Munich RE

MUNICH RE
GROUP ANNUAL REPORT
2010

Thinking further

Key figures (IFRS)[1]

Munich Re

		2010	2009	2008	2007	2006
Gross premiums written	€bn	45.5	41.4	37.8	37.3	37.4
Operating result	€m	3,978	4,721	3,834	5,573	5,877
Taxes on income	€m	692	1,264	1,372	801	1,648
Consolidated result	€m	2,430	2,564	1,579	3,923	3,519
Attributable to non-controlling interests	€m	8	43	24	83	94
Investments	€bn	193.1	182.2	174.9	176.2	176.9
Return on equity	%	10.4	11.8	7.0	15.3	14.1
Equity	€bn	23.0	22.3	21.1	25.3	26.3
Valuation reserves not recognised in balance sheet[2]	€bn	3.6	3.2	2.5	0.8	1.9
Net technical provisions	€bn	171.1	163.9	157.1	152.4	153.9
Staff at 31 December		46,915	47,249	44,209	38,634	37,210

Reinsurance[3]

		2010	2009	2008	2007	2006
Gross premiums written	€bn	23.6	21.8	21.9	21.5	22.2
Investments	€bn	83.7	76.8	78.4	81.9	85.0
Net technical provisions	€bn	56.6	53.4	55.8	55.5	59.6
Large and very large losses (net)	€m	2,228	1,157	1,507	1,126	585
Natural catastrophe losses	€m	1,564	196	832	634	139
Combined ratio property-casualty	%	100.5	95.3	99.4	96.4	92.6

Primary insurance[3]

		2010	2009	2008	2007	2006
Gross premiums written	€bn	17.5	16.6	17.0	17.3	16.7
Investments	€bn	121.8	118.4	114.0	109.3	107.4
Net technical provisions	€bn	111.2	107.7	101.4	96.9	94.3
Combined ratio property-casualty	%	96.8	93.2	90.9	93.4	90.8

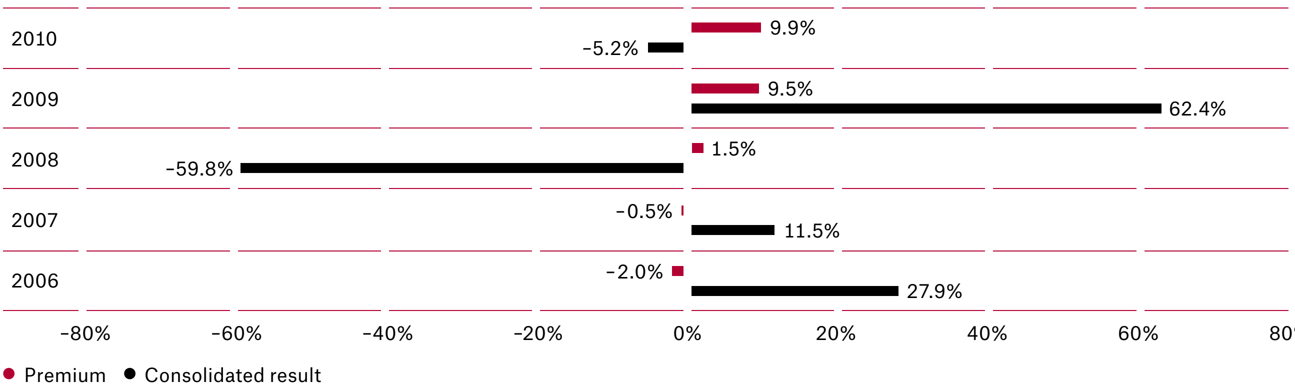
Munich Health[3]

		2010	2009
Gross premiums written	€bn	5.1	4.0
Investments	€bn	4.1	3.1
Net technical provisions	€bn	3.3	2.9
Combined ratio[4]	%	99.7	99.4

Our shares

		2010	2009	2008	2007	2006
Earnings per share	€	13.06	12.95	7.74	17.83	15.05
Dividend per share	€	6.25	5.75	5.50	5.50	4.50
Amount distributed	€m	1,118	1,072	1,073	1,124	988
Share price at 31 December	€	113.45	108.67	111.00	132.94	130.42
Munich Re's market capitalisation at 31 December[5]	€bn	21.4	21.5	22.9	29.0	29.9

Premium/result development



[1] Previous years' figures adjusted owing to recognition of Munich Health as a separate segment (see "Recognition and measurement").
[2] Including amounts attributable to minority interests and policyholders.
[3] Before elimination of intra-Group transactions across segments.
[4] Excluding health insurance conducted like life insurance.
[5] This includes own shares earmarked for retirement.

Diversified structure – Diversified risk

Munich Re (Group)

Reinsurance	Munich Health	Primary insurance
Munich RE	MUNICH HEALTH	ERGO
The Hartford Steam Boiler Inspection and Insurance Company	Munich Re	ERGO Lebensversicherung
New Reinsurance Company Ltd.	DKV Seguros	ERGO Versicherung
American Modern Insurance Group, Inc.	DKV Belgium	ERGO Direkt
	DKV Luxembourg	ERGO Austria
	DKV Globality	ERGO Hestia
	Daman National Health Insurance	ERGO Turkey
	Sterling Health Plans	ERGO Life
	Windsor Health Group	ERGO Previdenza
	Apollo Munich Health Insurance	almeda assistance and health services
	MedNet	Bank Austria Creditanstalt Versicherung AG
	Storebrand	Deutscher Automobil Schutz
		Deutsche Krankenversicherung
		ERV

Asset management

MEAG MUNICH ERGO AssetManagement

The diagram provides a general overview of our Group and makes no claim to completeness. For further details, please see the list of shareholdings on p. 269.

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.

“Summing up, it is clear that the future holds great opportunities. It also holds pitfalls. The trick will be to avoid the pitfalls, seize the opportunities, and get back home by six o’clock.”

Woody Allen (born 1935)
Film director and actor

The next quarterly report will appear on 9 May 2011.

Munich RE

Thinking further

Thinking further

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How a country is dramatically changing

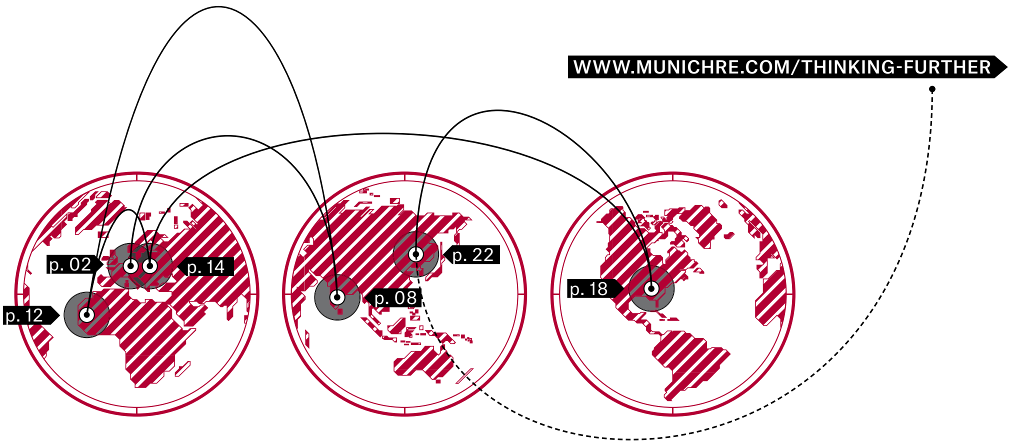
Articles and interviews in this magazine are available on the internet as audiofiles:
www.munichre.com/en/audio

Last year, around 140 million children were born worldwide.
How will they live in the future? What challenges will they have to face? What risks will they be exposed to? What opportunities will they have? And what will the earth look like in decades to come?

The answers to these questions provide us with the key to tomorrow:
To new markets, new clients and new products. To new thinking and new solutions. That is one of the reasons why, in 2010, we brought together most of our primary insurance activities under the ERGO brand. We are sure that as a result we are optimally equipped for the future challenges facing our industry.

After all, there is no doubt that for us, the future begins today.
And with our integrated business model of primary insurance and reinsurance, we are well prepared for it. Around 130 years' experience in risk evaluation and management help us devise sustainable insurance solutions for the major challenges of tomorrow. Client-focused, innovative, with strong growth and long-term profitability. These attributes make us one of the world's leading reinsurers and insurers.

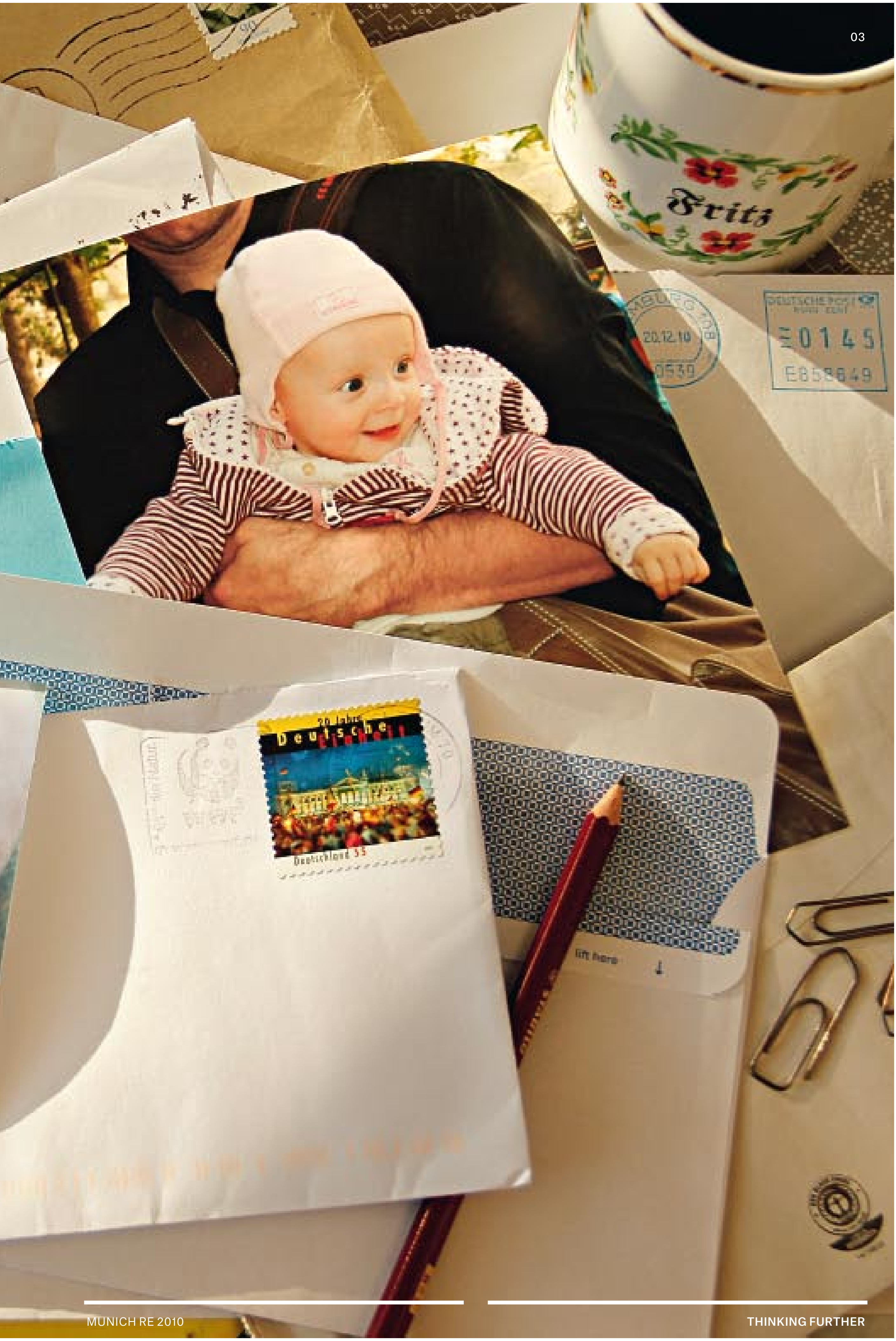
Think further – that is what we aspire to do in all our activities.
On the following pages, you can read how.



***In this magazine,** we present eight children born in 2010 to Munich Re employees – in Germany, India, Senegal, Poland, the USA and China. What may their lives be like in the near and distant future? You can find out in the following articles and on the internet at http://report2010.munichre.com.*

Germany, 2020
Luisa Antonia
Industrious pupil

The year Luisa Antonia was born in Cologne also saw the birth of an insurer of a special kind in Germany. ERGO is the first insurer to systematically gear itself to the needs and wants of its clients. How many customers welcome this approach is shown by the numerous reactions following the ERGO launch. By the time Luisa Antonia celebrates her tenth birthday, it is likely that people's perceptions of taking out insurance and being insured will have undergone a fundamental change.


Fritz
20 Jahre Deutsche Einheit
Deutschland 55
lift here
DEUTSCHE POST
20.12.10

It is one thing to create a new kind of insurer, but quite another to make it a household name. On 18 July 2010, the new ERGO launched an extensive, authentic advertising campaign in cinemas, papers and magazines, with huge posters at Potsdamer Platz in Berlin and at the docks in Hamburg, and a 60-second commercial that was broadcast almost simultaneously on nearly all the main German TV channels. The outcome: by the end of the year, well over half of all Germans were familiar with the name ERGO.

A special kind of insurer

Further information: www.ergo.com

With its new brand presence, Munich Re's primary insurance subsidiary is reinventing not only itself but also the relationship between insurer and customer. //

When consumers are asked about their views on insurers, the answers often express disappointment, dissatisfaction and distrust. Insurance agent is the least popular profession in Germany, beating even politician, truck driver or road sweeper. And on a scale of 1 ("extremely trustworthy") to 6 ("not at all trustworthy"), Germans give insurers an average rating of only 3.3 – a disappointing result for a sector that depends on its clients' trust almost more than any other. But what is it that really bothers people about insurers? Why do they feel that they are keenly wooed but seldom well advised? And above all, what makes a good insurer, one that takes its clients' wishes and complaints seriously?

