at 31 December 2006, MEAG had investments of €11.2bn (10.5bn) under management for investors not belonging to the Group.

MEAG New York, MEAG Hong Kong and ERGO Trust, a former ERGO asset management company, have been united under the MEAG umbrella since 2005. Through the merger of ERGO Trust into MEAG, the latter is taking greater advantage of the opportunities offered by the international real estate markets, as well as expanding institutional third-party business systematically to real estate assets.

In July 2006, MEAG acquired a 19% stake in PICC Asset Management Company Ltd. (PAMC), Shanghai, the asset manager of the PICC Group and one of the largest insurance groups in China. MEAG thus participates directly in the development of PAMC's business. Due to its immense growth potential, China is set to become an economic superpower. There is substantial demand for the investment of Chinese assets, and old-age provision will also increase in importance in future. China therefore offers rich opportunities for asset management companies with insurance-related know-how. For MEAG, this is the first participation in an insurance asset manager outside Germany.

In asset management, we recorded a profit of €53m (31m) in the year under review.

Development and structure of investments

As at 31 December 2006, the Group's own investments totalled €176.9bn (177.2bn). In the year under review, our assets decreased by €0.3bn or 0.2%. Our portfolio predominantly consists of interest-bearing investments.

We invested the inflows from our excellent underwriting business and from sale proceeds realised in the year under review largely in fixed-interest investments. The amount of interest-sensitive items "fixed-interest securities" and "loans" rose by €2.1bn to €127.5bn in the course of the year and made up 72.1% of our total investments at the end of the year.

Our portfolio of equities and shareholdings grew by €0.9bn in the course of the year, primarily owing to increases in the market value of our non-fixed-interest securities available for sale. Investments and shareholdings in affiliated companies and associates totalled €25.8bn (24.9bn) at the end of the year and constituted 14.6% of our investments at carrying value.

In the final quarter of the year, we commenced the disposal of a German real estate package, reducing our real estate portfolio through sales and changes in the segregated fund portfolio by €983m overall in 2006. At the balance sheet date, the carrying amount for land and buildings was €4.7bn (5.8bn). Our ratio of real estate investments to total investments at carrying amounts sank to 2.7%, compared with 3.3% at the start of the year.

We use derivatives to hedge our share portfolios against possible price losses. In addition, the life insurers in the ERGO Insurance Group use interest-rate derivatives to cover their guaranteed interest-rate liabilities, thus hedging their reinvestment risk against falling interest rates in the long term.

Investment mix

	Reinsurance				Primary insurance				Asset management		Total	
	Life and health		Property-casualty		Life and health		Property-casualty					
All figures in €m*	**31.12. 2006**	Prev. year	**31.12. 2006**	Prev. year	**31.12. 2006**	Prev. year	**31.12. 2006**	Prev. year	**31.12. 2006**	Prev. year	**31.12. 2006**	Prev. year
Land and buildings, including buildings on third-party land	**585**	663	**766**	759	**3,188**	4,169	**114**	179	**67**	28	**4,720**	5,798
Investments in affiliated companies	**24**	18	**28**	20	**43**	34	**75**	101	**8**	11	**178**	184
Investments in associates	**65**	64	**175**	175	**537**	451	**286**	400	**62**	38	**1,125**	1,128
Loans	**103**	74	**117**	68	**27,791**	23,192	**1,508**	1,444	**9**	17	**29,528**	24,795
Other securities held to maturity	**–**	–	**–**	–	**242**	432	**10**	13	**–**	–	**252**	445
Other securities available for sale												
– Fixed-interest	**17,514**	17,478	**28,698**	27,487	**46,292**	50,106	**4,350**	4,010	**27**	25	**96,881**	99,106
– Non-fixed-interest	**5,327**	5,883	**7,732**	6,912	**11,091**	10,198	**1,877**	2,345	**7**	8	**26,034**	25,346
Other securities held for trading												
– Fixed-interest	**10**	13	**455**	545	**97**	32	**274**	310	**–**	–	**836**	900
– Non-fixed-interest	**–**	–	**6**	4	**–**	–	**7**	5	**–**	–	**13**	9
– Derivatives	**107**	133	**134**	151	**247**	685	**6**	1	**–**	–	**494**	970
Deposits retained on assumed reinsurance	**5,038**	6,740	**6,638**	7,610	**250**	225	**5**	6	**–**	–	**11,931**	14,581
Other investments	**230**	321	**612**	539	**1,775**	638	**251**	276	**192**	705	**3,060**	2,479
Investments for the benefit of life insurance policyholders who bear the investment risk	**–**	–	**–**	–	**1,820**	1,430	**–**	–	**–**	–	**1,820**	1,430
Total	**29,003**	31,387	**45,361**	44,270	**93,373**	91,592	**8,763**	9,090	**372**	832	**176,872**	177,171

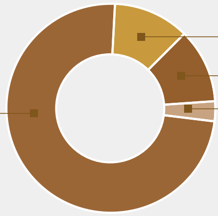
*After elimination of intra-Group transactions across segments.

Financial situation

Analysis of our capital structure

The capital structure of the Munich Re Group is essentially governed by its activity as a primary insurer and a reinsurer. Investments on the assets side of the balance sheet serve mainly to cover technical provisions (74.3% of the balance sheet total). Equity (12.2% of the balance sheet total) and bonds classified as strategic debt (1.8% of the balance sheet total) are the most important sources of funds.

Capital structure
as at 31.12.2006 (prev. year*)



*Adjusted owing to first-time application of IAS 19 (rev. 2004).

Reinsurance business accounts for approximately 39% of technical provisions and primary insurance business for about 61%. In contrast to liabilities under loans and securities issued, we cannot foresee with certainty how high our liabilities from underwriting business will be and when they will arise. This is especially true of reinsurance. The payout pattern of the technical provisions varies considerably from one segment to another and from one line of business to another. In property insurance, for instance, a major portion of the provisions is generally paid out after one year, whereas in life insurance substantial amounts are still due decades after the contracts were concluded. The currency distribution of our provisions reflects the global orientation of our Group. Besides the euro, our main currencies are the US dollar and pound sterling. We ensure that our business is sufficiently capitalised at all times by monitoring the situation continuously and taking suitable measures, which are dealt with in the section on capital management. To optimise our capital position and reduce capital costs, we have not only employed internal forms of financing in previous years but have also used strategic debt, primarily in the form of subordinated and/or exchangeable bonds. A detailed analysis of the structure of this funding is provided in the section on strategic debt.

Debt was reduced in 2006 by €1,218m, mainly due to redemption of the ERGO International AG bonds exchangeable into E.ON AG und Sanofi-Aventis S.A. shares. We also reduced amounts due to banks. At the same time, equity rose as a result of our good performance, increasing its share of the total capital. Available capital exceeds the levels required for supervisory, rating and internal risk model purposes. We have no intention of using this "surplus balance sheet capacity" to buy growth either organically or through acquisitions at uneconomical terms. As part of our active capital management, we therefore took the decision to buy back shares up to a value of €1bn by the next Annual General Meeting on 26 April 2007. The share buy-back was successfully concluded in February 2007.

Since we are an international (re)insurance group, some of our financial resources are subject to restraints on disposal. For example, the supervisory authorities in some countries require foreign reinsurers to establish premium and reserve deposits with primary insurers. As at the balance sheet date, investments totalling €6.7bn were subject to restraints on disposal. In addition, there were contingent liabilities. Off-balance-sheet financing does not play a significant role in the Munich Re Group.

Capital management

Through active capital management, we ensure that the capital of the Munich Re Group is always maintained at an appropriate level. The Group's available capital must always be sufficient to cover the capital requirements determined both by our own internal risk model and by the requirements of supervisory authorities and rating agencies. In this way, we ensure that our financial strength is sufficient for us to take advantage of measured opportunities for growth, while remaining 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 capital as one which does not significantly exceed that required for our operations. A lean capital level makes a decisive contribution to financial discipline in all our business processes. Our active capital management includes returning surplus capital to equity holders through attractive dividends and share buy-backs. Our proposed dividend is linked directly to the Group result, of which we aim to pay out a minimum of 25%. We also make use of share buy-backs as a flexible way of returning capital to our shareholders. Naturally, we liaise closely with the regulators, rating agencies and capital market participants in this regard.

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

In addition to the level of capital, its efficient deployment is also a key factor. We use our value-based management (see page 20f.) to set performance targets designed to ensure that every investment achieves a sustainable return commensurate with the risk involved. To limit fluctuations in results owing to major losses, we have also developed guidelines and limit systems within the framework of integrated risk management and corporate underwriting for our reinsurance companies. We protect the results and capital of our primary insurance companies against unacceptable fluctuations by means of suitable reinsurance covers.

Our internal risk model, which we use to analyse how certain risk scenarios affect segment results and investments, plays a central role in capital management. We determine our economic capital on the basis of the internal risk model data so that we are able to absorb two successive annual losses of a size expected only every 100 years. Next, the determined capital is allocated proportionately to divisional units in line with the volatility of their business activities. Our procedure in the primary insurance group also takes account of management factors arising mainly out of supervisory restrictions and clients' participation in surpluses. We continuously review the assumptions on which the internal risk model is based and adjust them as required.

Group solvency

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

Adjusted solvency

		31.12.2006	Prev. year
Eligible capital of the Group	€bn	**24.8**	22.9
Adjusted solvency ratio	%	**345.2**	305.7

In 2006, we modified the treatment of subordinated loans as own funds and have adjusted the previous year's figures for ease of comparison. Thanks principally to the excellent Group result and the lower solvency requirements as a result of a reduced loss burden, the solvency ratio has continued to improve despite the share buy-back.