These questions were looked at intensively by the ERGO Insurance Group last year – and rigorously answered in a manner virtually unprecedented among insurers. To start with, interviewers from the respected Nuremburg market research institute Icon, commissioned by ERGO, polled a representative sample of more than 6,000 Germans about their experience with insurance – and came back with rather sobering results. Just over half the respondents, for example, believed that their insurer did its best for them. More than a third complained that their insurer failed to keep promises and did not offer good value for money. "Insurance products are not clear", was another typical statement. "Insurance providers don't tell you about what's in the small print", said others. Further complaints concerned the impersonal nature of the service, products' lack of transparency, and the vagueness of value propositions.

"The financial crisis has led to people examining things more critically and asking more questions", says Dr. Torsten Oletzky, CEO of the ERGO Insurance Group. "It has become more important for them to understand exactly what they are signing. And they quite rightly expect to be informed fairly and clearly."

This being so, ERGO not only realigned its strategy last year but also geared it consistently to the needs and wants of its clients. Under the ERGO brand, which was largely unknown in Germany before, Munich Re's primary insurer amalgamated the Hamburg-Mannheimer and Victoria brands and established a new kind of insurer. ERGO's direct insurer KarstadtQuelle Versicherungen became ERGO Direkt. "In positioning the ERGO brand, we had a great opportunity to change things that bothered people about insurers", says Thomas Bischof, Head of ERGO Group Development.

As a result, ERGO today strives for exceptionally clear communication and a consistent feedback culture, underlining its client focus with the newly created institution of ERGO customer advocate. The relaunch of the brand structure has also made life considerably simpler for clients, given that now ERGO's broad portfolio of life and property-casualty insurances is available via various distribution channels under one strong brand name. Whether clients are seeking advice in person or by phone or wishing to take out insurance after office hours or at the weekend – they will always obtain a good and fair offer from ERGO, whichever channel they choose.

ERGO is one of the major insurance groups in Germany and Europe, with premium income amounting to over €20bn. The group is represented in over 30 countries worldwide, focusing mainly on Europe and Asia. One of the market leaders in its domestic market of Germany, ERGO offers an extensive range of insurances, private provision and services.

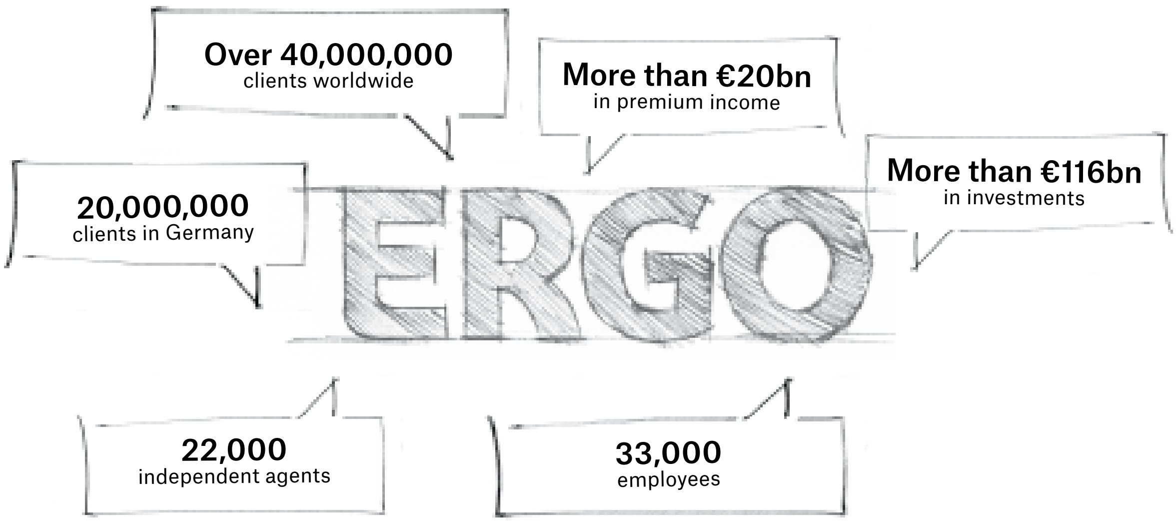
> > > > >

All of this has required a huge effort from ERGO. Some 28,000 internet and intranet webpages had to be altered, eight million clients written to, and 16.2 million brochures printed and distributed. 130 billboards on roofs and facades had to be replaced, and 1,700 local offices and 1,000 agencies of Victoria and Hamburg-Mannheimer had to be equipped with illuminated advertising and signs with the new ERGO look. At times, more than 1,200 staff plus external service providers were occupied with implementing the New ERGO project.

To ensure that consumers were informed promptly and extensively about the new kind of insurer, ERGO launched a 360° advertising campaign in virtually all important media. Whoever clicked on one of the main German news portals last autumn, switched on the television, opened one of the German dailies, looked at publications like “Spiegel“, “Zeit“ or “Stern“, or simply walked through a major German city with their eyes open inevitably encountered the new ERGO. The advertising slogan: “ERGO – To insure is to understand”. The budget: a mid-range eight-figure amount. The response: overwhelming.

After going live, the online platform www.millionen-gruende.de received several hundred postings a day from clients for a time. This was the first website to give users the opportunity to directly express what they expect from the service and cover provided by an insurer – and the feedback shows that such an option was long overdue.

Criticism and suggestions are being honestly scrutinised by ERGO and translated into improved products and services. “We are working systematically to understand clients’ needs and wants better“, says Thomas Bischof. “This will be the basis for designing the right products.“ Although that may sound self-evident, in the light of consumers’ experience it is little short of a revolution. //



ERGO at a glance More than 50,000 people work for the insurance group as employees or full-time self-employed agents. Over 40 million clients place their trust in the competence, security and assistance that ERGO and its specialists provide in its various fields of business. ERGO’s investments, amounting to over €116bn, are mainly managed by MEAG, the asset and unit-trust manager that also belongs to Munich Re, one of the world’s leading reinsurers and risk carriers.

"We listen"

Clients want an insurer that communicates with them on the same level, understands the reality of their lives, and listens to them. ***Thomas Bischof,*** *Head of ERGO Group Development, talks about the new ERGO's claim and strategy.* //

Mr. Bischof, does the world really need yet another insurance brand?
Thomas Bischof: No, not at all. But what customers desperately want – as our market research shows – is another kind of insurer. One that talks to them on the same level. One that makes its products and services clear, in understandable and simple language. One that understands the reality of their lives and the actual problems they face. That is what the new ERGO aspires to be.

But a big firm with more than 30,000 employees cannot be transformed overnight.
Our guiding principle is "To insure is to understand", and we take that very seriously. We listen. We are self-critical. We are also becoming more transparent internally, which has really boosted motivation among us. Our employees and insurance agents, together with our clients, are seeking points throughout the Group where ERGO can improve in some way. The fact is that we will not succeed in doing all this at once. But we have made a start – and are beginning to see the first results.

Can you give an example?
We are currently reviewing everything – policy wordings, letters to customers, claims settlements – for comprehensibility, relevance and clarity. We want to ensure that all the information we give our clients in future is clear and understandable. It will naturally take some time for us to revise all of our innumerable communications, but we are measuring our progress. We are seeking ongoing feedback from our clients and will also review self-critically how far we have advanced towards our goals.

Hamburg-Mannheimer and Victoria had many long-standing clients. Didn't you risk losing their trust with the name change?
No, we didn't, because most of them have strong ties with their insurance agents, who have helped them make the transition to the new brand. And anyway, there is no change to existing policies. For new clients, the ERGO brand generates an above-average degree of trust – after all, ERGO is one of the heavyweights in the insurance sector.

You are keeping the brands of your specialty insurers DKV, D.A.S. and ERV. Why?
Because in contrast to the broad-based Hamburg-Mannheimer or Victoria, they are specialists that stand for very specific insurance solutions and particular expertise. They are leaders in their respective markets and also sell their products both nationally and internationally through insurers and distribution partners that are otherwise our competitors. We are therefore well advised to leave these brands intact.

At www.millionen-gruende.de, ERGO clients had the possibility for the first time to post their thoughts on what they expect of an insurer. Did they actually do this?
Yes – in fact to a much greater extent than we anticipated. In just the first three months, over 1,000 visitors to the website posted a huge number of suggestions and promising ideas, which we are currently evaluating. The large number of people who took the time to let us know their opinion was a major success in itself. The response shows us that insurance customers have really been waiting for someone to finally listen to them. //

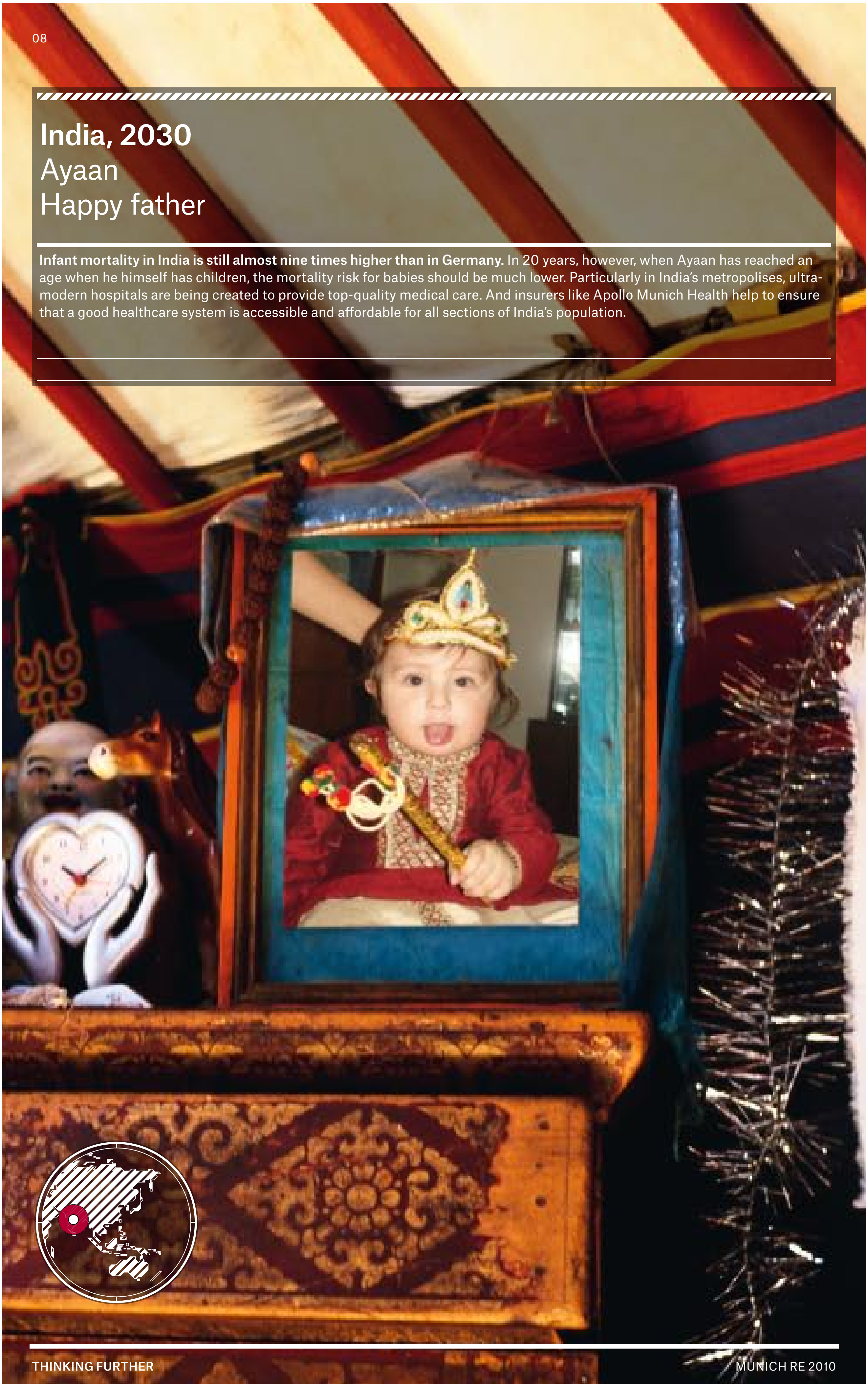
THOMAS BISCHOF

ERGO

DÜSSELDORF / GERMANY

India, 2030
Ayaan
Happy father

Infant mortality in India is still almost nine times higher than in Germany. In 20 years, however, when Ayaan has reached an age when he himself has children, the mortality risk for babies should be much lower. Particularly in India's metropolises, ultra-modern hospitals are being created to provide top-quality medical care. And insurers like Apollo Munich Health help to ensure that a good healthcare system is accessible and affordable for all sections of India's population.



An elephant awakes

Further information: www.apollomunichinsurance.com

*Since India opened herself to the world market, the subcontinent's economy has been growing at a breathtaking pace. The volume of health insurance policies alone has increased twelvefold within only eight years. **Antony Jacob,** CEO of Apollo Munich Health, explains how this has happened and why the sector is nevertheless still in its infancy.* //

India is a land of festivals. Trichur, in the state of Kerala where I was born, is famous for its annual elephant festival. My mother gave birth to me at home, with the help of a midwife. If there had been complications, there would have been a kindly general practitioner nearby and, somewhat further afield, a simple mission hospital. However, people who went to hospital in those days frequently had to pay for their treatment beforehand in cash (a practice that is still customary in some hospitals today). Insurance companies, which were nationalised in 1972, either did not have any health insurance scheme or, in the case of those that did, would not reimburse the costs immediately or even failed to do so entirely. And in any case, only a small number of Indians even had such cover.

After school, I went to study at the Loyola College in Chennai. After initially working for a few years in Kolkata, Hyderabad and New Delhi, I worked for a time in Britain and New Zealand. The India I returned to was quite a different one. As far as healthcare is concerned, India today is like a nation in high-speed mode. If I go into hospital in New Delhi or one of the other 65 megacities in India, I know that I will be in the care of excellently trained doctors and nurses, with the most modern technology and equipment. Nowadays, no Indian need leave the country to obtain first-rate healthcare. That is the good news.

The not-so-good news is that so far only a relatively small section of the population has access to these services. The state-of-the-art care in the metropolises contrasts starkly with the patchy healthcare in the provinces. With an average of one hospital bed per 1,000 inhabitants, India lags far behind China (4.3) and Western Europe, where there are 7.4 beds available per 1,000 people on average. To further add to the challenges, when access to care becomes available, more than 40% of Indians who have treatment in hospital have to borrow money or sell property to pay for it. Personal financing of medical care is among the three most important causes of poverty in India. With the cost of healthcare rising, it is becoming obvious to the common man that he can no longer fund this exposure from savings or borrowing. New methods of empowering people to finance these expenses are the need of the hour.

Both sides of the coin – medical care that is outstanding but available at a rising cost – show that we are acting at exactly the right time in the right place. Global experience teaches us that private health insurance is one of the best ways to finance the cost of healthcare needs. With 320 million people earning a good or high income, there are a huge number of Indians who can and will do precisely that. People referring to India today talk about a "waking elephant", given the annual growth of 7% in GNP and 14% in average income. India's middle class is now four to five times the total population of Germany, and this is reflected in the growth rates

Apollo Munich Health Insurance is a joint venture between the Indian enterprise Apollo Hospitals Group and Munich Health. With over 1,000 employees and around one million insureds, the company will earn premium income of US$ 46.6m in the financial year 2010/2011, thus doubling its previous year's figure. For the coming five years, Apollo Munich Health Insurance is targeting growth in premium volume of 25% per annum.

> > > > >

of private health insurance. In the past eight years, premium income has increased twelvefold. Yet less than 3% of all Indians have private insurance against health risks. Why is this so? An obvious reason is that Indians with a good income initially have other priorities. Traditionally, my compatriots invest mainly in land, jewellery or a house of their own. When the cost of healthcare was lower, health insurance was just not on the list – people believed they could pay for it from savings or by borrowing from friends and family. This was compounded by the lack of trust in insurers – a legacy of the pre-liberalisation era, when insurance cover was a purely state business and was felt to be complicated and not transparent for the customer.

With Apollo Munich Health, we have the best prerequisites for gaining the trust of the market. The Indian joint-venture partner, the Apollo Hospitals Group, is Asia's largest integrated healthcare group, with 50 hospitals, a nationwide chain of pharmacies, consulting services and renowned medical research institutions. In other words, we combine the practical experience of a leading healthcare provider with the insurance expertise of the world's leading reinsurer. For the next five to ten years, we expect premium growth of 25% per year. I suspect there are few industries in the world that can show such constant and strong growth.

However, we have started from a very low level. Even if our sector continues to grow at this pace, only every tenth Indian will have health insurance in ten years' time. If public and private expenditure is added together, the per-capita amount spent on healthcare in the USA comes to 7,285 dollars and in China to 233 dollars. In India, it is a mere 109 dollars per inhabitant per year.

But when I travel through India's cities, I see signs of change everywhere. The rapid urbanisation is leading to the emergence of urban conglomerates with the necessary critical mass for the financing and running of top-class medical centres. At the same time, this development will make our hospitals more interesting for Indian doctors and nurses, too many of whom are still leaving the country to take up better-paying posts abroad. It is quite possible that in the near future Indian doctors will return to work in clinics and hospitals in their own country.

So far, this has been an urban story. The picture for rural areas and for the approximately 400 million Indians still living below the poverty level is quite different. It is for these people that the Indian government recently launched a low-budget insurance scheme. By making a contribution of less than US$ 1 a year, a family of five can purchase basic health insurance cover. The programme is financed largely by the federal and state governments, and run by private providers like us, in a shining example of public-private partnership.

For us, insurance of the poorest is a business that has to finance itself like any other. But it is something that we are very proud of, because it will help to change our country.

With the opportunities that we have, and the benefits to society that our industry provides, I can say that today, at this time and in this place, I undoubtedly have one of the best jobs in the world. //

ANTONY JACOB

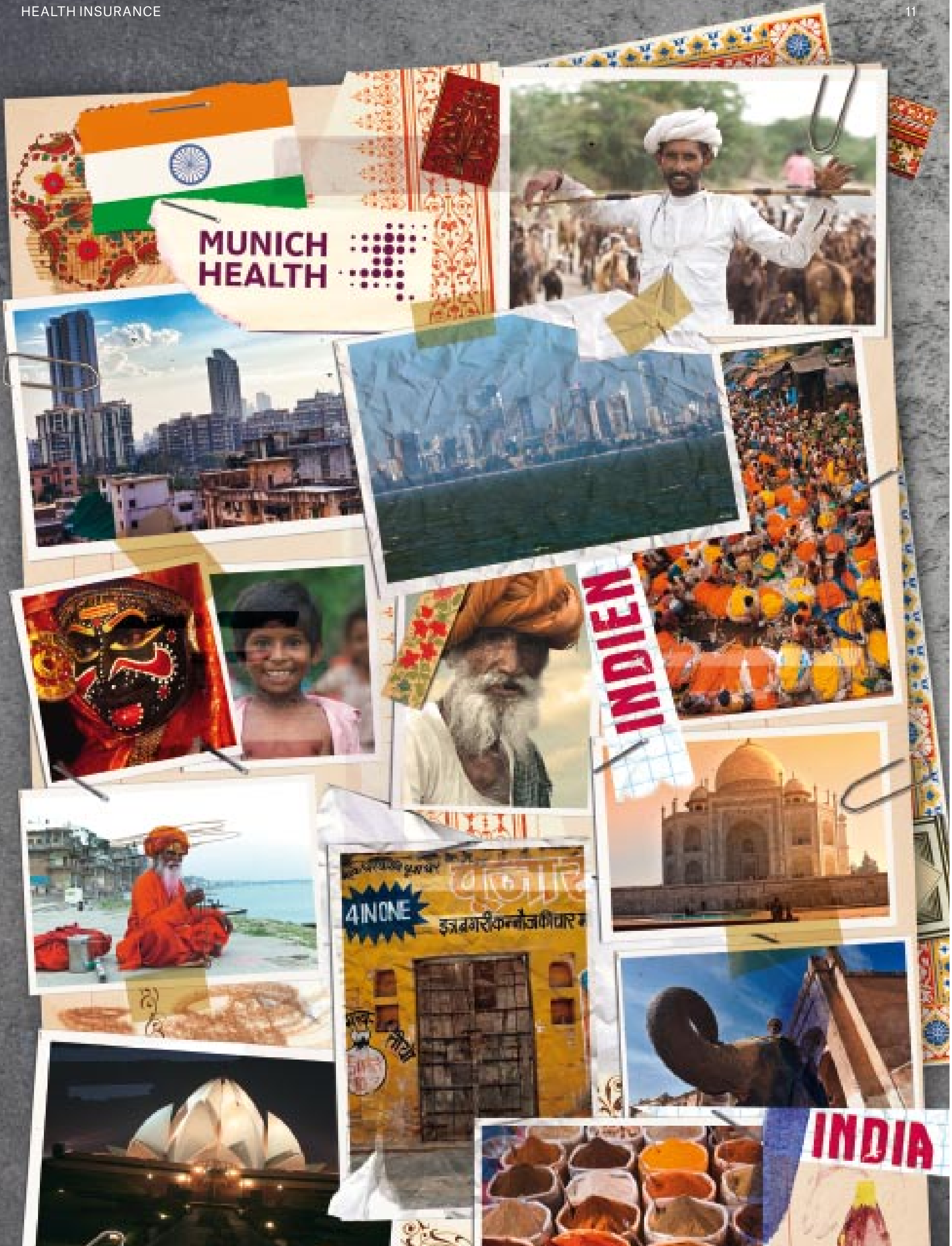
APOLLO MUNICH HEALTH

GURGAON / INDIA

विकास
(Growth)

स्वास्थ्य
(Health)

भविष्य
(Future)



A country nearly as big as the European Union, but with more than twice as many inhabitants. Six climate zones, 21 official languages, 1.2 billion people. Still a developing country, where the average annual income is €708 and the pace of traffic on the roads is dictated by the rhythm of ox carts and rickshaws. But at the same time the world's largest democracy and one of its most dynamic and rapidly growing economies. India is all that in one.

Senegal, 2040
Amina
Electrical engineer

Amina comes from a continent where ambitious plans are in the making. For in the coming decades, the Dii industry initiative, launched with the help of Munich Re, aims to create the basis for a network of solar and wind power plants in Africa to supply carbon-neutral power for the region and for Europe. Given that the Dii initiative will generate economic growth, education opportunities and jobs as well as carbon-neutral energy, the project opens up chances of genuine sustainable development for the continent. And who knows? Perhaps Amina, too, will make a contribution as an electrical engineer at a solar power plant.

Insurance – A promise for the future

What does Munich Re have to do with power generation in North Africa? And why is Munich Re concerning itself with offshore oil drilling? Legitimate questions, answered by Munich Re CEO ***Nikolaus von Bomhard****.*

A good one-and-a-half years ago, an energy and infrastructure project of unprecedented dimensions was unveiled in Munich. Together with major firms in Germany and beyond, Munich Re and the Desertec Foundation launched the industry initiative Dii in July 2009. In the coming years, it plans to create the basis for a network of many hundred solar and wind power plants in North Africa and the Middle East. Its objective: to supply large areas of this region and Europe with carbon-neutral power. Its time horizon: 40 years. The estimated investment volume: many billion euros. I was delighted by the overwhelming response to the launch of the power-from-the-desert project, even if this included a number of critical questions: What is an insurer doing getting involved in producing green electricity? What does Munich Re expect to gain from its Dii participation? And why doesn't one of the world's leading risk carriers concentrate on its core business?

The basic answer to these questions is: Because it is part of our social responsibility as a Group, given one of the great challenges faced by humanity – climate change and its consequences. We cannot remain silent and must act on this issue when we are in a position to help develop or support solutions with our knowledge and influence. But there is also an answer that is "nearer to home": What is looming in connection with climate change has direct implications for our core business. Weather-related natural catastrophes are on the increase, and the evidence is that this is partly due to climate change. The consequences of global warming, if left unchecked, could be so serious in the long term that in a few decades adequate insurance protection would no longer be conceivable for people and firms in some regions. In all likelihood, this scenario can only be prevented if the warming is restricted to the much-cited limit of two degrees.

The explosion of the oil rig Deepwater Horizon and the subsequent oil spill last year demonstrated the serious risks connected with large technical installations. Pollution damage of the type that occurred in the Gulf of Mexico was previously considered uninsurable. So that such damage is paid for in future without the taxpayer having to foot the bill, we have developed a concept with which high indemnity limits can be provided by the insurance industry for an oil spill. This forward-looking idea has met with a very positive reception not only from insurers and brokers but also from the public.

Both projects – the oil spill cover and the power-from-the-desert initiative – are examples of the insurance industry's "pacemaker function". Our products make it possible for risks to be taken and for innovations to be ventured. These innovations are necessary to overcome the major challenges of our time. We monitor climatic, social and technological changes and analyse the need for risk protection and the related business potential. In this way, for example, we also devise insurance models for very different risks connected with generating and utilising renewable energies.

All these activities can be summed up in one word that has unfortunately often been overused in recent years. And yet "sustainability" describes very well what guides us. After all, insurance is a promise for the future; our business model is built on fulfilling obligations from insurance contracts on a durable basis. I am firmly convinced that it is in our own interest to practise sustainable management. A forward-looking and responsible approach – corporate responsibility in action – has been an integral part of Munich Re's Group strategy for many years. A business strategy that is sustainable in this sense is not only more successful in itself but also makes a company more attractive for its employees, customers and investors. //

Poland, 2050
Patryk and Jakub
Entrepreneurs

When Patryk and Jakub were born, their native country had just completed an astonishing year. Whereas Poland's neighbours were only gradually recovering from the economic and financial crisis, the Polish economy, which had recorded growth of 1.7% in the critical year 2009, continued to boom. At the same time, 307,000 start-ups were registered in Poland, more than in the ten previous years. Poland is increasingly becoming a nation of dynamic young entrepreneurs, and it is very possible that Patryk and Jakub will one day number among them.

"We are one of the bold"

Further information: www.ergohestia.pl

In the space of just a few years, the Polish company ERGO Hestia has grown from a start-up operation into the country's second-largest property-casualty insurer. ***Piotr Sliwicki,*** *President of the ERGO subsidiary, explains the background to the boom that has made Poland the new European economic wunderkind.* //

Congratulations, Mr. Sliwicki: Poland seems to have escaped the economic crisis of the last couple of years almost unscathed. The Polish economy was the only European economy to grow during the crisis year 2009, and by as much as 1.7%. What has made Poland a special case economically?
Piotr Sliwicki: You have to consider a series of factors. Firstly, as a member of the European Union, we benefit from European subsidies but still have our own currency. Unlike the Baltic states, whose currencies are pegged to the euro, we were able to significantly devalue the zloty during the crisis and thus increase the price advantage enjoyed by our exports. Secondly, exports make up only around 40% of our gross national product, a considerably lower share than with Hungary or Slovenia, which are pretty much dependent on foreign trade. Thirdly, our government was prudent enough not to launch any exaggerated economic programmes in the crisis.

But these factors alone do not explain Poland's status as Europe's economic wunderkind, do they?
That's right. Another important factor is our potential in terms of increasingly well-educated young people. In recent years, my compatriots have "stormed" the universities. At the time of the political transformation in Poland, the country had 500,000 students. Today there are over 500,000 first-year students alone at universities throughout the country. Young Poles are investing in themselves, their education and their future, and that's naturally a good thing.

You yourself have two children of student age. What's your impression of their generation?
Very ambitious and extremely mobile. Young Poles are hungry for education, change and progress. Another feature is a great yearning for what may be termed overriding social values.

Is that really more than empty words?
Yes, definitely. We as an insurance company benefit directly from values like integrity, honesty and community spirit among our clients. Their influence was evident, for example, in the three major natural catastrophes that occurred last year. After the two terrible floods and the hardest winter for 20 years, many Poles helped their neighbours and did what they could for their country, instead of just waiting for the state to provide assistance.

You yourself are one of the Poles that played an active part in building up your country after the fall of the Iron Curtain. Tell us about it.
I was 29 when, in 1991, I received the offer to develop an insurance company. Our licence was the first to be granted to a private insurer in Poland, and our very first client was the Prime Minister. At our meetings back then, all our employees could sit at one table. They were exciting times, and we are doing our utmost to maintain this entrepreneurial spirit for the future.