All insurers in the Munich Re Group met the relevant solvency requirements in 2006.

Rating

Munich Re's financial strength is generally evaluated by the leading rating agencies as very positive, and our ratings remain at a high level. In December 2006, Standard & Poor's upgraded our rating from the third-best category, A+ (strong) to the second-best category, AA– (very strong) with a stable outlook. The reasons given by Standard & Poor's for the upgrade are the sustained good operating performance, strong risk management, increased certainty about the adequacy of Munich Re's reserves, and our strong competitive position, capitalisation and financial flexibility. Moody's, A. M. Best and Fitch retained their good ratings from the previous year.

Financial strength ratings for the Munich Re Group

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

The ratings for our subsidiaries on 28 February 2007 at a glance:

Reinsurance group

	A.M. Best	Fitch	Moody's	S&P
American Alternative Insurance Corporation	A			AA–
Great Lakes Reinsurance (UK) PLC	A+			AA–
Münchener Rück Italia	A+			AA–
Munich American Reassurance Company	A+			AA–
Munich Mauritius Reinsurance Company				BBB
Munich Reinsurance America	A	AA–	Aa3	AA–
Munich Reinsurance Company of Africa				A–
Munich Reinsurance Company of Australasia	A+			AA–
Munich Reinsurance Company of Canada	A+			AA–
Munich Re Life E.E.C.A.			A2	
New Reinsurance Company	A+			AA–
Princeton Excess and Surplus Lines Insurance Company	A			AA–
Temple Insurance Company	A			

Primary insurance group

	A.M. Best	Fitch	Moody's	S&P
DAS Legal Insurance Co. Ltd.				A
DKV Deutsche Krankenversicherung Aktiengesellschaft		A+		AA–
ERGO Previdenza SpA		A		
Hamburg-Mannheimer Sachversicherungs-AG				AA–
Hamburg-Mannheimer Versicherungs-Aktien-Gesellschaft		A+	Aa3	AA–
KarstadtQuelle Lebensversicherung Aktiengesellschaft				BBB+
Victoria Lebensversicherung Aktiengesellschaft		A+	Aa3	AA–
Victoria Versicherung Aktiengesellschaft				AA–

Bonds and notes issued

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

	A.M. Best	Fitch	Moody's	S&P
Munich Re Finance B.V., 6.75%, €3.0bn, Subordinated Bonds 2003/2023	a	A	A2	A
Munich Re Finance B.V., 7.625%, £300m, Subordinated Bonds 2003/2028	a	A	A2	A
Munich Re America Corporation*, 7.45%, US$ 500m, Senior Notes 1996/2026	bbb		A2	A–

*Formerly American Re Corporation.

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 of the German Corporate Governance Code. Beyond this, we have our own Munich Re Code of Conduct specifying ethical and legal requirements that must be met by employees.

How we view corporate governance

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

With its international organisation, the Munich Re Group has to consider corporate governance rules in different national legal systems. Clearly, we observe not only the respective national standards but also internationally recognised best practices. In Germany, where Munich Re has its headquarters, corporate governance rules are laid down above all in the German Stock Companies Act, the German Co-Determination Act and the German Corporate Governance Code. The latter, which entered into force in 2002 and has since been amended several times, contains the main legal rules that must be observed by German listed companies. In addition, it includes recommendations and proposals based on nationally and internationally recognised standards of good and responsible management. Every year, Munich Re's Board of Management and Supervisory Board publish a declaration stating how far the Code's recommendations have been complied with. The 2006 declaration of conformity can be found on page 42.

Corporate legal structure

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

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

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

The German Stock Companies Act contains special regulations on amendments to the Articles of Association where increases and reductions in share capital are concerned (Sections 182–240 of the Act). Under these regulations, all resolutions on capital measures are generally to be made by the Annual General Meeting. Within a self-determined scope, however, the Annual General Meeting can authorise the Board of Management to initiate certain (capital) measures. In all such cases, a resolution of the Annual General Meeting is required that has been adopted by at least a three-quarter majority of the share capital represented in the vote. Where these resolutions are concerned, Munich Re's Articles of Association again do not provide for other (i.e. higher) majorities or further requirements.

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

Board of Management

Duties and responsibilities of the Board of Management

The Board of Management is responsible for managing the Company. In doing so, it must safeguard Company interests and endeavour to achieve a long-term increase in the value of the Company.

*Joint corporate governance report of the Board of Management and Supervisory Board in accordance with item 3.10 of the German Corporate Governance Code.

Internal regulation of the Board of Management

Munich Re's Board of Management had 11 members at the end of the 2006 financial year. It was trimmed down to nine members as of 1 January 2007, with a further reduction to only eight members as at 1 March 2007. 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. Rules of procedure issued by the Supervisory Board regulate the distribution of responsibilities and cooperation on the Board of Management, which has had two committees since 1 January 2006 – one for Group operations and one for reinsurance operations – in order to enhance the efficiency of its work.

Statutory regulations and provisions in the Articles of Association governing the appointment and dismissal of members of the Board of Management

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

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

Pursuant to Article 4 of the Articles of Association, Munich Re's Board of Management is authorised to implement certain capital measures (Authorised Capital Increases 2004 and 2006, Contingent Capital Increase 2003 I and 2005).

Furthermore, by resolution of the Annual General Meeting of 19 April 2006, the Board of Management was authorised to buy back and use the Company's own shares. The complete wording of the resolution adopted on agenda item 5 can be accessed on our website (www.munichre.com) at any time. With the share buy-back – resolved and announced on 7 November 2006 for a maximum total purchase price of €1bn – the Board of Management has partially exhausted this authorisation. Additional information is available on the internet.

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. Certain types of transaction, such as investments of substantial size, generally require the Supervisory Board's consent.

Supervisory Board

The Supervisory Board monitors the Board of Management and gives counsel where appropriate. Certain transactions, such as major investments or capital measures, require its approval, but it is not authorised to take management action. The Supervisory Board also appoints the external auditor of the financial statements. Remuneration of the members of the Supervisory Board is regulated in the Articles of Association, i.e. is determined by the shareholders.

In compliance with the law and the Company's Articles of Association, Munich Re's Supervisory Board has 20 members. Half are elected representatives of the employees, and half representatives of the shareholders, elected by the Annual General Meeting.

Munich Re's Supervisory Board has four committees: the Standing Committee, the Personnel Committee, the Audit Committee and the Conference Committee.

Annual General Meeting

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

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

Based on our underwriting policy, our reinsurance agreements 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 or control undergoes a material change".

Such or similar clauses are typical of the industry. Munich Re's long-term incentive plans provide for special exercise conditions in the event of a change of control following a takeover bid. Beyond this, there are no other significant Munich Re agreements that take effect, alter or terminate upon change of control following a takeover bid.

Corporate governance topics in 2006

A code of conduct for all employees of Munich Re and the reinsurance companies of the Munich Re Group has been in force since 2006 and is published on our website. The purpose of the code is to provide clear information and guidance for employees (including members of the Board of Management) on the basic legal and ethical requirements they must comply with in the course of their work for the individual Group companies.

On 1 January 2006, the Board of Management set up two committees from amongst its ranks – one for Group operations and the other for reinsurance operations. This organisational distinction between Group matters and the operative management of our reinsurance business has proven a success. It permits a more focused deployment of resources and enables us to manage the Group as a whole more efficiently in its various fields of business.

As from the financial year 2006, Munich Re is publishing the remuneration of the Board of Management in individualised form for the first time (see remuneration report).

Last year, the Supervisory Board again reviewed the efficiency of the Board of Management's activities. The main focus was on the content and timing of reports from the Board of Management to the Supervisory Board. This was assessed as generally positive and efficient, as was the improvement in the efficiency of the Supervisory Board's work in the financial year 2006.

Recommendations and suggestions of the German Corporate Governance Code

In November 2006, the Board of Management and the Supervisory Board published the following declaration of conformity, in accordance with Section 161 of the German Stock Companies Act:

"Since 24 July 2006, Munich Re has complied with all the recommendations of the Government Commission's German Corporate Governance Code of 12 June 2006 (published on 24 July 2006).

Since the last declaration of conformity in November 2005, Munich Re has fulfilled – with only one exception – the recommendations of the Government Commission's German Corporate Governance Code in the version of 2 June 2005 (published on 20 July 2005). The exception involved the since-deleted recommendation in item 4.2.4 sentence 2 of the German Corporate Governance Code (individualised disclosure of the Board of Management's remuneration in the notes to the consolidated financial statements)."

Munich Re also complies with all the suggestions of the Code with only one exception. This concerns item 5.4.7 paragraph 2 sentence 2 of the Code, which suggests that the result-related remuneration of members of the Supervisory Board should include components based on the company's long-term performance. We consider that a convincing remuneration model for this is still lacking and that our remuneration model, approved by the Annual General Meeting in 2005, is a good solution in terms of corporate governance.

Remuneration report

Structure of the remuneration system for the Board of Management

In compliance 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.

The structure and amount of the remuneration are determined by the Supervisory Board's Personnel Committee, whose three members comprise the Chairman of the Supervisory Board, another of the shareholder representatives and one of the employee representatives. The full Supervisory Board discusses the remuneration structure and reviews it regularly.

Structure and system of the Board of Management's remuneration effective 1 January 2006

Component	Assessment basis/ parameters	Corridor	Precondition for payment	Payment
Basic remuneration, remuneration in kind/fringe benefits (company car, healthcare, security measures, insurances)	Function, responsibility, length of service on Board	Fixed	Contractual stipulations	Monthly
Short-term compensation component Annual bonus	Consolidated result Company result Divisional result Individual objectives	0–150% 0–150% 0–150% 0–150%	Achievement of objectives	Annually, in the following year
Medium- and long-term compensation component Medium-term bonus	Consolidated result	50–150%	Achievement of objectives at least 50% on average over three years	In the fourth year
Share-price-based compensation component Long-term incentive plan (stock appreciation rights; term: seven years)	Appreciation in share price	0–150%	> End of vesting period (two years) > 20% share price increase > MR 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 Pension entitlement	Basic remuneration Number of years on the Board	Fixed	> Retirement > Insured event > Premature termination or non-extension of employment contract under certain circumstances	–

Fixed components

Basic remuneration

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

Remuneration in kind/fringe benefits

Remuneration in kind and fringe benefits are granted according to function, and are in line with market trends. Tax on the related benefits is subject to the individual tax rates of the respective Board member; the tax burden is borne by the Company.

Variable components

Short-term compensation component – Annual bonus

This compensation component is based on different categories of objectives. The targets and scaling for Group, corporate and divisional objectives are geared to particular indicators; individual objectives form the basis for the achievement of personal targets. The key indicator used for the Group objective is return on risk-adjusted capital – RORAC, which is comprised of key figures from external accounting, and from other key portfolio and performance data. Information on the definition of RORAC is provided on page 22 f. We use the performance measures embodied in value-based management for the corporate and divisional objectives.

The processes defined to specify objectives and assess their achievement also involve the external auditor, who examines targets and their fulfilment for correctness, objectivity and reliability. The audit results and any potentially controversial aspects are rendered transparent for the Supervisory Board's Personnel Committee.

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

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

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

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

Whether the stock appreciation rights can be exercised and, if so, when, is not certain at the time they are granted. The exercising and proceeds depend on the development of the share price and the exercise price and date. The amount of income is limited. Up to now, it has only been possible to exercise stock appreciation rights under the plans set up in 1999, 2003 and 2004.

In the case of 100% achievement of objectives (annual bonus, medium-term bonus) and based on the imputed value of the share-price-linked compensation (long-term incentive plan) at the granting date, the weightings of the individual components in terms of total remuneration are as follows: basic remuneration approximately 25%, annual bonus approximately 35%, medium-term bonus approximately 20%, and long-term incentive plan approximately 20%. Annual bonus, medium-term bonus and long-term incentive plan together form a well-balanced incentive system.

In accordance with the recommendations of the German Corporate Governance Code, the monetary remuneration of the Board members thus comprises fixed and variable components, all of which are appropriate in themselves and as a whole. Criteria for this are in particular the respective Board member's duties, the Board member's personal performance, the performance of the Board as a whole and the financial situation, performance and future prospects of Munich Re, taking into account the relevant benchmarks.

A different arrangement applies to the remuneration structure of Mr. Phelan, who is not only a member of the Board of Management but also the President, Chief Executive Officer and Chairman of the Board of Munich Re America Corporation. He therefore has special remuneration agreements, with the major portion of his income derived from the USA.

Other remuneration

In the case of seats held on other boards, remuneration for board memberships must be paid over to the Company or is deducted in the course of regular compensation computation. Excepted from this is remuneration for personal memberships, which do not exist at present. In the event of a change of control, the members of the Board of Management have no contractual entitlement to payments. As far as the share-price-based remuneration is concerned, the conditions provide for special exercise options in the case of a change of control.

Pension entitlement

In addition to the regular remuneration, the members of the Board of Management are members of a defined benefit plan under which they will receive a fixed pension whose amount depends on their basic remuneration and their years of service on the Board. The pension level starts at 30% and can reach a maximum of 60% of annual basic remuneration. Members of the Board of Management are entitled to an occupational pension from age 60 if they leave the active service of the Company, or if their contract of employment is terminated prematurely or not extended due to incapacity for work or under certain other conditions.

Total remuneration of the Board of Management

In the year under review, after allocation to the appropriate periods, the remuneration of Munich Reinsurance Company's Board of Management for the performance of its duties in respect of the parent and subsidiaries showed an overall rise of €4.4m or 20.8% from €21.2m to €25.6m. The increase was solely attributable to the high provisions for the variable remuneration, mainly due to the very good result for the year under review.

The compensation components that Mr. Phelan received for his functions at Munich Re America Corporation is included in the total remuneration.

Remuneration of individual Board members
(in accordance with Section 285 sentence 1 item 9a sentences 5–9 of the German Commercial Code and Section 314 paragraph 1 item 6a sentences 5–9 of the German Commercial Code)

Name All figures in €	Basic remuneration	Remuneration in kind and fringe benefits	Annual bonus[1]	Medium-term bonus[1]	Value of stock appreciation rights granted	Total	Number of stock appreciation rights
Dr. Nikolaus von Bomhard	864,000.00	57,393.35	1,582,700.00	1,020,000.00	666,000.00	4,190,093.35	30,411
Dr. Ludger Arnoldussen[2]	75,000.00	7,566.00	139,650.00	90,000.00	60,000.00	372,216.00	2,740
Dr. Thomas Blunck	300,000.00	26,818.48	558,600.00	360,000.00	240,000.00	1,485,418.48	10,959
Georg Daschner	400,000.00	29,779.88	744,800.00	480,000.00	320,000.00	1,974,579.88	14,612
Dr. Heiner Hasford	696,000.00	40,700.34	1,024,100.00	660,000.00	294,000.00	2,714,800.34	13,425
Dr. Torsten Jeworrek	500,000.00	29,021.04	931,000.00	600,000.00	400,000.00	2,460,021.04	18,265
Christian Kluge	510,000.00	33,701.76	837,900.00	540,000.00	300,000.00	2,221,601.76	13,699
John Phelan[3]	857,253.16	127,530.32	1,023,379.46	1,404,458.51	99,930.00	3,512,551.45	4,563
Dr. Jörg Schneider	600,000.00	35,014.18	1,117,200.00	720,000.00	480,000.00	2,952,214.18	21,918
Dr. Wolfgang Strassl	300,000.00	14,959.09	558,600.00	360,000.00	240,000.00	1,473,559.09	10,959
Karl Wittmann	510,000.00	33,131.44	837,900.00	540,000.00	300,000.00	2,221,031.44	13,699
Total	**5,612,253.16**	**435,615.88**	**9,355,829.46**	**6,774,458.51**	**3,399,930.00**	**25,578,087.01**	**155,250**

[1] Owing to the very good business performance, provisions have been established for the maximum bonus amounts for the Munich Re Group/Company result.
[2] Member of the Board of Management since 1 October 2006.
[3] Remuneration in kind and fringe benefits include travel expenses from Princeton to Munich.

The variable compensation includes allocations to provisions for the annual bonus likely on the basis of current estimates and for the medium-term bonus. The share-priced-based compensation component is accounted for at fair value at the granting date. Whether the variable components will actually be paid out to the Board members, and if so how high the sums will be, is not yet certain and will depend on the degree to which individual objectives are achieved, and on the exercise conditions of the long-term incentive plans. Munich Re shares have been acquired to cover future obligations arising from the long-term incentive plans so as to neutralise the expenses resulting from a growth in value of the stock appreciation rights with an increase in the value of the share portfolio.

Pension entitlements

Personnel expenses of €1.2m (1.1m) were incurred for the pension entitlements of active members of the Board of Management. The defined benefits for Board members are as follows:

Name All figures in €	Pension commitments as at 1.1.2007	Commitments for bridging amounts	Personnel expenses for increasing the provision
Dr. Nikolaus von Bomhard	380,160.00	–	284,237.00
Dr. Ludger Arnoldussen	150,000.00	–	0.00
Dr. Thomas Blunck	105,000.00	–	94,784.00
Georg Daschner	180,000.00	–	77,314.00
Dr. Heiner Hasford	375,840.00[1]	548,680.00[2]	263,560.00
Dr. Torsten Jeworrek	165,000.00	–	122,229.00
Christian Kluge	244,800.00	–	0.00
John Phelan	460,559.27[3]	–	117,677.44[4]
Dr. Jörg Schneider	252,000.00	–	194,722.00
Dr. Wolfgang Strassl	105,000.00	–	77,082.00
Karl Wittmann	244,800.00	–	0.00
Total	**2,663,159.27**	**548,680.00**	**1,231,605.44**

[1] Pension commitment per annum after the age of 60.
[2] Bridging amounts for the period between retirement and reaching the age of 60 (March–November 2007).
[3] Pension commitment from Munich Re America.
[4] Personnel expenses of Munich Re America.

Members of the Board of Management appointed before 2006 are contractually entitled to an occupational pension comprising their former basic monthly salary for six months after retirement.

Total remuneration of former members of the Board of Management

Payments to retired members of the Board of Management or their surviving dependants totalled €5.2m (4.3m).

Pension commitments

Personnel expenses of T€17 (120) were incurred for retired members of the Board of Management. As at 31 December 2006, the pension provisions and provisions for comparable benefits for the retired members of the Board of Management or their surviving dependants amounted to T€0 (0) after deduction of plan assets held by a separate entity (e.g. under a contractual trust agreement).