ERGO Hestia is the second-largest company in the Polish property-casualty insurance market. Together with its subsidiaries, it makes up the ERGO Hestia Group with premium income of nearly €950m. To date, it has won the trust of more than 5.7 million clients. The Group employs as many as 2,000 staff, who work at the head office in Sopot and at 38 regional branches.

Where does ERGO Hestia stand today?
We have grown fourfold in the last ten years and are now number two among Poland's approximately 40 property-casualty insurers. Around 1,750 employees and 3,500 insurance agents work for ERGO Hestia today. Last year, we overtook Warta, the almost 100-year-old state insurer that for many years formed a duopoly with PZU.

How do you explain ERGO Hestia's market success?
We are not the cheapest or even the most active in terms of marketing measures. But we are definitely committed to one idea: swift, competent and comprehensive claims management. We were the first insurance company in Poland to set up a mobile department for claims handling. Besides this, we have created an e-account for every client that enables them to see, at any time, what stage the processing of their claim has reached. Before that, insureds who wanted to get a claim settled after floods, for example, had to join the long queues outside insurance offices. Surveys show that Poles associate ERGO Hestia with the feeling that someone is really looking after their needs.

Daniel Gros, Director of the Brussels Centre for European Policy Studies considers it possible that your country may even overtake Germany in the coming generation. Do you share his view?
We do indeed have one major advantage that I have already mentioned: the large number of "hungry" young people who want to achieve something. Perhaps that distinguishes us from a highly developed, more satiated country like Germany. Investors take higher risks in Poland, but obtain much greater opportunities in return. On the other hand, you just have to look at our infrastructure to see that Poland still has a long way to go before it can compare itself to Germany.

What does that mean for ERGO Hestia?
In the coming years, we will profit from the rise in living standards and the strength of the economy. Experience shows that growth in insurance premiums is usually around two-and-a-half times economic growth. And for 2011, economists are forecasting growth of 3.5% in GNP.

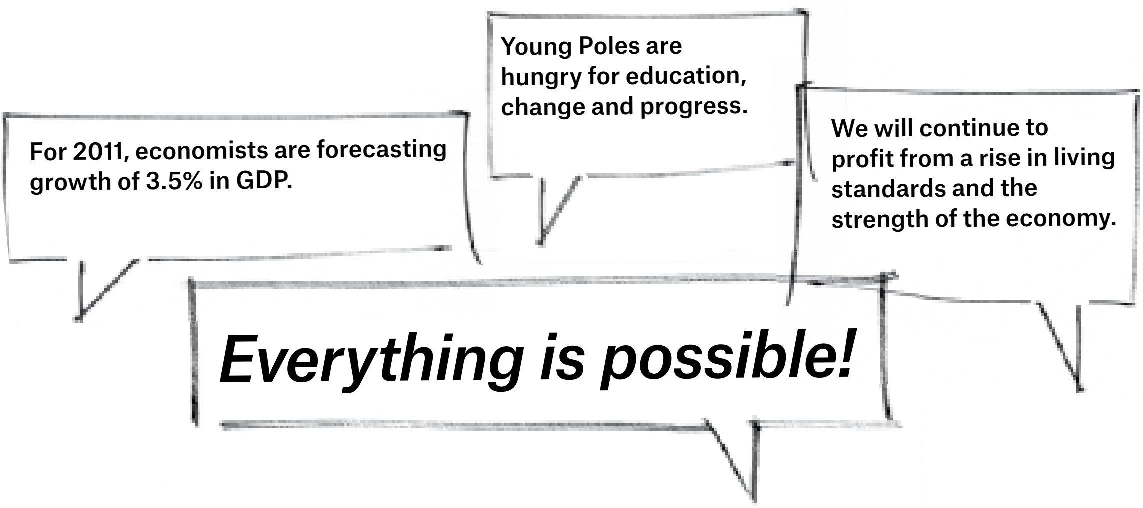
Where do you think your company will be in 40 years' time?
Everything is possible. As long as we can carry on getting the best people to work for us, I don't see any reason why ERGO Hestia should not be number one in the Polish market one day. "The future," said Victor Hugo, "has many names. For the weak it is the unattainable. For the fearful it is the unknown. For the bold it is opportunity." I hope that, in 40 years, ERGO Hestia will still be one of the bold.

By the way, what does your company name actually mean?
Hestia was a Greek goddess – the guardian of home and hearth and, as such, a symbol of security. A fitting name for us, don't you think? //

PIOTR SLIWICKI

ERGO HESTIA

SOPOT / POLAND



USA, 2060
Addison Camille and Alexandra Grace
Space tourists

At the time Addison Camille and Alexandra Grace were born (3 November 2010 in Houston), seven tourists had already been into space and returned to earth. The estimated cost of their tickets: US$ 10–20m. Currently, several private companies are preparing commercial flights into space and even the installation of a space hotel, scheduled to open in 2015. By Addison Camille's and Alexandra Grace's 50th birthday, ticket prices will have fallen dramatically and trips into space will have become commonplace. Nevertheless, space flight remains a highly complex and risky undertaking.

"Get ready for an unbelievable experience!"

Further information: www.munichre.com/space

Space tourism, solar power stations, rare raw materials: the opportunities that will emerge in space in the coming decades are almost as infinite as space itself. But before that, there are a few very down-to-earth challenges that need to be mastered. ***Thomas Reiter,*** *Europe's most experienced astronaut, and* ***Ernst Steilen,*** *Head of Space Underwriting at Munich Re, discuss them. //*

Ernst Steilen: Good morning, Mr. Reiter. Interesting vehicle behind you there.
Thomas Reiter: Oh yes, that's a model of the Rosetta landing craft "Philae", which is on a comet mission. The data you can see on the control panels describe its precalculated route. The landing is scheduled for 2014.

Is it a mission to explore for natural resources? Some of your colleagues reckon there are valuable raw materials out there in space.
No, the primary purpose of this mission is purely scientific. Are comets made of ice or rock? And what do they tell us about the prehistory of our solar system? We are still a long way from mining raw materials in space.

I continue to find it astonishing what major discoveries still await us in space more than 40 years after the first moon landing. As you know, a NASA mission recently discovered a quantity of water at the moon's south pole estimated to be roughly equivalent to Lake Constance.
That is indeed a highly interesting discovery, given that water can be used for producing not only food but also oxygen and as fuel for the return flight. And at the end of the day it is certainly conceivable that in the distant future we will be able to get valuable raw materials from the moon. You know the popular subject Helium 3 ...

Oh, so you have read the novel "Limit" by Frank Schätzing as well?
Of course – we actually gave Frank some some support in researching the novel. His idea of an elevator from the earth into orbit is naturally science fiction, but it highlights the critical hurdle: transport capacities and above all transportation costs. In the history of humanity, the development of transport has always played a crucial role, and it will be just the same with this part of our history where we venture into space. At the moment, the means of transport available are just too expensive for conquering space. Energy consumption is gigantic.

Energy is one thing, safety another: Another important precondition for commercial flights would be spacecraft whose safety is comparable with that of today's aircraft. After all, not many people are as courageous as you, who dared to board a Space Shuttle shortly after the explosion of Columbia.
OK, but with Ariane 5 we already have a pretty reliable launch vehicle with around 40 successful launches to its name. If we succeed in reducing the costs of space transportation by only a third, we will suddenly have quite different new commercial possibilities for transporting earth-observation and telecommunication satellites. Maybe we will not put satellites into orbit at all any more in future, but just geostationary platforms on which providers can mount their individual transponders. What is your take on that?

Certainly, that would be a whole new ball game. And it would be no problem from the underwriting point of view – it is a situation just like the one we faced 40 years ago when we ventured to tackle a whole new technology – satellites. Without insurance cover, their commercial development would have been unthinkable.
What does it cost to insure a satellite?

One satellite, including launch, costs around US$ 250m, and a big satellite with a complex payload as much as US$ 400m. If the investments on the ground are added to this, we are talking about roughly a billion dollars – risks that even major operators could not shoulder alone. Every year, around 20 to 30 commercial satellites are put into space and, as the leading space insurer, we are essentially involved in all of them. Besides this, there

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are approximately 150 satellites already in orbit that are also insured with us.
How can such big risks be insured?

As with all large and complex risks, a combination of knowledge, experience and financial strength is the key. We have been insuring space risks since the 1970s, which means that we have experienced all the ups and downs of the industry. Today, our engineers are able not only to assess in detail the technical risks and failure probabilities of spacecraft but also to translate the findings into viable coverage concepts. Nevertheless, there are still risks of course, and nowhere are they as wide-ranging or as fatal as in space.
That's right. In space, a malfunction cannot be remedied just like that. A marginal problem often results in a total loss.

What do you think the chances are of reducing transportation costs in the foreseeable future?
If we really knew that, we would be a great step further. Up to now, all propulsion systems have been based on the combustion of chemical fuels, whose energy content is naturally limited. One way forward will be to develop completely new launcher systems. But their development is extremely expensive.

Some of your colleagues are in favour of sending robots into space to minimise the costs and the risks of manned space flight.
That's right. The costs of life support systems could be dispensed with. On the other hand, robots do not yet have the specific cognitive, sensory and manipulative capabilities of humans. And something like intuition is virtually impossible to recreate in a machine. But the fact is that intuition can be crucial in the isolated situation of a space capsule. During my first mission, for example, a gas analyser failed. The specialists at mission control could not provide any explanation, and telemetry data of the device that were radioed to earth did not throw any light on the matter. But since the experiment could not be continued anyway, I simply unscrewed it – and actually found what was wrong.

What practical challenges are people confronted with in space?
When you are trying to repair or assemble something, you really need a third arm or leg in order to brace yourself in position. And when you return to earth you have to regain your sense of balance, just like after a long ocean voyage. Besides that, a longer trip has negative effects like demineralisation, muscular atrophy and a certain sluggishness of the system that regulates blood pressure. But these effects can be mitigated. Merely the improved sports equipment that we had on my second mission to the ISS hugely reduced the calcium depletion in my bones.

How great are the strains on the body during the launch phase? Are they tolerable for space tourists?
I have no doubts on that score. Launch acceleration is around 3.5 G, which is more or less equivalent to the forces you are familiar with from a rollercoaster ride. But it goes without saying that a thorough medical examination is necessary before such a flight.

Your practical tip for space travellers?
Firstly, get ready for a really unbelievable experience. Being able to savour the three dimensions in space without wings or other aids is simply breathtaking. I have never met anyone who was not euphoric about this experience. Secondly, get used to weightlessness gradually. Only move cautiously in the first few hours – otherwise you may get similar symptoms to travel sickness. Apart from that, I always find it astonishing how the human body, made for life with gravity, accustoms itself almost effortlessly to weightlessness. //

Thomas Reiter has the most experience in space of any European astronaut. From September 1995 to February 1996, he worked on board the Russian space station Mir. In 2006, he went back into space for five months aboard the International Space Station (ISS). He is a member of the Executive Board of the German Aerospace Center (DLR) with responsibility for space research and development.

Ernst Steilen is Head of Space Underwriting at Munich Re. A qualified lawyer, he has been responsible for the insurance of space risks since 1982 and, in this underwriting role, has partnered around 500 launches over this period. His most defining experience with regard to space flight was the explosion of the Challenger Space Shuttle, which he witnessed live on television and which really brought home to him the fact that, despite application of the highest safety standards, humans and materials are fallible.

Thomas Reiter and Ernst Steilen talk in front of a model of the Rosetta landing craft "Philae", the original of which is en route to the comet Churyumov-Gerasimenko. The aim of the mission, headed by the European Space Agency ESA, is to extract samples that provide information on the composition of comets.

China, 2110
Huafei Philip Xu
Great-grandfather

Until recently, 100-year-olds were regarded as absolute rarities, whose birthdays were reported in the papers. But thanks to medical progress and improved living conditions, those born today stand a fair chance of living to be a hundred. What is a welcome prospect for people like Huafei Philip Xu (born on 19 October 2010) means an extreme stress test for state social security systems. In China, Munich Re is therefore helping primary insurers to design insurance solutions that enable people like Huafei Xu to make provision so that they are well cared for in old age.

China's grey revolution

Further information: www.munichre.com/life

While the West is starting to come to terms with demographic change, a much more drastic shift is looming in the People's Republic of China. The country is moving from a young population to an old and declining one with a speed rarely seen elsewhere. Within one generation, China is ageing to an extent which has taken Europe 100 years. In the coming decades, there will be massive growth in the number of Chinese senior citizens – and thus in the need for long term care and its insurance. //

It is forty years since the Chinese government launched its policy of modernisation coupled with strict birth policies. How fundamentally this would accelerate change within the country was probably not envisaged even by the originators. While China advanced from a reclusive third world country to the "world's workbench" and the average income of workers increased sixfold, the birth rate fell from an average of 5.8 in 1970 to around 1.6 children per Chinese woman. And China is still a young country: only 14% of its inhabitants are older than 60 today.

In the meantime, the long-term consequences of declining fertility rates are becoming apparent. In the past decades, the changes in family size have moved like a huge wave through provinces and age cohorts, developing into a demographic tsunami. For the inescapable fact is that the millions of Chinese who were born in the 1960s and 1970s have been followed by fewer and fewer young Chinese. In the words of a report by the Center for Strategic & International Studies: "By 2040, assuming current demographic trends continue, there will be 397 million Chinese elders, which is more than the total current total population of France, Germany, Italy, Japan and the United Kingdom combined." If the forecasts are correct, China's population in 2040 is likely to be older than that of the USA. And just four years from now, the number of working Chinese will have reached its peak, from which it will then fall continually and relentlessly.

For Steve Zhang, Managing Director Life of Munich Re Beijing, this process of change is already tangible. Together with his colleagues from the Munich Re offices in Beijing, Shanghai, and Hong Kong, Zhang advises Chinese primary insurers on designing insurance solutions for people in China to cover the risks of old age. "Munich Re's worldwide expertise is of enormous benefit here", says Zhang. "We can utilise underwriting know-how from numerous markets around the world and combine this with our local market knowledge. That is a huge advantage in a young insurance market like China."