Total remuneration of the Supervisory Board

The remuneration of the Supervisory Board was restructured by resolution of the 2005 Annual General Meeting to take account of the increased demands placed on the activities of Supervisory Board members in connection with the corporate governance discussion concerning transparent company management. At the same time, the change counters reservations about linking performance-oriented remuneration components to the dividend. The regulation applicable since then provides for a fixed remuneration component of €45,000 and a variable result-related remuneration component. The Chairman of the Supervisory Board receives twice, and the Deputy Chairman one-and-a-half times, this fixed and variable 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

Remuneration of Supervisory Board members in the financial year 2006 in accordance with Article 15 of the Articles of Association[1] (in €)

Name	Fixed remuneration		Result-related remuneration[3]	Total
	Annual	For committee work[2]	Total Annual	
Dr. Schinzler (Chairman)	90,000.00	64,250.00	72,000.00	225,000.00[4]
Bach, Deputy Chairman	67,500.00	22,500.00	54,000.00	144,000.00
Prof. Dr. Kagermann	45,000.00	17,250.00	36,000.00	98,250.00
Dr. Pischetsrieder	45,000.00	22,500.00	36,000.00	103,500.00
Dr. Schmidt	45,000.00	41,750.00	36,000.00	112,500.00[4]
Appel	45,000.00	19,250.00	36,000.00	100,250.00
Stögbauer	45,000.00	19,250.00	36,000.00	100,250.00
Süßl	45,000.00	11,250.00	36,000.00	92,250.00

All other members of the Supervisory Board (Hartmann, Prof. Dr. Markl, Mayrhuber, Prof. Van Miert, Prof. Dr. v. Pierer, Dr. Sommer, Emmert, Dr. Janßen, Michl, Müller, Dr. Schimetschek, Võ) each received total remuneration of €81,000 (fixed remuneration of €45,000 and result-related remuneration[3] of €36,000).

[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, the amount includes attendance fees in accordance with Article 15 para. 4 of the Articles of Association.
[3] Highest possible amount in accordance with Article 15 para. 2 of the Articles of Association.
[4] After capping in accordance with Article 15 para. 5 of the Articles of Association.

(IFRS): each Supervisory Board member receives €4,500 for each full euro by which earnings per share exceed €4, but a maximum of €36,000.

The additional remuneration for work on committees – which is based on the fixed remuneration only – takes into account the recommendations of the German Corporate Governance Code.

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

There are no pension commitments for former members of the Supervisory Board or their surviving dependants.

Advances and loans

The members of the Supervisory Board and Board of Management did not receive any cash advances or loans in the year under review. Nor were there any notifiable transactions between Board members and the Munich Re Group. Furthermore, no payments were made or advantages extended to members of the Supervisory Board for services provided internally within the meaning of item 5.4.7 paragraph 3 of the German Corporate Governance Code.

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 its Board of Management and Supervisory Board and by certain persons closely related to or connected with them. This notification must take place for acquisition and sales transactions equal to or exceeding €5,000 in a single calendar year. Under Section 10 paragraph 1 of the German Securities Prospectus Act, Munich Re is obliged to publish information of this kind on its website without delay as well as in an annual document. On 17 May 2006, Dr. Sommer purchased 500 bonus certificates (WKN DE 000CM17127) on the Stuttgart stock exchange at €114.56 each. The total number of Munich Re shares and financial instruments based on these held by all members of the Board of Management and Supervisory Board amounts to less than 1% of the shares issued by the Company.

Prospects

Adherence to "profit before growth" strategy
Result target of 15% on risk-adjusted capital

There is a growing tendency among some capital market players to pursue legal action against companies in connection with statements they have published on future development, a trend that involves considerable loss potential for the companies concerned and for their other shareholders. This practice inevitably affects transparency, as many companies tend to be reluctant about the information they give on future business performance and disclose only what is required by law.

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

Overview

In the coming years, we will adhere to our principle of "profit before growth" in primary insurance and reinsurance. In other words, we will strive for growth in profits, not in premium income. This means that we will continue to make every effort to optimise our business portfolio and improve the efficiency of our processes. Furthermore, we intend to and will expand our business, but not at the expense of sustained profitability.

In reinsurance, we will continue to systematically pursue our policy of risk-adequate prices, terms and conditions. We aim for profitable growth in both renewal business and new business. There is no alternative to profitable underwriting and active risk diversification: it is the only way to create long-term added value for our shareholders and clients alike.

Primary insurance, especially life and health business, is going through a period of great change. The public's need for cover in the area of healthcare and personal provision is rising and increasingly needs to be funded privately, as state social security systems in the vast majority of European countries are being scaled back. This opens up major opportunities in the medium and long term for our life, health and personal accident insurers. Despite the increase in insurance tax in Germany, we expect slight growth in property-casualty insurance, partly because the significant decline in premium volume in motor insurance will not continue as hitherto. In other countries, growth will remain satisfactory.

Our commercial success in 2006 and the gratifying trend of the past three years are proof that we are on the right track with our strictly profit-based corporate policy. Given the very good performance of our business, bolstered by a low major claims burden from natural catastrophes and favourable developments in the capital markets, we clearly surpassed our target by achieving a profit for the year of over €3.5bn (2.8bn) and a return on risk-adjusted capital (RORAC) of 20.3%. For 2007, we are adhering to our objective of a 15% RORAC independent of the market cycles. Although we will not finalise and publish the risk-adjusted capital applicable for 2007 until we have comprehensively assessed and published our risk position in May 2007, the resultant consolidated profit should lie between €2.8bn and €3.2bn. This would be equivalent to a return on equity (ROE) ranging between nearly 11% and 12%. Details of our corporate steering systems and in particular of our RORAC target figure are provided on page 20 ff.

We remain committed to active capital management and a shareholder-friendly dividend policy. We therefore resolved on 7 November 2006 to buy back and retire Munich Re shares with a volume of up to €1bn. The buy-back was successfully concluded in February 2007. In addition, the Board of Management and Supervisory Board will propose at the Annual General Meeting that the dividend per share again be increased, by €1.40 to €4.50, thus enabling our shareholders to participate in Munich Re's outstanding result.

Development of the Munich Re Group

Reinsurance

Reinsurance offers considerable promise for the future, and we project that it will grow worldwide in the next decade. The development of property-casualty business is likely to be surpassed by the dynamic growth of life and health reinsurance. We predict the highest percentage growth rates will come from the emerging markets of Asia and Latin America. Given their higher starting level, Europe and North America should attain significantly greater absolute growth, albeit with lower percentage increases. Thanks to our global presence and special initiatives to expand our business in rapidly growing regions, the Munich Re Group is excellently positioned to take advantage of market opportunities in all areas of the world and in all fields of business.

In life reinsurance, premium income will experience a moderate decline in 2007, due to the scheduled reduction of a reinsurance treaty with a large premium volume. To consistently exploit new opportunities in the emerging markets, we have appreciably expanded our units specialised in the private-provision market, most recently by setting up a new life reinsurance subsidiary in Moscow. Fundamental growth impulses for our future new business should also come from other developments, e.g. the restructuring of the European solvency regime (Solvency II), the continuing privatisation trend in old-age and disability provision, and the dynamic expansion of the life insurance markets in Asia and eastern Europe.

At present, a host of opportunities for growth in various business models are opening up worldwide in the health segment. By integrating primary insurance and reinsurance as well as extensive services, we cover more than the insurance industry's typical value chain. Throughout the whole treatment process – from searching for the right specialist, through diagnosis and therapy, to rehabilitation – we provide services whose benefits go far beyond insurance itself. We will further intensify the close cooperation between Munich Re and DKV in selected foreign markets.

In past years, we have laid the foundations in property-casualty reinsurance for the sustained profitability of our business by consistently adhering to risk-adequate prices, terms and conditions, even in phases with a fortuitously low incidence of major losses. Only in this way can we cope with potential peak burdens which can occur at any time. That is why the renewals at 1 January 2007 (which involved approximately two-thirds of our property-casualty business) were satisfactory overall, despite the low natural catastrophes burden in 2006. The development of reinsurance prices, terms and conditions varied considerably, depending on the class of business and region concerned. We did not observe a globally uniform reinsurance cycle. The trend away from proportional business towards non-proportional forms of cover continued.

Following the substantial price increases for natural catastrophe risks in the US market in the previous year, we were able to maintain and in some cases even significantly increase their prices. The renewals of large multinational property and liability treaties proved very satisfactory, with prices, terms and conditions remaining stable, and we again recorded growth in attractive agricultural business. By contrast, there were further price reductions in European industrial business, parts of aviation business, and German and French motor liability business. We systematically refrained from writing business that did not meet our stringent requirements, and we also terminated unprofitable proportional treaties in the highly competitive Chinese market. Rates for the renewed portfolio were slightly lower overall, but remain at a good profitability level.

For the forthcoming renewals on 1 April (Japan and Korea) and 1 July (parts of the US market, Australia and Latin America), we expect a similarly stable environment to that prevailing for the renewals at 1 January 2007.

Provided there are no strong movements in exchange rates, gross premium volume in reinsurance in 2007 should total between €22bn and €23bn – roughly the same level as in the previous year. We estimate that positive developments in the growth markets will make up for the premium reductions associated with the shift from proportional to non-proportional forms of cover. In property-casualty reinsurance, we expect a combined ratio of less than 97% based on a major-loss burden from natural catastrophes of 5% of our earned premiums. Altogether, we anticipate a profit for the year of around €2.3–2.6bn in reinsurance.

Primary insurance

The trends currently prevailing in the segments are likely to continue by and large in the coming year.

In life insurance, our gross premiums written should increase slightly. Maturing policies, i.e. policies whose premium payment period has ended, continue to have a curbing effect on premium income. The rising demand for private provision and the high attractiveness of retirement provision products are being reflected in the figures for German new business. Here, we expect higher revenue from single premiums and a rise in regular-premium income, especially in unit-linked life insurance. The sale of Riester pension products qualifying for subsidisation should develop favourably and company pension business should also gather pace.

We are proceeding on the assumption that premium development in the health segment will exceed market growth in 2007. Our product sales in supplementary health insurance should be further invigorated by the growing awareness among clients that they themselves must bridge the gaps in state health insurance coverage by taking out private insurance. Our planning for German comprehensive health cover is currently based on the assumption that the health reform's introduction of a three-year waiting period for those wishing to switch over to private health insurance will impact new business development negatively by approximately 15%. Business outside Germany should continue to develop strongly.

Premium income in property-casualty insurance should grow significantly, mainly owing to good foreign business buoyed by the consolidation of the Turkish İsviçre Group, which was included in our premium income in only one quarter of the past financial year. In Germany, premium development is likely to be weak. Although the significant decline in premium income in German motor insurance will not continue as hitherto and the economy strengthened considerably at the end of 2006, the higher insurance tax and increased value-added tax, with its growth-curbing impact on the overall economy, will have a dampening effect in 2007. We aim to grow again in private and commercial property insurance and above all in personal accident insurance. As far as the result is concerned, we anticipate that we will be able to achieve a combined ratio which, despite a marginal increase, will still total less than 95% for the whole year in property-casualty business, including legal expenses insurance.

All in all, gross premiums written by our primary insurers, which in addition to the ERGO Insurance Group essentially comprise Europäische Reiseversicherung and the Watkins Syndicate, should total between €17.0bn and €17.5bn in 2007, an increase of 1.5% to 4.5%.

In 2007, we will adhere to the measures previously introduced to improve our result. Cost discipline remains a central issue for us, and we will consistently take advantage of further possibilities for reducing costs. Overall, we aim for a consolidated result in primary insurance of €600m to €750m. The fact that higher results were achieved in 2005 and 2006 was attributable to the exceptionally good investment result in both years and to the one-off tax effect in 2006. We expect we will be able to maintain our successful course of the past few years in our operative business in 2007.

Asset management

The investment environment in 2006 was characterised by low interest rates and rising share prices.

Since last year's mid-year peak in interest rates, yields on long-term fixed-interest securities have declined again. Interest-rate developments in the USA, which resulted in an inverse interest-rate structure, have caused the yield curve in the eurozone to virtually level out.

For 2007, we anticipate that increasing inflation rates will result in greater volatility in bond markets. From an economic point of view, we address this risk through our asset-liability management, which gears the maturities of our fixed-interest securities to those of our liabilities. We assume that the yields on long-term bonds relevant for our bond portfolio will increase moderately by the end of 2007.

The US dollar has lost considerable ground in foreign exchange markets since November 2006. For 2007, we expect the euro to remain strong and the US dollar to trend somewhat higher again in the course of the year.

Rebounding from a course correction in May 2006, the equities market resumed its upward climb for the fourth year in succession. However, the environment for equities might become more difficult, given the geopolitical risks and expected cooling of the US economy.

Share prices should experience a moderate increase by the end of 2007. In view of the risks described, we will, if necessary, reduce the proportion of our investments in equities.

As at 31 December 2006, our equity-backing ratio stood at 14.1% of total investments on a market-value basis, after taking account of hedging transactions and equity derivatives.

In 2006, we consistently pursued our strategy of reducing the historically evolved concentration of our investments in the financial services sector and will continue to actively diversify our investment risks in future, too.

In 2007, we intend to sell our shares in the segregated real estate fund OIK MediClin, in which we hold a majority stake via two Group companies. The fund itself owns 21 hospital properties in Germany.

By achieving a 5.0% return on investment in the past financial year, we again exceeded our target of 4.5%. For the current financial year, we project that the return on investments at market values will again amount to 4.5%, equivalent to an investment result of approximately €8.0bn (which will be credited to the segment results in primary insurance and reinsurance).

MEAG will expand its business in China on the basis of its stake in and partnership with PICC Asset Management Company in Shanghai and also selectively extend its portfolio with private and institutional investors. A dedicated business unit will increasingly offer institutional investors the real estate expertise MEAG has acquired in managing the Group's assets. In addition, MEAG will market new guarantee and portfolio protection products to meet investors' continuing high demand for more security. Private provision for old age continues to be a crucial topic, and MEAG is planning to offer new retail products in the form of special savings plans to support this.

Result and premium of the Munich Re Group

If exchange rates remain steady, we expect consolidated gross premiums written in primary insurance and reinsurance in 2007 to be in the range of €37.5–38.5bn. Proceeding on the basis of statistically expectable claims experience, we project a combined ratio of less than 97% in property-casualty reinsurance and of less than 95% in property-casualty primary insurance. In life primary and reinsurance business and in health primary insurance, we aim to achieve EEV earnings of between 8% and 9% (in relation to the value of the business in force at the beginning of the year). For the investment sector, we anticipate a return of 4.5% (based on the average market values of the investments).

Overall, our goal for the financial year 2007 is a return on risk-adjusted capital (RORAC) of 15%. On the basis of our capitalisation at the turn of the year 2006/2007, this is equivalent to a consolidated profit for the year in the range of €2.8–3.2bn and a return on equity of between nearly 11% and 12%. These goals are ambitious yet achievable. Our shareholders will continue to participate in Munich Re's success: in the coming financial years, we will consistently pursue a policy of active capital management in their interests. We plan to pay out at least 25% of the IFRS consolidated result as dividends and to supplement this with share buy-backs if the circumstances so demand, especially given that – even from the perspective of growing our business – the capital required is likely to remain limited. We thereby intend to permanently strengthen the confidence in our shares and send out a clear signal that we are adhering to our disciplined, profit-oriented corporate approach.

Consolidated financial statements (excerpt)
Consolidated balance sheet as at 31 December 2006

Assets	Notes				Prev. year*		Change
		€m	**€m**	**€m**	€m	€m	%
A. Intangible assets							
I. Goodwill	(1)		**3,256**		3,264	–8	–0.2
II. Other intangible assets	(2)		**1,055**		1,036	19	1.8
				4,311	4,300	11	0.3
B. Investments							
I. Land and buildings, including buildings on third-party land	(3)		**4,720**		5,798	–1,078	–18.6
Thereof: – Investment property held for sale	(16)		**1,164**		–	1,164	–
II. Investments in affiliated companies and associates	(4)		**1,303**		1,312	–9	–0.7
III. Loans	(5)		**29,528**		24,795	4,733	19.1
IV. Other securities							
1. Held to maturity	(6)	**252**			445	–193	–43.4
2. Available for sale	(7)	**122,915**			124,452	–1,537	–1.2
3. Held for trading	(8)	**1,343**			1,879	–536	–28.5
			124,510		126,776	–2,266	–1.8
V. Deposits retained on assumed reinsurance	(9)		**11,931**		14,581	–2,650	–18.2
VI. Other investments	(10)		**3,060**		2,479	581	23.4
				175,052	175,741	–689	–0.4
C. Investments for the benefit of life insurance policyholders who bear the investment risk				**1,820**	1,430	390	27.3
D. Ceded share ot technical provisions	(11)			**6,593**	7,980	–1,387	–17.4
E. Receivables	(12)			**8,825**	9,648	–823	–8.5
F. Cash at bank, cheques and cash in hand				**2,172**	2,337	–165	–7.1
G. Deferred acquisition costs	(13)						
– Gross			**8,298**		8,222	76	0.9
– Ceded			**108**		98	10	10.2
– Net				**8,190**	8,124	66	0.8
H. Deferred tax assets	(14)			**5,370**	5,213	157	3.0
Thereof: – Deferred taxes relating to disposal groups				**16**	–	16	–
I. Other assets	(15)			**3,541**	3,964	–423	–10.7
Thereof: – Owner-occupied property held for sale	(16)			**66**	–	66	–
Total assets				**215,874**	**218,737**	**–2,863**	**–1.3**

*Adjusted owing to first-time application of IAS 19 (rev. 2004). Details are provided in the notes on recognition and measurement.

Equity and liabilities	Notes	€m	€m	Prev. year* €m	€m	Change %
A. Equity	(17)					
I. Issued capital and capital reserve		**7,388**		7,388	–	–
II. Retained earnings		**9,416**		7,777	1,639	21.1
III. Other reserves		**5,702**		6,100	–398	–6.5
IV. Consolidated result attributable to Munich Re equity holders		**3,440**		2,679	761	28.4
V. Minority interests		**483**		453	30	6.6
			26,429	24,397	2,032	8.3
B. Subordinated liabilities	(18)		**3,419**	3,408	11	0.3
C. Gross technical provisions						
I. Unearned premiums	(19)	**5,870**		6,153	–283	–4.6
II. Provision for future policy benefits	(20)	**94,660**		94,445	215	0.2
III. Provision for outstanding claims	(21)	**47,076**		49,380	–2,304	–4.7
IV. Other technical provisions	(22)	**10,835**		10,534	301	2.9
Thereof: – Provision for deferred premium refunds relating to disposal groups	(16)	**–169**		–	–169	–
			158,441	160,512	–2,071	–1.3
D. Gross technical provisions for life insurance policies where the investment risk is borne by the policyholders	(23)		**1,930**	1,516	414	27.3
E. Other accrued liabilities	(24)		**4,865**	4,926	–61	–1.2
F. Liabilities						
I. Bonds and notes issued	(25)	**378**		1,097	–719	–65.5
II. Deposits retained on ceded business	(26)	**2,241**		3,392	–1,151	–33.9
III. Other liabilities	(27)	**10,015**		12,288	–2,273	–18.5
Thereof: – Amounts due to banks relating to disposal groups	(16)	**231**		–	231	–
			12,634	16,777	–4,143	–24.7
G. Deferred tax liabilities	(14)		**8,156**	7,201	955	13.3
Thereof: – Deferred tax liabilities relating to disposal groups	(16)		**65**	–	65	–
Total equity and liabilities			**215,874**	**218,737**	**–2,863**	**–1.3**

*Adjusted owing to first-time application of IAS 19 (rev. 2004).