The way in which Munich Re's global expertise pays off is demonstrated by the development of a comprehensive long term care insurance product for Chinese clients. Steve Zhang and his colleagues were able to draw on data from more than 23,000 claims from a portfolio of 767,000 policies, which Munich Re experts analysed in depth and evaluated with a view to deriving long term care incidence rates for particular regions or product types. Practical knowledge was supplied by experts from LifePlans, a Munich Re specialist service provider based in Waltham, Massachusetts. "Munich Re's global expertise in long term care insurance can be an important reference for us in tackling the issue of an ageing population in China", says Mr. Feng Xiangying, Vice President of Chinese primary insurer PICC Health.

Accompanied by Zhang, Mr. Feng recently led a delegation to the United States to study long term care insurance. Besides LifePlans, US federal government departments, state insurance regulators and insurance trade associations, Mr. Feng also visited nursing homes and talked with US providers of long term care insurance. "The support of Munich Re can be helpful for us in developing a product that is financially viable and meets the demands of an ageing society."

After all, demand is enormous. Thanks to healthier diets and improvements in hygiene and healthcare, life expectancy has increased from 41 to 71 years since the foundation of the People's Republic. But it is not only the proportion of senior citizens that will grow but also the percentage of "old elders", and with them the number of people in need of long term

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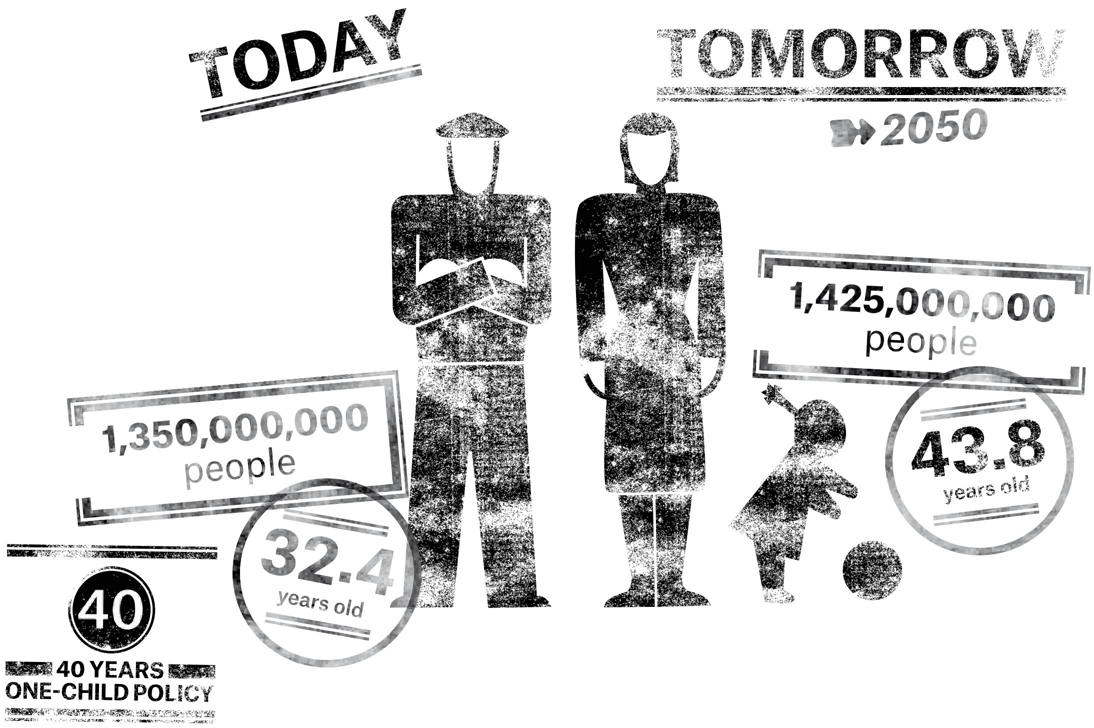
care. In 2050, there are likely to be over 100 million 80-year-olds in China – more than the current total worldwide.

Many Chinese are therefore already making private provision for illness and old age. Thus "critical illness" policies are a common additional insurance taken out with savings products today. "It is clear to everybody that neither families nor the state will be able to cope with the challenges of an ageing society alone," explains Zhang, "and that applies not only to China but also to other societies in Asia." Munich Re has therefore designed similar long term care insurance solutions for markets like Japan, South Korea and Singapore as well.

But the biggest change is faced by China. In a country in which only a fraction of the population can count on a dependable state pension and the institution of homes for the elderly is more or less unknown, the majority of seniors currently live with their children or are otherwise supported. However, this informal pension system is coming under increasing pressure because of shrinking family size. What is more, many children nowadays no longer live with their parents but far away in the booming metropolises. "We call it the 4-2-1 problem," says Zhang, "because in many families today one child has to support two parents and four grandparents. And of course most people are aware that this cannot work."

It is therefore no longer a question of whether the market for long term care and pension insurance in China will take off. It is just a question of when, at what speed and with what force. //



With its approximately 1.3 billion people, China is the most populous country in the world. In the course of its history, over-population and its associated problems have been the cause of deep political and economic crises, including famines. The People's Republic therefore embarked on its globally unique "one-child policy". However, coupled with rising life expectancy, this policy is set to produce a marked rise in the average age in coming decades. At the same time, the proportion of the population in paid work will fall.

Thinking further

How will we live in the future?
Just like today? Or quite differently?
Topics and blueprints for the future at
www.munichre.com/future.links

Thinking further

We are a long-term partner for our investors.

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

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

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

How will we live in the future? Just like today? Or quite differently? You can find answers in the enclosed supplement and on the internet at
www.report2010.munichre.com

Munich Re 2010

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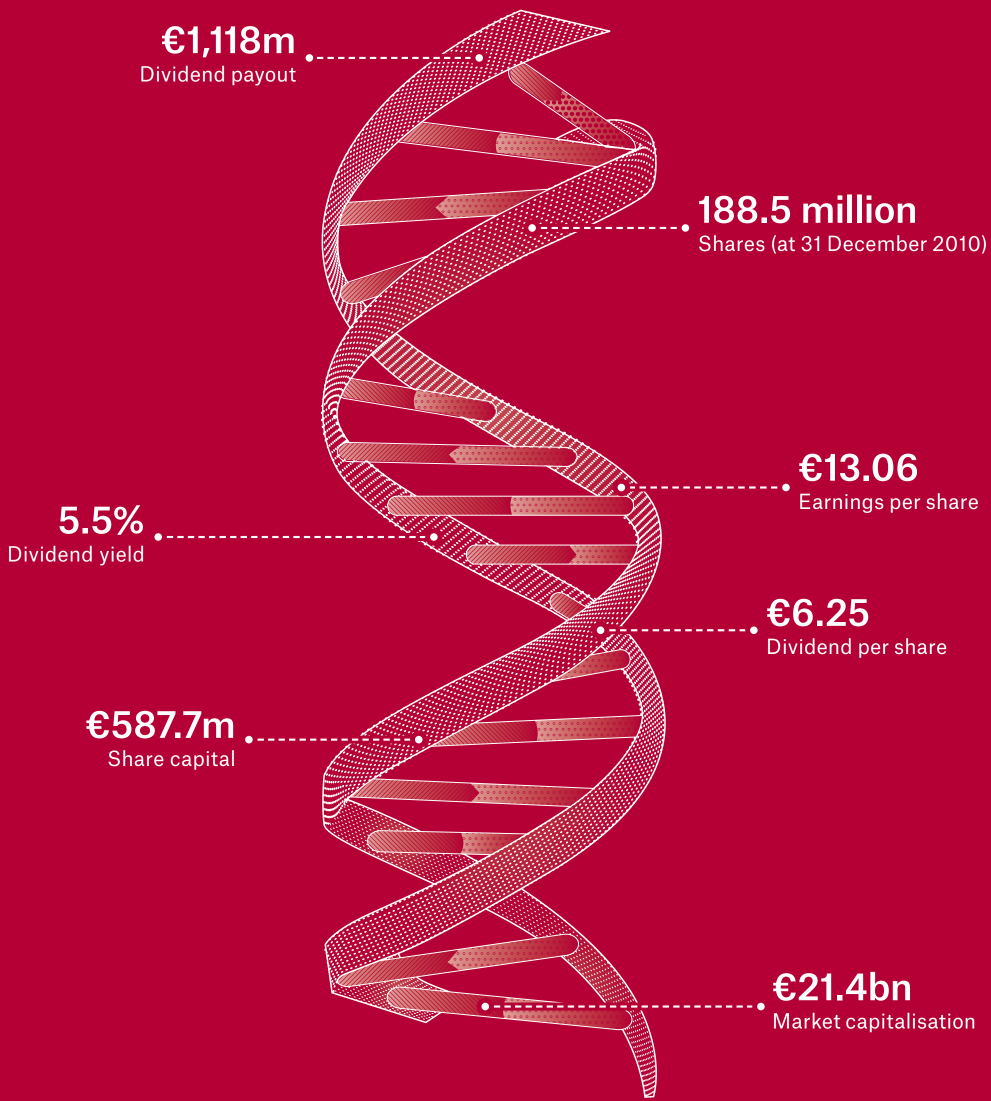

Deoxyribonucleic acid // Deoxyribonucleic acid, usually abbreviated to DNA, is a chain molecule which carries the genetic information. DNA is characteristically arranged as a double helix. It contains all the information required for protein synthesis and thus for the biological development of an organism and cell metabolism.

To our shareholders

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2010

Q1/2010

1 January 2010 //
We achieve the first milestone in our climate neutrality strategy for the reinsurance group: the Munich offices became carbon neutral in 2009. The whole international reinsurance group will follow suit in 2012.

5 March 2010 //
Munich Re welcomes the appointment of Prof. Klaus Töpfer as strategic advisor to the industry initiative Dii.

15 March 2010 //
Munich Re and LDK Solar Co. Ltd. sign an insurance contract covering the possible risk of performance deterioration in photovoltaic modules.

Q2/2010

28 April 2010 //
Munich Re pays a dividend of €5.75 per share for the financial year 2009 (previous year: €5.50), distributing almost €1.1bn to shareholders. This is preceded by a share buy-back programme, with €1bn worth of shares repurchased by 21 April 2010.

22 June 2010 //
The Munich Re Climate Summit presents innovative insurance products and new coverage concepts at the World Exhibition in Shanghai.

30 June 2010 //
At 30 June 2010, MEAG's assets under management total €204bn, thus exceeding the €200bn mark for the first time. In the first half of 2010 alone, assets under management increase by €11.6bn.

Q3/2010

18 July 2010 //
ERGO launches an advertising campaign for its new brand. "To insure is to understand" – the motto of the campaign – emphasises ERGO's consistent focus on clients' concerns and requirements. The Germany-wide advertising effort, centred on consumers, formulates a new maxim for ERGO's approach to and handling of clients. "We want to have a close, ongoing exchange with our clients, because it is important for us to understand what they expect of us," stressed ERGO CEO Torsten Oletzky.

12 September 2010 //
Munich Re develops an insurance solution covering oil companies against liability risks from oil disasters during offshore drilling operations.

Q4/2010

26 October 2010 //
Munich Re concludes an agreement to acquire Windsor Health Group, Inc. (Windsor), the aim of the planned purchase being to strengthen Munich Health's position in the US market. Windsor Health Plan, Inc. operates government-sponsored health plans and specialty managed healthcare programmes for the senior segment.

WINDSOR HEALTH GROUP INC.

3 November 2010 //
Just five years after its establishment, Daman National Health Insurance in Abu Dhabi welcomes its two-millionth client in the United Arab Emirates.

23 December 2010 //
Munich Re invests in German wind energy via its asset manager MEAG, acquiring at the turn of the year 40 wind turbines in a total of 11 wind parks with an overall output of 73 megawatts. The investment in the low three-digit million range is part of the RENT programme (Renewable Energy and New Technologies), through which Munich Re plans to invest up to €2.5bn in renewable energies and new environmental technologies over the next few years.

Dear Shareholders,

Dr. Nikolaus von Bomhard
Chairman of the Board of Management

The financial year 2010 was marked by numerous natural catastrophes and other major losses. With our broad range of products in primary insurance and reinsurance, we help to cushion at least the financial consequences of such events for those affected.

Our objective for the financial year 2010 was to continue systematically implementing our proven strategy and thus to fulfil your expectations with regard to results. This, I believe, we succeeded in doing. In the third year of the crisis, we posted another good result, with a profit of over €2.4bn. The result is good in particular because, despite very low interest rates, our 13.5% return on risk-adjusted capital is very close to our target of 15%. That was by no means to be taken for granted, given the price pressure in many insurance markets, the heavy burden from major losses, and the uncertainties persisting in the capital markets.

The Group's performance enables us to raise the dividend again by 50 cents compared with last year to €6.25 per share. Subject to the Annual General Meeting approving this proposal on the appropriation of profits, Munich Re will have paid out more than €3bn in dividends for the crisis years 2008–2010. This puts us at the head of the field among DAX 30 stocks in terms of dividend yield.

Besides the dividend payments, we have also carried out extensive share buy-backs since 2006, and we intend to buy back more shares with a volume of up to €500m by the 2012 Annual General Meeting. Taking dividends and share buy-backs together, we are set to have returned more than €10bn to our shareholders in the five financial years up to 2010. In the same period, we have additionally financed the purchase of various shareholdings and acquisitions with an equivalent value of over €3bn entirely from our own resources. At the same time, our IFRS equity remained stable throughout. At 31 December 2010, it totalled €23bn and our eligible solvency capital was more than two-and-a-half times the regulatory requirement.

This financial strength, combined with our sophisticated, hands-on risk management, our prudent investment policy and our efficient capital management, have made us resilient in the crisis. Consequently, we have been able to concentrate on developing our three fields of business: primary insurance, reinsurance and Munich Health. We have not needed to engage in "crisis management" at any time.