Consolidated income statement for the financial year 2006

Items	Notes				Prev. year*		Change
		€m	€m	€m	€m	€m	%
Gross premiums written	(28)	37,436			38,199	–763	–2.0
1. Earned premiums	(28)						
– Gross		37,613			38,251	–638	–1.7
– Ceded		1,899			2,041	–142	–7.0
– Net			35,714		36,210	–496	–1.4
2. Investment result	(29)						
– Investment income		12,382			13,415	–1,033	–7.7
– Investment expenses		3,506			2,597	909	35.0
– Total			8,876		10,818	–1,942	–18.0
Thereof:							
– Income from associates			44		1,131	–1,087	–96.1
3. Other income	(30)		1,784		1,465	319	21.8
Total income (1–3)				46,374	48,493	–2,119	–4.4
4. Expenses for claims and benefits	(31)						
– Gross		30,798			35,560	–4,762	–13.4
– Ceded share		1,131			2,208	–1,077	–48.8
– Net			29,667		33,352	–3,685	–11.0
5. Operating expenses	(32)						
– Gross		9,333			9,609	–276	–2.9
– Ceded share		499			444	55	12.4
– Net			8,834		9,165	–331	–3.6
6. Other expenses	(33)		2,375		1,826	549	30.1
Total expenses (4–6)				40,876	44,343	–3,467	–7.8
7. Result before impairment losses of goodwill				5,498	4,150	1,348	32.5
8. Impairment losses of goodwill	(1)			4	7	–3	–42.9
9. Operating result				5,494	4,143	1,351	32.6
10. Finance costs	(34)			310	378	–68	–18.0
11. Taxes on income	(35)			1,648	1,014	634	62.5
12. Consolidated result				**3,536**	**2,751**	**785**	**28.5**
Thereof:							
– Attributable to Munich Re equity holders				**3,440**	**2,679**	**761**	**28.4**
– Attributable to minority interests	(17)			**96**	**72**	**24**	**33.3**
	Notes			€	€	€	%
Earnings per share	(50)			15.12	11.74	3.38	28.8

*Adjusted owing to first-time application of IAS 19 (rev. 2004).

Statement of recognised income and expense

	2006 €m	Prev. year €m
Consolidated result	**3,536**	2,751
Currency translation		
– Gains (losses) recognised in equity	**–594**	651
– Included in the income statement	**–**	–
Unrealised gains and losses on investments		
– Gains (losses) recognised in equity	**1,616**	2,972
– Included in the income statement	**–1,450**	–1,315
Change resulting from valuation at equity		
– Gains (losses) recognised in equity	**13**	–157
– Included in the income statement	**–**	–
Change resulting from cash flow hedges		
– Gains (losses) recognised in equity	**8**	–4
– Included in the income statement	**–**	–
Actuarial gains and losses on defined benefit plans	**–24**	–112
Change in consolidated group	**–22**	–137
Other changes	**–18**	–155
Income and expense recognised directly in equity	**–471**	1,743
Total recognised income and expense	**3,065**	4,494
Thereof:		
– Attributable to Munich Re equity holders	**3,020**	4,452
– Attributable to minority interests	**45**	42
Adjustments pursuant to IAS 8	**–51**	–73

Group statement of changes in equity

All figures in €m	Issued capital	Capital reserve	Retained earnings: Retained earnings before deduction of own shares	Retained earnings: Own shares held	Other reserves: Unrealised gains and losses	Other reserves: Reserve from currency translation	Other reserves: Valuation result from cash flow hedges	Consolidated result	Minority interests	Total equity
	Equity attributable to Munich Re equity holders									
Status at 31.12.2004*	**588**	**6,800**	**7,031**	**–158**	**4,621**	**–674**	**10**	**1,833**	**441**	**20,492**
Allocation to retained earnings	–	–	1,376	–	–	–	–	–1,376	–	–
Total recognised income and expenses	–	–	–370	–	1,507	640	–4	2,679	42	4,494
Dividend	–	–	–	–	–	–	–	–457	–16	–473
Adjustments pursuant to IAS 8	–	–	–59	–	–	–	–	–	–14	–73
Share buy-backs	–	–	–	–43	–	–	–	–	–	–43
Status at 31.12.2005*	**588**	**6,800**	**7,978**	**–201**	**6,128**	**–34**	**6**	**2,679**	**453**	**24,397**
Allocation to retained earnings	–	–	1,972	–	–	–	–	–1,972	–	–
Total recognised income and expenses	–	–	–22	–	189	–595	8	3,440	45	3,065
Dividend	–	–	–	–	–	–	–	–707	–16	–723
Adjustments pursuant to IAS 8	–	–	–52	–	–	–	–	–	1	–51
Share buy-backs	–	–	–	–259	–	–	–	–	–	–259
Status at 31.12.2006	**588**	**6,800**	**9,876**	**–460**	**6,317**	**–629**	**14**	**3,440**	**483**	**26,429**

*Adjusted owing to first-time application of IAS 19 (rev. 2004).

Consolidated cash flow statement for the financial year 2006

	€m	Prev. year* €m
Consolidated result	**3,536**	**2,751**
Net change in technical provisions	**1,423**	10,794
Change in deferred acquisition costs	**–81**	–309
Change in deposits retained and accounts receivable and payable	**1,967**	–1,268
Change in other receivables and liabilities	**1,303**	–1,413
Gains and losses on the disposal of investments	**–2,559**	–4,511
Change in securities held for trading	**–254**	–1,374
Change in other balance sheet items	**219**	976
Other income/expenses without impact on cash flow	**1,332**	473
I. Cash flows from operating activities	**6,886**	**6,119**
Inflows from the sale of consolidated companies	**10**	173
Outflows for the acquisition of consolidated companies	**190**	28
Change from the acquisition, sale and maturities of other investments	**–4,157**	–2,529
Change from the acquisition and sale of investments for unit-linked life insurance	**–289**	–20
Other	**130**	–524
II. Cash flows from investing activities	**–4,496**	**–2,928**
Inflows from increase in capital	**–**	–
Outflows for share buy-backs	**259**	43
Dividend payments	**723**	473
Change from other financing activities	**–1,514**	–2,385
III. Cash flows from financing activities	**–2,496**	**–2,901**
Cash flows for the financial year (I + II + III)	**–106**	**290**
Effect of exchange rate changes on cash	**–59**	20
Cash at the beginning of the financial year	**2,337**	2,027
Cash at the end of the financial year	**2,172**	2,337
Additional information		
Income tax paid (net)	**471**	404
Dividends received	**1,003**	771
Interest received	**6,473**	6,363
Interest paid	**715**	421

*Adjusted owing to first-time application of IAS 19 (rev. 2004).

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".

Segment reporting

Segment assets	Reinsurance			
	Life and health		Property-casualty	
	31.12.2006 €m	Prev. year* €m	**31.12.2006 €m**	Prev. year* €m
A. Intangible assets	**275**	267	**1,229**	1,374
B. Investments				
I. Land and buildings, including buildings on third-party land	**585**	663	**766**	759
Thereof: – Investment property held for sale	**102**	–	**128**	–
II. Investments in affiliated companies and associates	**2,553**	2,910	**3,281**	3,238
III. Loans	**181**	310	**215**	323
IV. Other securities				
1. Held to maturity	**–**	–	**–**	–
2. Available for sale	**22,841**	23,361	**36,430**	34,399
3. Held for trading	**117**	146	**595**	700
	22,958	23,507	**37,025**	35,099
V. Deposits retained on assumed reinsurance	**7,132**	9,089	**9,284**	10,205
VI. Other investments	**301**	321	**702**	539
	33,710	36,800	**51,273**	50,163
C. Investments for the benefit of life insurance policyholders who bear the investment risk	**–**	–	**–**	–
D. Ceded share of technical provisions	**844**	1,647	**3,871**	4,077
E. Other segment assets	**6,365**	6,177	**8,421**	10,426
Thereof: – Other segment assets relating to disposal groups	**4**	–	**8**	–
Total segment assets	**41,194**	**44,891**	**64,794**	**66,040**

*Adjusted owing to first-time application of IAS 19 (rev. 2004).

The Munich Re Group's segment reporting is based on IAS 14 and the principles of German Accounting Standard No. 3 (DRS 3) issued by the German Standards Board (DSR). This has been supplemented by the requirements of DRS 3-20, which applies specifically to insurance companies.

In accordance with the recommendations of the DSR, we have made the primary segmentation between the fields of reinsurance, primary insurance (each broken down into life and health and property-casualty) and asset management.

The individual fields of business are shown after consolidation of internal transactions within the individual field but before consolidation across segments. This is shown separately in the "consolidation" column.

Goodwill has been allocated to the segment of the respective subsidiary.

	Primary insurance				Asset management		Consolidation		Total	
	Life and health		Property-casualty							
	31.12.2006 €m	Prev. year* €m	31.12.2006 €m	Prev. year* €m	31.12.2006 €m	Prev. year* €m	31.12.2006 €m	Prev. year* €m	31.12.2006 €m	Prev. year* €m
	1,730	1,748	1,082	929	10	6	–15	–24	4,311	4,300
	3,189	4,170	114	179	67	28	–1	–1	4,720	5,798
	908	–	26	–	–	–	–	–	1,164	–
	1,063	994	3,290	3,506	106	95	–8,990	–9,431	1,303	1,312
	29,362	24,808	1,585	1,514	104	151	–1,919	–2,311	29,528	24,795
	242	432	10	13	–	–	–	–	252	445
	57,383	60,304	6,254	6,385	34	33	–27	–30	122,915	124,452
	344	717	287	316	–	–	–	–	1,343	1,879
	57,969	61,453	6,551	6,714	34	33	–27	–30	124,510	126,776
	253	229	18	18	–	–	–4,756	–4,960	11,931	14,581
	1,892	638	257	276	293	705	–385	–	3,060	2,479
	93,728	92,292	11,815	12,207	604	1,012	–16,078	–16,733	175,052	175,741
	1,820	1,430	–	–	–	–	–	–	1,820	1,430
	6,357	6,817	1,528	1,701	–	–	–6,007	–6,262	6,593	7,980
	11,286	11,097	3,849	3,990	144	203	–1,967	–2,607	28,098	29,286
	70	–	–	–	–	–	–	–	82	–
	114,921	**113,384**	**18,274**	**18,827**	**758**	**1,221**	**–24,067**	**–25,626**	**215,874**	**218,737**

Segment reporting

Segment equity and liabilities

	Reinsurance			
	Life and health		Property-casualty	
	31.12.2006 €m	Prev. year* €m	**31.12.2006 €m**	Prev. year* €m
A. Subordinated liabilities	**1,349**	1,453	**1,682**	1,561
B. Gross technical provisions				
I. Unearned premiums	**195**	209	**4,362**	4,865
II. Provision for future policy benefits	**16,706**	18,675	**738**	702
III. Provision for outstanding claims	**4,489**	5,493	**36,482**	38,080
IV. Other technical provisions	**1,114**	888	**232**	190
Thereof:				
– Provision for deferred premium refunds relating to disposal groups	**–**	–	**–**	–
	22,504	25,265	**41,814**	43,837
C. Gross technical provisions for life insurance policies where the investment risk is borne by the policyholders	**–**	–	**–**	–
D. Other accrued liabilities	**685**	739	**1,382**	1,458
E. Other segment liabilities	**4,360**	3,807	**6,992**	8,397
Thereof:				
– Other segment liabilities relating to disposal groups	**15**	–	**19**	–
Total segment liabilities	**28,898**	**31,264**	**51,870**	**55,253**

*Adjusted owing to first-time application of IAS 19 (rev. 2004).

	Primary insurance				Asset management		Consolidation		Total	
	Life and health		Property-casualty							
	31.12.2006 €m	Prev. year* €m	**31.12.2006 €m**	Prev. year* €m	**31.12.2006 €m**	Prev. year* €m	**31.12.2006 €m**	Prev. year* €m	**31.12.2006 €m**	Prev. year* €m
	2	19	**398**	404	**–**	–	**–12**	–29	**3,419**	3,408
	92	86	**1,468**	1,221	**–**	–	**–247**	–228	**5,870**	6,153
	81,561	79,647	**267**	224	**–**	–	**–4,612**	–4,803	**94,660**	94,445
	2,245	1,993	**4,737**	4,765	**–**	–	**–877**	–951	**47,076**	49,380
	9,705	9,669	**113**	104	**–**	–	**–329**	–317	**10,835**	10,534
	–169	–	**–**	–	**–**	–	**–**	–	**–169**	–
	93,603	91,395	**6,585**	6,314	**–**	–	**–6,065**	–6,299	**158,441**	160,512
	1,930	1,516	**–**	–	**–**	–	**–**	–	**1,930**	1,516
	1,153	1,195	**1,675**	1,547	**47**	66	**–77**	–79	**4,865**	4,926
	13,702	14,698	**4,058**	5,319	**524**	1,035	**–8,846**	–9,278	**20,790**	23,978
	258	–	**4**	–	**–**	–	**–**	–	**296**	–
	110,390	**108,823**	**12,716**	**13,584**	**571**	**1,101**	**–15,000**	**–15,685**	**189,445**	**194,340**
							Equity		**26,429**	**24,397**
							Total equity and liabilities		**215,874**	**218,737**

Segment reporting

Segment income statement

	Reinsurance			
	Life and health		Property-casualty	
	2006 €m	Prev. year* €m	**2006 €m**	Prev. year* €m
Gross premiums written	**7,665**	7,811	**14,551**	14,547
Thereof:				
– From insurance transactions with other segments	**751**	859	**760**	848
– From insurance transactions with external third parties	**6,914**	6,952	**13,791**	13,699
1. Earned premiums				
– Gross	**7,667**	7,852	**14,805**	14,643
– Ceded	**391**	456	**1,010**	1,078
– Net	**7,276**	7,396	**13,795**	13,565
2. Investment result				
– Investment income	**2,140**	2,236	**3,637**	3,480
– Investment expenses	**523**	339	**889**	621
– Total	**1,617**	1,897	**2,748**	2,859
Thereof:				
– Income from associates	**6**	51	**33**	208
3. Other income	**297**	272	**557**	487
Total income (1–3)	**9,190**	9,565	**17,100**	16,911
4. Expenses for claims and benefits				
– Gross	**5,932**	6,358	**9,526**	12,490
– Ceded share	**206**	354	**574**	1,145
– Net	**5,726**	6,004	**8,952**	11,345
5. Operating expenses				
– Gross	**2,314**	2,315	**4,107**	4,089
– Ceded share	**158**	87	**261**	262
– Net	**2,156**	2,228	**3,846**	3,827
6. Other expenses	**386**	228	**816**	455
Total expenses (4–6)	**8,268**	8,460	**13,614**	15,627
7. Result before impairment losses of goodwill	**922**	1,105	**3,486**	1,284
8. Impairment losses of goodwill	**–**	–	**–**	–
9. Operating result	**922**	1,105	**3,486**	1,284
10. Finance costs	**96**	80	**161**	212
11. Taxes on income	**265**	48	**1,191**	652
12. Consolidated result	**561**	977	**2,134**	420
Thereof:				
– Attributable to Munich Re equity holders	561	977	2,134	420
– Attributable to minority interests	–	–	–	–

*Adjusted owing to first-time application of IAS 19 (rev. 2004).

The ERGO Insurance Group has concluded profit-transfer agreements with nearly all of its German insurance companies. In our segment reporting, expenditure incurred as a result of profit transfer is deemed appropriation of net income. The segments are thus adjusted to eliminate these expenses, the elimination being carried out in the consolidation column.

Primary insurance				Asset management		Consolidation		Total	
Life and health		Property-casualty							
2006 €m	Prev. year* €m	2006 €m	Prev. year* €m	2006 €m	Prev. year* €m	2006 €m	Prev. year* €m	2006 €m	Prev. year* €m
11,606	12,330	5,147	5,242	–	–	–1,533	–1,731	37,436	38,199
1	1	21	23	–	–	–1,533	–1,731	–	–
11,605	12,329	5,126	5,219	–	–	–	–	37,436	38,199
11,600	12,323	5,060	5,121	–	–	–1,519	–1,688	37,613	38,251
932	1,079	1,085	1,116	–	–	–1,519	–1,688	1,899	2,041
10,668	11,244	3,975	4,005	–	–	–	–	35,714	36,210
6,308	6,933	855	1,004	64	62	–622	–300	12,382	13,415
2,190	1,879	170	151	9	22	–275	–415	3,506	2,597
4,118	5,054	685	853	55	40	–347	115	8,876	10,818
17	233	–16	221	4	2	–	416	44	1,131
901	873	739	787	328	267	–1,038	–1,221	1,784	1,465
15,687	17,171	5,399	5,645	383	307	–1,385	–1,106	46,374	48,493
13,576	14,712	2,864	3,439	–	–	–1,100	–1,439	30,798	35,560
874	1,057	582	1,049	–	–	–1,105	–1,397	1,131	2,208
12,702	13,655	2,282	2,390	–	–	5	–42	29,667	33,352
1,704	2,047	1,686	1,706	–	–	–478	–548	9,333	9,609
262	321	296	316	–	–	–478	–542	499	444
1,442	1,726	1,390	1,390	–	–	–	–6	8,834	9,165
1,041	1,062	947	1,061	303	240	–1,118	–1,220	2,375	1,826
15,185	16,443	4,619	4,841	303	240	–1,113	–1,268	40,876	44,343
502	728	780	804	80	67	–272	162	5,498	4,150
1	1	3	5	–	1	–	–	4	7
501	727	777	799	80	66	–272	162	5,494	4,143
1	3	49	82	4	3	–1	–2	310	378
164	130	2	132	23	32	3	20	1,648	1,014
336	594	726	585	53	31	–274	144	3,536	2,751
299	539	668	553	51	33	–273	157	3,440	2,679
37	55	58	32	2	–2	–1	–13	96	72

Segment reporting

Investments*	Reinsurers		Primary insurers		Asset management		Total	
	31.12.2006 €m	Prev. year €m	**31.12.2006 €m**	Prev. year €m	**31.12.2006 €m**	Prev. year €m	**31.12.2006 €m**	Prev. year €m
Europe	**45,043**	43,942	**98,656**	97,902	**311**	804	**144,010**	142,648
North America	**24,824**	27,360	**1,936**	1,426	**22**	23	**26,782**	28,809
Asia and Australasia	**2,899**	2,776	**1,334**	1,024	**38**	5	**4,271**	3,805
Africa, Near and Middle East	**750**	753	**77**	81	**–**	–	**827**	834
Latin America	**848**	826	**133**	249	**1**	–	**982**	1,075
Total	**74,364**	**75,657**	**102,136**	**100,682**	**372**	**832**	**176,872**	**177,171**

*After elimination of intra-Group transactions across segments.