In primary insurance, we successfully launched the ERGO brand on the German market in 2010. ERGO has already become a household name in Germany, with clients responding positively to its brand proposition of "To insure is to understand". I am proud of what our ERGO colleagues have achieved. I know that they feel a personal obligation to live up to the claim. What remains difficult, at least for the time being, is business with traditional life insurance, where the low interest-rate level is having an adverse impact on demand and on earnings. This is a challenge that affects not only us, of course: all the market players have to deal with this environment. It is proving very helpful that we hedged our investments sufficiently in good time so that we can cope with a longer phase of low interest rates.

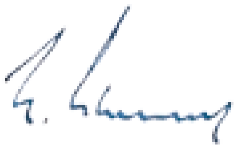
Outside ERGO's home market, we aim to be present in the emerging markets of Asia and eastern Europe. To this end, ERGO agreed on a joint venture for life insurance with a local partner in China at the start of this year and has entered into a strategic cooperation with a Vietnamese property-casualty insurer, underpinned by a minority shareholding. The key virtue in developing and expanding international business is patience. Value can only be created if well-considered steps are taken at the right time.

In the reinsurance market, ample capacity is still available. Exceptions, and thus the opportunity for price increases, have only occurred in segments with above-average claims burdens. We benefit decisively from our great proximity to clients and our ability to structure complex reinsurance programmes to their needs. As a result, we can set ourselves apart from our competitors and conclude major treaties or even whole insurance programmes at our own individual terms and conditions. We continue to selectively tap attractive niche markets, which we service via specialist insurers. An additional positive factor is that some clients are currently using our reinsurance capacity for capital relief, particularly in life and health insurance, but recently in property-casualty insurance as well.

Our third and youngest field of business, Munich Health, will this year conclude the consolidation process begun in 2010. With strong premium growth and constant earnings development, Munich Health is increasingly contributing to the Group's performance. The acquisition of the Windsor Health Group, completed at the beginning of 2011, has considerably strengthened our position in the US Medicare market. This supports us in achieving sustainable added value – a hallmark of Munich Health's strategy and business as well.

Ladies and gentlemen, on behalf of my colleagues on the Board of Management and all employees in the Group, I thank you for the confidence you have shown in us. The stage is set for sustained profitability. As a Group, we will continue to develop steadily and consistently, keeping to our course and remaining dependable. After all, you want to know – and we want you to know – what to expect from your investment.

Yours sincerely,



Nikolaus von Bomhard

From left to right

Wolfgang Strassl
Board member responsible for personnel and welfare matters, within the meaning of Section 33 of the German Co-Determination Act
HealthCare/Human Resources

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

Georg Daschner
Europe and Latin America

Peter Röder
Global Clients and North America

Nikolaus von Bomhard
Chairman of the Board of Management, Chairman of the Group Committee
Group Development/Group Investments/Group Communications/Group Audit/ Group Executive Affairs

From left to right

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

Ludger Arnoldussen
Germany, Asia Pacific and Africa/Services

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

Joachim Wenning
Life

Munich Re shares

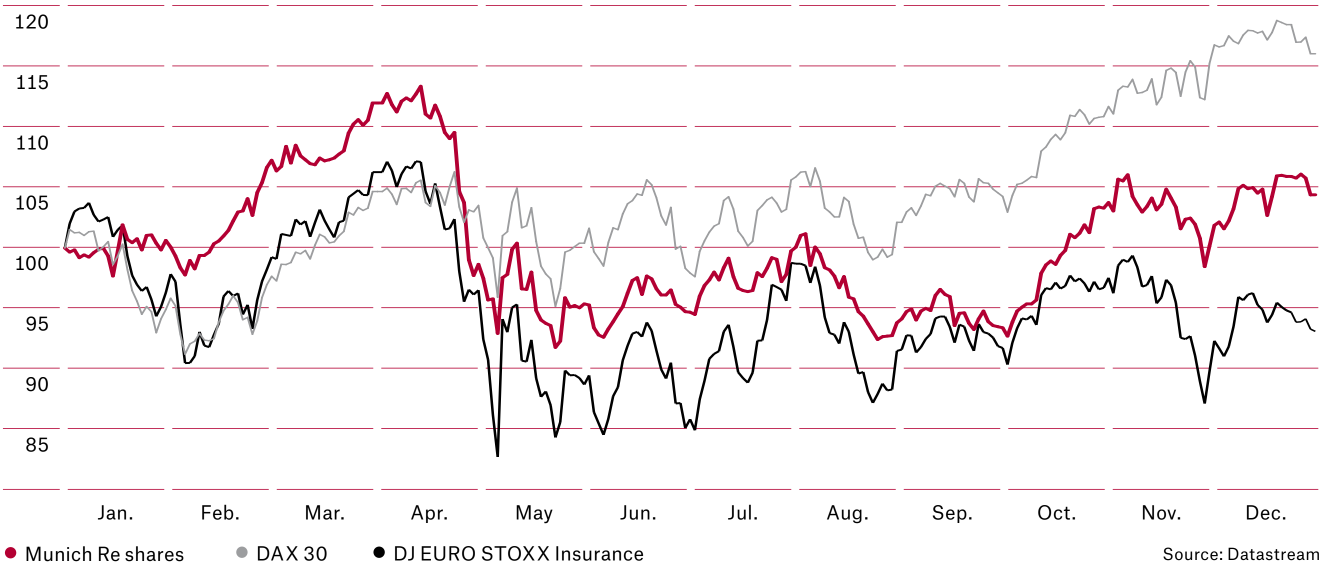
// After the macroeconomic upheavals triggered by the financial crisis in the preceding years, the global economy staged a marked recovery in 2010.
// In an environment of persistently low interest rates and challenging conditions in the insurance markets, Munich Re shares proved themselves a reliable investment. Over the course of the year, our share price increased by 4.4%, giving a shareholder return of 10% when the dividend is included.

During much of 2010, the European capital markets were dominated by the debt crisis afflicting several eurozone countries and stoking fears of possible defaults. Financial stocks, with their investments in bonds issued by these countries, were particularly affected. In the first few months of the year, Munich Re's share price benefited from our dependable capital strength and earnings potential, despite huge losses from natural catastrophes.

In mid-April, investors' attention began to focus on insurance companies' exposure to bonds of highly indebted eurozone countries. This led to considerable pressure on share prices, including ours, until the end of May. From June to October, in a very volatile environment, our share price fluctuated at around its start-of-the-year level. Positive impulses from investors' improved risk appetite following good economic data, especially in Germany, contrasted with fears of a recession and other crisis scenarios. At the same time, the implications of a prolonged low-interest-rate phase and unrelenting competition in the insurance sector fuelled uncertainty among investors.

In the fourth quarter, Munich Re shares profited not only from the generally buoyant mood on the capital markets but also from the initial prospect of a good technical result following a benign hurricane season. Throughout the year, within the constraints of its diversified, conservative investment portfolio, Munich Re was able to benefit from market opportunities and realise substantial investment earnings through its active asset management and decisions based strictly on economic criteria. Munich Re shares thus did well in comparison with the European insurance sector as a whole in 2010, outperforming the DJ EURO STOXX Insurance, for instance, but unable to match the strong performance of the DAX 30, driven largely by export-oriented stocks.

Share price performance 1.1.2010 = 100



Source: Datastream

All in all, Munich Re shares once again demonstrated the attractiveness of their clear and dependable investment profile in a challenging environment. Their long-term performance is also convincing: over the last three- and five-year periods, their price performance – including dividend payments – has bettered that of the DJ EURO STOXX Insurance.

More than 40 banks and brokerage houses regularly evaluate Munich Re shares. At the end of December 2010, some 28% of the analysts gave our shares a positive assessment, 52% a neutral one, and 20% a negative rating.

Weighting of Munich Re shares[1]

	%
DAX 30	3.1
DJ EURO STOXX 50	1.2
DJ EURO STOXX Insurance	11.8
MSCI EURO	1.1
FTSE EUROTOP 100	0.6
DJ Sustainability World	0.3

[1] As at 31 December 2010.

Active capital management is an integral part of Munich Re's business policy. We pursue a flexible dividend policy, with the payout essentially based on the result for the year and our capital requirements. Taking this into account, we generally aim to pay out at least 25% of the annual result to our shareholders. We were one of the few German listed companies to pay a higher dividend for the financial year 2009, up €0.25 to €5.75 per share.

For the financial year 2010, the Board of Management and the Supervisory Board intend to propose a dividend of €6.25 at the Annual General Meeting on 20 April 2011. Altogether, this would mean a total payout to shareholders of just over €1.1bn, after just under €1.1bn in the previous year. The dividend will be paid on 21 April 2011, the day after the Annual General Meeting.

With a dividend yield of approximately 5.5% (in relation to the year-end share price), Munich Re shares remain an attractive equity investment, which is also included in the DivDAX, a subindex of Deutsche Börse AG that features the 15 DAX companies with the highest dividend yields.

As announced, between October 2009 and April 2010 we bought back and retired shares with a volume of €1bn (nearly nine million shares) as part of our share buy-back programme. In May 2010, utilising the authorisation granted by the Annual General Meeting on 28 April 2010, a new buy-back programme was launched. By 25 February 2011, we had acquired around eight million shares for a total of €844m. Altogether, we intend to repurchase up to 15 million shares with a maximum volume of €1bn by the Annual General Meeting on 20 April 2011.

Munich Re shares are no-par-value registered shares. First admitted for trading on the stock exchange in Munich on 21 March 1888, they are today listed on all the German stock exchanges, with trading nowadays taking place almost exclusively on the Xetra electronic trading platform.

Securities reference numbers

Reuters	MUVGn	**ISIN**	DE0008430026
Bloomberg	MUV2	**WKN**	843 002

The average daily turnover of Munich Re shares in Xetra and floor trading on the German stock exchanges was €116.2m in the year under review, putting our shares in 18th place among the DAX stocks at year-end 2010. In terms of market capitalisation, we ranked 13th with around €21.4bn.

Key figures for our shares

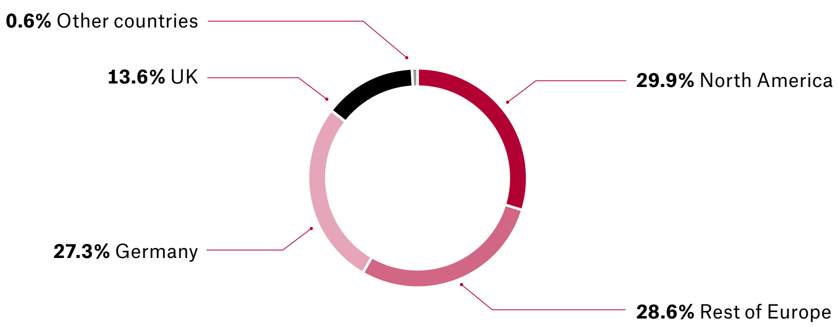
		2010	2009
Share capital	€m	587.7	587.7
Number of shares at 31 December	m	188.5	197.4
Year high	€	123.55	116.80
Date		15.4.2010	9.1.2009
Year low	€	98.38	79.01
Date		8.6.2010	9.3.2009
Year-end closing price	€	113.45	108.67
Annual performance (excluding dividend)	%	4.4	–2.1
Beta relative to DAX (daily, raw)	%	0.7	0.8
Market capitalisation at 31 December[1]	€bn	21.4	21.5
Market value/equity at 31 December[2]		0.9	1.0
Average trading volume	'000	1,069	1,191
Earnings per share	€	13.06	12.95
Dividend per share	€	6.25	5.75
Dividend yield at 31 December	%	5.5	5.3
Dividend payout (status at 25 Feb. 2011)	€m	1,118	1,072

[1] This includes own shares earmarked for retirement.
[2] Including minority interests.

At the end of December 2010, a total of 140,000 shareholders were entered in our share register. The vast majority of shares were held by institutional investors such as banks, insurers or investment companies; around 10.5% were in the hands of private investors. The percentage of international investors was slightly higher than in the previous year (70%). At year-end 2010, a good 72% of the shares were held by foreign investors.

Our largest shareholder at the end of 2010 was Warren E. Buffett, who holds a stake of around 10.2% in Munich Reinsurance Company via several companies in his group (Berkshire Hathaway Inc., OBH Inc., National Indemnity Co.). In second place is asset manager BlackRock with 6.2%. Warren E. Buffett and the aforementioned companies in his group informed us in October 2010 that their investment is geared to generating trading profits, not to implementing strategic objectives. The intention is to acquire further shares within the next 12 months. They do not seek to exert an influence on the composition of Munich Re's management or supervisory boards or to significantly change the Company's capital structure.

Regional distribution[1]



[1] Percentage of share capital at 31 December 2010.

Source: Munich Re share register

Our corporate strategy geared to sustained increase in value is accompanied by ongoing and open communication with all capital market participants.

The main task of investor relations at Munich Re is to specifically address investors, cultivating contact with existing shareholders and winning over new ones. At the same time, we ensure that due account is taken of our investors' opinions and preferences in internal discussion and decision-making processes. We have again done well in insurance-sector rankings for the quality of companies' investor relations, achieving recognition for the consistency and transparency of our reporting. All the presentations we use in our meetings with analysts and investors and in our conferences and roadshows are published on the internet, and we are glad to send these to interested shareholders on request. Many of our events are transmitted live via webstreaming. Enquiries reaching us via our shareholder hotline or by e-mail are answered promptly by our team. Additionally, the service pages of our shareholder portal on the internet provide our registered shareholders with a wide range of information and communication facilities.

Our 123rd Annual General Meeting was held at the ICM – International Congress Center Munich on 28 April 2010. Munich Reinsurance Company became the first DAX 30 company to offer online participation and a postal vote at its AGM. This enabled our shareholders to take advantage of these options recently introduced by German legislation when casting their votes on the various agenda items.

For many years, Munich Re has been awarded consistently excellent ratings by the leading rating agencies. Despite the challenges of 2008 and 2009 for the insurance industry, the outlook for all Munich Re's ratings remained unchanged at a high level in 2010.

The high degree of confidence in our Group's financial strength is reflected in trading with credit default swaps (CDSs). These tools enable investors on the capital market to hedge against the risk of an issuer's default. The lower the CDS spread, the higher the assessment of the issuer's security. Munich Re continues to be among the firms with very low CDS spreads at both national and international level.