Secondary segmentation is based on the geographical origin of our investments and gross premiums written.

Gross premiums written*	Reinsurers		Primary insurers		Total	
	2006 €m	Prev. year €m	2006 €m	Prev. year €m	2006 €m	Prev. year €m
Europe						
Germany	2,933	3,122	13,064	14,272	15,997	17,394
UK	3,858	3,838	190	245	4,048	4,083
Italy	574	562	664	732	1,238	1,294
Spain	566	527	442	371	1,008	898
Belgium	80	123	542	390	622	513
Others	2,168	2,251	1,507	1,312	3,675	3,563
	10,179	10,423	16,409	17,322	26,588	27,745
North America						
USA	4,987	4,774	168	112	5,155	4,886
Canada	2,010	1,929	8	6	2,018	1,935
	6,997	6,703	176	118	7,173	6,821
Asia and Australasia						
Australia	458	445	8	5	466	450
China	437	362	17	–	454	362
Japan	290	335	14	4	304	339
Korea	336	270	9	1	345	271
Others	444	514	30	47	474	561
	1,965	1,926	78	57	2,043	1,983
Africa, Near and Middle East						
South Africa	300	330	3	17	303	347
Israel	143	140	–	–	143	140
Others	203	202	43	24	246	226
	646	672	46	41	692	713
Latin America	918	927	22	10	940	937
Total	20,705	20,651	16,731	17,548	37,436	38,199

*After elimination of intra-Group reinsurance across segments.
Presentation of the figures in the management report differs from this (cf. note on page 25).

Quarterly figures

		31.12.2006	30.9.2006	30.6.2006	31.3.2006
Balance sheet					
Investments	€m	**176,872**	178,167	172,472	176,795
Equity	€m	**26,429**	25,651	23,356	25,059
Net technical provisions	€m	**153,778**	155,287	152,551	153,647
Balance sheet total	€m	**215,874**	217,684	212,402	216,614
Shares					
Share price	€	**130.42**	124.71	106.81	117.00
Munich Re's market capitalisation	€bn	**29.9**	28.6	24.5	26.9
Other					
Combined ratio property-casualty reinsurance	%	**92.6**	91.2	91.6	91.6
Number of staff		**37,210**	36,788	36,746	36,683

€m	Total	Q4 2006	Q3 2006	Q2 2006	Q1 2006
Gross premiums written	**37,436**	9,356	9,017	9,027	10,036
1. Earned premiums					
– Gross	**37,613**	9,760	9,250	9,280	9,323
– Ceded	**1,899**	547	438	469	445
– Net	**35,714**	9,213	8,812	8,811	8,878
2. Investment result					
– Investment income	**12,382**	2,792	2,887	3,674	3,029
– Investment expenses	**3,506**	909	651	1,027	919
– Total	**8,876**	1,883	2,236	2,647	2,110
3. Other income	**1,784**	531	337	485	431
Total income (1–3)	**46,374**	11,627	11,385	11,943	11,419
4. Expenses for claims and benefits					
– Gross	**30,798**	7,760	7,714	7,609	7,715
– Ceded	**1,131**	276	276	246	333
– Net	**29,667**	7,484	7,438	7,363	7,382
5. Operating expenses					
– Gross	**9,333**	2,611	2,261	2,240	2,221
– Ceded	**499**	172	84	115	128
– Net	**8,834**	2,439	2,177	2,125	2,093
6. Other expenses	**2,375**	844	454	604	473
Total expenses (4–6)	**40,876**	10,767	10,069	10,092	9,948
7. Result before impairment losses of goodwill	**5,498**	860	1,316	1,851	1,471
8. Impairment losses of goodwill	**4**	4	–	–	–
9. Operating result	**5,494**	856	1,316	1,851	1,471
10. Finance costs	**310**	72	74	78	86
11. Taxes on income	**1,648**	109	510	623	406
12. Consolidated result	**3,536**	675	732	1,150	979
Thereof:					
– Attributable to Munich Re equity holders	**3,440**	641	715	1,125	959
– Attributable to minority interests	**96**	34	17	25	20

		Total	Q4 2006	Q3 2006	Q2 2006	Q1 2006
Earnings per share	€	**15.12**	2.82	3.15	4.94	4.20

Important dates 2007/2008

26 April 2007	Annual General Meeting
27 April 2007	Dividend payment
4 May 2007	Interim report as at 31 March 2007
6 August 2007	Interim report as at 30 June 2007
6 August 2007	Half-year press conference
6 August 2007	Publication of sustainability report
5 November 2007	Interim report as at 30 September 2007
12 March 2008	Balance sheet press conference for 2007 financial statements
8 May 2008	Interim report as at 31 March 2008
7 August 2008	Interim report as at 30 June 2008
6 November 2008	Interim report as at 30 September 2008

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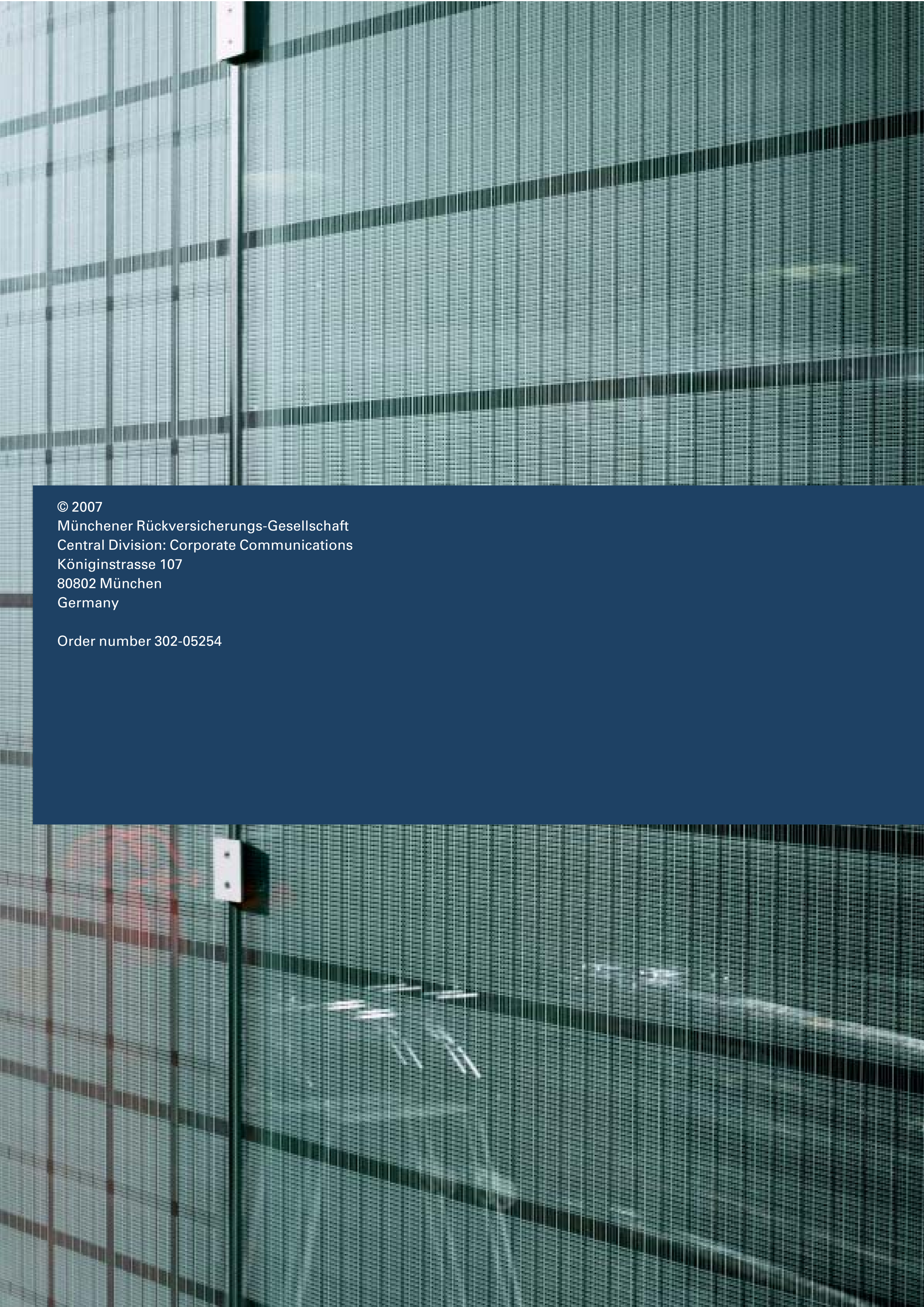

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