Strategy

// Integrated business model proves its worth
// ERGO with new brand proposition
// Innovative solutions in reinsurance
// Well positioned in growth market of healthcare

Profitable growth on solid foundation

We pursue an integrated business model with three pillars: primary insurance, reinsurance and – for the international healthcare market – Munich Health. This set-up allows us to cover the insurance industry's entire value chain. It benefits our clients, because we can offer them solutions based on the whole range of our knowledge. As a Group, we are less dependent on cycles in individual lines of business and regional markets. This reduces our risk-capital requirement and lowers our cost of capital. The effect is enhanced by the non-correlation of the very different risks that we take onto our books; this diversification is key to our success.

Our business model is supported by Group-wide risk management, an investment policy geared to the structure of our liabilities, and active capital management. Our risk management considers much more than just the risks from our insurance business. It includes investments, for example, and models interactions between the different risks. It is firmly embedded and actively practised Group-wide. Our selection of investments takes into account the due dates and currencies of our underwriting liabilities, thus reducing reinvestment and currency risks. With our active capital management, we ensure that Munich Re's capitalisation is always appropriate. Our economic equity, calculated on a market-consistent basis, covers the capital requirement resulting from our internal risk model and takes into account the stipulations of regulators and rating agencies. Capital that is not required is returned to our shareholders in the form of dividends and share buy-backs. Our most important performance indicator is return on risk-adjusted capital (RORAC), which relates the profit earned to the required risk capital, allowing the management of all activities in the Group to be geared to economic value added.

In primary insurance, with ERGO, we are aiming to achieve an established place among the successful international insurance groups. ERGO aspires to be best in class in terms of both profitability and client satisfaction. "To insure is to understand" – this is the claim with which ERGO launched its new brand strategy to become the insurer with a particularly keen understanding of its clients' needs. ERGO is systematically working on clear communication with clients, actively asking them for feedback and suggestions. As from this year, a customer advocate will ensure that the client perspective is firmly established in all corporate activities. By realising this strategy, ERGO intends to stand out from the competition and constantly improve its service to clients.

This applies to all markets in which ERGO operates, be it Germany or the numerous markets abroad. ERGO currently earns around a quarter of its total premium income outside its home market – in the case of new business, the figure is already one half. Outside Germany, ERGO aims to be present above all in the emerging markets of Asia and eastern Europe.

In reinsurance, we last year enhanced the focus of our value proposition to clients. Given the significant changes in insurance business, our clients' need for professional answers to ever more complex questions is growing. With this firmly in mind, we are working intensively on innovative solutions that often expand the boundaries of insurability. An increasingly networked world and newly emerging risks are resulting in scenarios for which traditional reinsurance products do not offer solutions. In dialogue with clients and outside experts, our staff are responding to this new insurance demand. By pooling their knowledge of risks and markets, they can devise solutions. A good example is the coverage concept for offshore oil drilling which we presented after the explosion of Deepwater Horizon. Such events, with huge damage from oil pollution, could not be sufficiently insured against up to now. Our initiative met with a positive reception not only from insurers and brokers but also from the public at large.

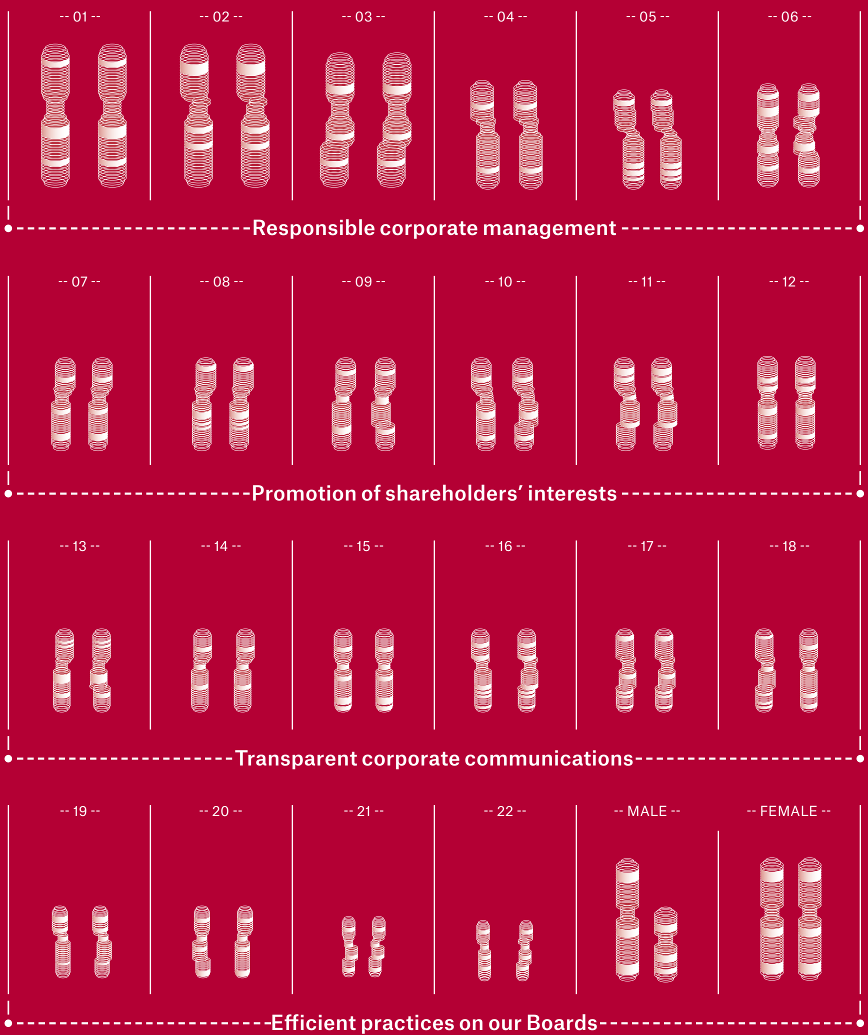
Other examples of innovative products we have developed are guarantee insurances in the field of renewable energies. A coverage model devised by Munich Re for the manufacturers of photovoltaic modules has already established itself as the market standard. Only recently, we launched the first comparable cover for wind farms. With both insurances, Munich Re assumes the financial risk arising from the guarantees given by the manufacturers of such equipment to investors and operators. This gives the manufacturers greater financial scope and enhances investment security for the purchaser. With such solutions, Munich Re develops attractive new business and, through risk transfer, facilitates the economic use of renewable energies.

The international healthcare market will continue to grow at an above-average rate. The ageing of whole societies and medical advances are leading to rising healthcare costs, putting immense pressure on social security systems in many countries. In emerging and developing countries, on the other hand, basic healthcare and its financing are often still lacking. Both these factors are creating greater demand for private providers. We tap this growth potential in our Munich Health field of business, positioning ourselves in the markets where we can add the most value.

In 2011, we will further consolidate our activities in international healthcare business and, above all, drive forward the initiatives that are already proving successful. With the acquisition of the Windsor Health Group, we have strengthened Munich Health's position in Medicare business in the USA, the world's largest healthcare market. We have successfully helped to establish a health insurance company in the United Arab Emirates and now intend to transfer this business model to neighbouring regions.

2010 was a very turbulent year for many. For our Group it was a successful one. Far from being in "crisis mode", we were able to take our opportunities and profitably expand our business. We will continue to resolutely pursue our strategy in the current year.

BLUEPRINT FOR GOOD
CORPORATE GOVERNANCE

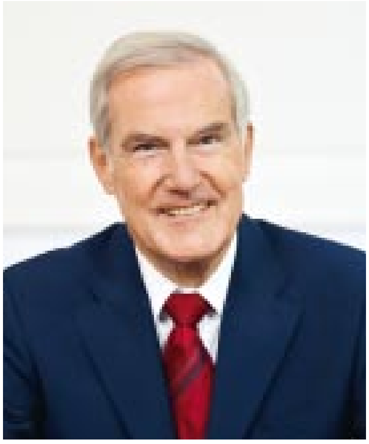


Chromosomes // Chromosomes are the individual structures that contain the genetic information and thus the blueprint for life. Humans, for example, have 23 chromosome pairs, one of which determines the sex of the individual. The chromosomes consist of DNA chain molecules and are found in the cell nucleus. They are often depicted in an "X" shape, but really only assume this form for a short time during cell division.

Corporate governance

Report of the Supervisory Board 017
Corporate governance statement 022

Ladies and Gentlemen,



Dr. Hans-Jürgen Schinzler
Chairman of the
Supervisory Board

In the 2010 financial year, the Supervisory Board fulfilled all the tasks and duties incumbent upon it under the law, the Articles of Association and its rules of procedure. We regularly advised the Board of Management in its running of the Company and supervised its activities. Inspection measures in accordance with Section 111 para. 2 sentence 1 of the German Stock Companies Act were at no time required.

The Board of Management satisfied its reporting obligations towards the Supervisory Board in all respects. It consulted us in good time on all decisions of fundamental significance and regularly briefed us both verbally and in writing about all important business transactions. At the scheduled meetings, the Board of Management kept the Supervisory Board up to date on the competitive position, strategic development, corporate planning, and the current situation in the Group. The Supervisory Board requested detailed explanations for any deviations in business performance from the planning. We always had sufficient opportunity to critically review the reports of the Board of Management and submit suggestions and proposals for improvement. The collaboration between the Supervisory Board and the Board of Management was constructive and characterised by a spirit of mutual trust. The shareholder representatives and employee representatives had the chance prior to the Supervisory Board meetings to discuss important topics separately with the Chairman of the Board of Management.

The Chairman of the Supervisory Board and the Chairman of the Board of Management maintained an ongoing dialogue, particularly in connection with key issues of strategy, corporate risk management and current business performance. Where necessary, the Chairman of the Board of Management informed me promptly of significant events and developments in the Group. Prof. Dr. Henning Kagermann, Chairman of the Audit Committee, also remained in close contact with Dr. Jörg Schneider, member of the Board of Management responsible for Group reporting.

To better fulfil its supervisory and consulting activities, the Supervisory Board had agreed to hold two additional regular meetings from 2010 onwards. 2010 was therefore the first year in which six ordinary meetings of the full Supervisory Board took place. A representative of the German Federal Financial Supervisory Authority (BaFin) took part as a guest in the July meeting.

Focal points of the meetings of the full Supervisory Board

The performance of Munich Re featured on the agenda of every meeting but one. In this context, we regularly engaged in in-depth discussions with the Board of Management about business opportunities and risks, including the situation of life insurance in Germany. The Board of Management briefed us in each quarter on the performance of investments. At every meeting, we discussed in detail with the Board of Management its reports to us on topics of current interest, including the introduction of the new ERGO brand, the progress on Solvency II and its implications for business, the exceptional Deepwater Horizon oil rig loss and the liability coverage concept developed by Munich Re in its aftermath for individual offshore oil drilling operations.

At our first meeting in 2010, we concerned ourselves with the Company and Group financial statements for the financial year 2009 and prepared the motions for resolution by the 2010 Annual General Meeting. We took the decision to extend the appointment of a Board of Management member and established for the first time in full session the individual objectives for the Board members' variable remuneration components for 2010. We also concerned ourselves with BaFin's requirements regarding remuneration systems in the insurance industry and with the establishment of a Group-wide remuneration committee. We obtained reports on important developments at ERGO, in particular the realignment of its brand and new set-up of the life segment, and on issues of compliance and anti-fraud management. And finally, we appointed the external auditors for the 2010 financial year.

In April, we decided for the first time in full session on the extent to which the Board of Management had achieved its objectives and on the amount of bonus payments for the members of the Board of Management from the 2009 annual bonus. At another meeting immediately prior to the Annual General Meeting, the Board of Management gave us an account of business performance thus far in the year under review.

At our July meeting, besides covering the topics routinely included on the agenda, we looked into the strategy for expanding agricultural covers in the reinsurance segment and addressed focal points of the Group's human resources work.

In October, we mainly discussed issues of corporate governance. In response to the new recommendations of the German Corporate Governance Code, we probed the subject of diversity, in particular the promotion of equal opportunities in the Group. We decided on amendments to the Board members' contracts, necessitated by the German Pension Rights Adjustment Act and the new regulation on remuneration schemes in the insurance sector. Moreover, we obtained detailed reports on the performance of Munich Health and on earnings and growth in ERGO's commercial and industrial insurance.

At its last meeting in December, the Supervisory Board dealt with the Board of Management's remuneration from 2011 onwards and decided on the weightings of the individual target categories and measurement bases for the financial objectives in connection with the variable remuneration for 2011. We adjusted the plan conditions of all ongoing long-term incentive plans (LIPs) of the Board of Management in order to treat retiring Board members and heirs equitably with regard to LIPs and the variable remuneration component restructured in 2010. And we concerned ourselves with the Group planning for 2011 and 2012 presented by the Board of Management. We debated the Group's risk strategy with the Chief Risk Officer and thoroughly analysed the Group's risk situation and profitability in the currently still difficult capital market environment. We satisfied ourselves that risk management is well organised and practised, i.e. that it is effective in all parts of the Group.

Between the meetings, the Board of Management reported to us on an ad-hoc basis concerning important matters in the Group – for example, the claims burden from Winter Storm Xynthia and the earthquake in Chile, the share buy-back programme and a court ruling on a substantial US asbestos-related claim.

Work of the committees

The Supervisory Board has a total of five committees in place that enable us to perform our tasks efficiently. The committees' main tasks include preparing resolutions to be taken by the full Supervisory Board and handling the topics assigned to them. Details regarding the responsibilities of the respective committees are available in the corporate governance report on page 22. The membership of the Supervisory Board committees is shown in the overview on page 24 ff. The chairmen of the committees provided detailed reports on their work at all meetings of the full Supervisory Board.

The Personnel Committee held six meetings in 2010. It prepared the proposals to be submitted to the full Supervisory Board regarding the individual variable remuneration targets for the members of the Board of Management in the year under review. Moreover, it submitted proposals to the Supervisory Board regarding the extension of a Board member's contract and the assessment of objectives and amount of bonus payments for the members of the Board of Management from the 2009 annual bonus. The committee obtained comprehensive reports on the 2009 fringe benefits and remuneration in kind for the Board of Management and made adjustments to the guidelines for gifts and for company cars. It prepared a proposal for a resolution by the full Supervisory Board on the adjustment of the Board members' contracts, which had been necessitated by the German Pension Rights Adjustment Act and the new regulation on remuneration schemes. At the last meeting of the year, the Personnel Committee prepared proposals to be submitted to the full Supervisory Board regarding the Board of Management's remuneration from 2011 onwards and the weightings of the individual target categories and financial objectives for the Board of Management's variable remuneration for 2011. Moreover, it suggested to the full Supervisory Board that the conditions of all current long-term incentive plans (LIPs) for the Board of Management be adjusted in order to ensure that retiring Board members and heirs receive largely the same treatment with regard to LIPs and the variable remuneration component restructured in 2010. In individual meetings, the Personnel Committee also approved the acceptance of seats on supervisory, advisory and similar boards by members of the Board of Management. Before being submitted to the full Supervisory Board, the topics of the BaFin circular on the requirements for remuneration schemes in the insurance industry, the establishment of a remuneration committee and the amendments to the German Corporate Governance Code were studied thoroughly by the Personnel Committee.

The Standing Committee met four times in the year under review. Its essential tasks comprised preparing the meetings of the Supervisory Board and attending to corporate governance issues. It also received regular reports on developments in the shareholders' register.

The Audit Committee held five meetings in 2010. At two meetings, it discussed in detail the Company and Group financial statements, the Company and Group management report, the auditor's report and the Board of Management's proposal for the appropriation of the net retained profits for the financial year 2009. At one of the two meetings, the annual financial statements were discussed in the presence of the external auditor. The Chief Risk Officer closely discussed with the Audit Committee the main components of the risk capital model, and reported on the Group's risk situation. The Head of Internal Audit provided information on the result of the 2009 audits and the audit planning for 2010. Topics of compliance were dealt with by the Audit Committee at every meeting. Additionally, the committee had the Compliance Officer report personally on focal points of his work and on the compliance organisation. The development of the embedded values in life reinsurance business and in life and health primary insurance business was also an item of discussion.

The committee reviewed and monitored the auditor's independence. In this context, the Audit Committee took delivery of reports from the auditor on its auditing and non-audit-related services. Likewise, the Audit Committee prepared for the full Supervisory Board the appointment of the external auditor for the financial year 2010, determined the main points of the audits and set the auditor's fees. Following a resolution by the full Supervisory Board, the Chairman of the Audit Committee commissioned the audit for the financial year 2010. Furthermore, it commissioned the external auditor with a review of the half-year financial report 2010. In addition, the Audit Committee considered the 2010 quarterly reports and the 2010 half-year financial report, which it discussed in the presence of the auditor. Besides this, it assured itself of the comprehensiveness of Munich Re's internal control system on the basis of a presentation by the external auditor.

The Audit Committee looked into the impact of the financial crisis on Munich Re again in the financial year ended. A recurrent item of discussion was asset management. The Group's risk situation was debated and monitored regularly. Finally, the Audit

Committee discussed risk management and risk strategy developments with the Chief Risk Officer. In accordance with the agreed guidelines, the Chief Risk Officer also informed the Audit Committee directly of individual risk-relevant decisions, and the Board of Management promptly informed the committee whenever limits were exceeded.

In three meetings in 2010, the Nomination Committee conferred about a successor to Dr. Thomas Wellauer, who left the Supervisory Board as at 30 September 2010. At the same time, it adjusted the set of criteria for selecting suitable Supervisory Board members to incorporate the new recommendations by the German Corporate Governance Code and the objectives decided on by the full Supervisory Board regarding future appointments to the Supervisory Board. This set of criteria served as a basis for selecting suitable candidates. At the committee's suggestion and with the consent of the shareholder representatives, the Supervisory Board proposes that Annika Falkengren, President and CEO of Skandinaviska Enskilda Banken (SEB) be elected by the 2011 Annual General Meeting for the Supervisory Board's remaining term of office.

The Conference Committee as per item 7.5 of the rules of procedure for the Supervisory Board did not need to be convened in the financial year ended.

Corporate governance and declaration of conformity

The Supervisory Board concerned itself intensively with the amendments to the German Corporate Governance Code, in particular the subject of diversity. It formulated objectives for the future composition of the Supervisory Board, further details of which are available in the corporate governance report on page 26. Furthermore, it agreed that all Supervisory Board members would be offered annual internal briefing sessions similar to those conducted for new Supervisory Board members in 2009.

The Standing Committee analysed the efficiency of the Supervisory Board's work in the year under review using an extensive questionnaire. The outcome of the survey and proposals for implementing improvements were presented to the full Supervisory Board.

In November 2010, the Board of Management and Supervisory Board submitted their annual declaration of conformity with all the recommendations of the German Corporate Governance Code as per Section 161 of the German Stock Companies Act and their intention to continue complying with it in future. Further information on corporate governance in general is available in the joint report of the Board of Management and Supervisory Board on page 22.

Changes on the Supervisory Board

As at 12 February 2010, Dr. Benita Ferrero-Waldner was appointed by the Registration Court to the Supervisory Board to replace the late Prof. Karel Van Miert, who died on 23 June 2009. The Annual General Meeting on 28 April 2010 elected her for the Supervisory Board's remaining term of office.

Dr. Thomas Wellauer, who had been a member of Munich Re's Supervisory Board since 22 April 2009, resigned from office for professional reasons as at 30 September 2010. We thank him for his valuable – unfortunately only brief – contribution to the work of the Supervisory Board.

Company and Group financial statements

KPMG Bayerische Treuhandgesellschaft Aktiengesellschaft Wirtschaftsprüfungsgesellschaft Steuerberatungsgesellschaft duly audited the following documents and gave them an unqualified auditor's opinion: the Company and Group management reports and financial statements as at 31 December 2010. The respective reports and the Board of Management's proposal for appropriation of the net retained profits were submitted directly to the members of the Supervisory Board. At its meeting on

2 February 2011, the Audit Committee had the opportunity to confer in detail about the preliminary year-end figures as at 31 December 2010. On 8 March 2011, they prepared the Supervisory Board's resolution on the adoption of the Company financial statements and the approval of the Group financial statements. To this end, the Audit Committee examined the Company and Group financial statements, the management reports and the Board of Management's proposal for appropriation of the net retained profits. It discussed these at length with the auditor present at the meeting and also gave detailed consideration to the auditor's reports. The Chairman of the Audit Committee briefed the full Supervisory Board about the outcome of its consultations at the balance sheet meeting on 9 March 2011.

The Supervisory Board also checked the Company and Group financial statements and management reports and the proposal of the Board of Management for appropriation of the net retained profits. After conducting its own concluding examination and having heard the auditor's report, the Supervisory Board had no objections and agreed to the outcome of the external audit. It approved the Company and Group financial statements on 9 March 2011. The financial statements were thus adopted. Having carefully weighed all the relevant aspects, the Supervisory Board also agreed with the Board of Management's proposal for appropriation of the net retained profits.

Words of thanks to the Board of Management and employees

The Supervisory Board wishes to thank all the members of the Board of Management and staff for their personal commitment and excellent work, which is reflected in a gratifying business result for Munich Re.

Munich, 9 March 2011

For the Supervisory Board

Dr. Hans-Jürgen Schinzler
Chairman

Corporate governance statement[1]

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

1. Declaration of the Board of Management and Supervisory Board of Munich Reinsurance Company in accordance with Section 161 of the German Stock Companies Act, dated November 2010

"Münchener Rückversicherungs-Gesellschaft Aktiengesellschaft in München fulfils all the recommendations of the German Corporate Governance Code of 26 May 2010 (published on 2 July 2010) and will continue to do so in future. Since the last declaration of conformity in November 2009, Münchener Rückversicherungs-Gesellschaft Aktiengesellschaft in München has fulfilled all the recommendations of the German Corporate Governance Code of 18 June 2009 (published on 5 August 2009)."

The declaration of conformity is permanently accessible on our internet website (www.munichre.com).

2. Corporate governance report

It is our conviction that good corporate governance creates lasting value. We therefore apply the highest standards to our operations and activities, complying with all the recommendations and proposals of the German Corporate Governance Code.

Munich Re Code of Conduct

Beyond this, we have our own Munich Re Code of Conduct specifying high-level ethical and legal requirements that must be met by employees. This document is also published on our website.

[1] Copy from the management report of Munich Reinsurance Company. Some of the figures in the remuneration report of the Board of Management deviate owing to the application of International Accounting Standards.

Binding rules for all employees

In our Code of Conduct we clearly state our views on corporate integrity, i.e. legally impeccable behaviour based on ethical principles. At the same time, the Code is an expression of our understanding of value management. The Code of Conduct contains regulations that are binding for all Munich Re employees, including management, particularly for dealing with conflicts of interest, maintaining confidentiality, preventing money laundering and fraud, complying with antitrust law and insider trading law, and adhering to specified practices for donations and sponsoring. Furthermore, the Code of Conduct outlines a procedure for reporting legal infringements or contraventions which allows the Company to respond promptly, even to the suspicion of irregularities, or to prevent any form of financial crime.

In this connection, employees have the option of contacting an external and independent ombudsman, who reports cases of suspected fraud to the Fraud Prevention Committee, comprising the Fraud Prevention Officer and the Compliance Officer, thus supporting Munich Re's anti-fraud management.

Global Compact

To make clear Munich Re's understanding of important values – and thus also its corporate responsibility – inside and outside our Group, Munich Re joined the United Nations Global Compact in 2007. The ten principles of this declaration form the benchmark for our actions throughout the Group and thus provide the fundamental framework for our corporate responsibility. Our annual Communication on Progress for the UN Global Compact is integrated into the corporate responsibility portal on our website.

How we view corporate governance

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

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

What rules apply to Munich Re?

As a result of its international organisation, Munich Re has to consider corporate governance rules in different national legal systems. Clearly, we observe not only the respective national standards but also internationally recognised best practices. In Germany, where Munich Reinsurance Company has its headquarters, corporate governance rules are laid down above all in the German Stock Companies Act and the German Corporate Governance Code. The German Insurance Control Act standardises the "fit and proper" requirements for Board members of insurance companies. It also provides particular rules for insurance companies' remuneration systems. These rules formed the basis for the regulation on remuneration schemes in the insurance sector (VersVergV) issued by the German Federal Finance Ministry in October 2010.

Also applicable to Munich Reinsurance Company is the German Act on the Co-Determination of Employees in Cross-Border Mergers (MgVG) and a co-determination agreement; these provisions supersede those of the German Co-Determination Act. The co-determination agreement is published on our website.

The German Corporate Governance Code, which entered into force in 2002 and has since been amended several times, contains the main legal rules that must be observed by German listed companies. In addition, it includes recommendations and proposals based on nationally and internationally recognised standards of good and responsible management. Every year, Munich Reinsurance Company's Board of Management and Supervisory Board publish a declaration stating how far the Code's recommendations have been and will be complied with. The current declaration of conformity can be found on page 22.

Corporate legal structure

Munich Reinsurance Company is a joint-stock company ("Aktiengesellschaft") within the meaning of the German Stock Companies Act. It has three governing bodies: the Board of Management, the Supervisory Board and the Annual General Meeting. Their functions and powers derive from the relevant legal provisions, the co-determination agreement and the Articles of Association, which are published on our website.

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

Board of Management

Duties and responsibilities

The Board of Management is responsible for managing the Company, setting objectives and determining strategy. In doing so, it is obliged to safeguard Company interests and endeavour to achieve a long-term increase in the Company's value. The Board of Management must ensure compliance with statutory requirements and internal company directives, and is responsible for effecting adequate risk management and risk control in the Company. The Chairman of the Board of Management provides for homogeneous management of the Company, which he represents vis-à-vis the authorities, the media and associations.

Internal regulation and working procedure

Pursuant to Article 16 of the Articles of Association, the Board of Management must comprise a minimum of two persons; beyond this, the number of members is determined by the Supervisory Board. Munich Reinsurance Company's Board of Management had nine members in the 2010 financial year. An overview of its composition and distribution of responsibilities can be found on page 60. Additional information on individual members of the Board of Management is available on our website. The Board of Management has two committees – one for Group matters and one for reinsurance – in order to enhance the efficiency of its work. Rules of procedure issued by the Supervisory Board regulate the work of the Board of Management, in particular the allocation of responsibilities between the individual Board members, matters reserved for the full Board of Management, and the required majority for Board of Management resolutions. The full Board of Management decides on all matters for which the law or the Articles of Association prescribe a decision by the Board of Management. In particular, it is responsible for matters requiring the approval of the Supervisory Board, for items which have to be submitted to the Annual General Meeting, for tasks which constitute fundamental management functions or are of exceptionally great importance, and finally for significant personnel issues at top management level.

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

Composition and working procedure of the Board of Management committees

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

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

The committee meetings are held as needed, and usually take place every two weeks. Only the members of the Board of Management are entitled to vote.

Subcommittees of the Board of Management committees

Both the Group Committee and the Reinsurance Committee have set up subcommittees, whose members include other senior executives from Munich Reinsurance Company and the Group. They comprise the Group Investment Committee, the Group Risk Committee and the Global Underwriting and Risk Committee. Only Board members of Munich Reinsurance Company have voting rights on these committees, each of which has its own written rules of procedure. The Group Investment Committee deals with all significant issues affecting the investments of the Group and the individual fields of business. Both the Group Risk Committee and the Global Underwriting and Risk Committee deal with the risk management process, albeit in different contexts.

Collaboration between Board of Management and Supervisory Board

The Board of Management and Supervisory Board cooperate closely to the benefit of the Company. The Board of Management coordinates the Company's strategic approach with the Supervisory Board and discusses the current state of strategy implementation with it at regular intervals. It reports regularly to the Supervisory Board about all questions relevant to the Company. The Supervisory Board has defined the Board of Management's information and reporting requirements in detail. Specific types of transaction such as investments and divestments of substantial size and individual capital measures (e.g. according to Article 4 of the Articles of Association) generally require the Supervisory Board's consent. Beyond this, the Board of Management reports to the Audit Committee on specific topics falling within the latter's scope of responsibility.

Supervisory Board

Duties and responsibilities

The Supervisory Board monitors the Board of Management and gives counsel where appropriate. Certain transactions require its approval, but it is not authorised to take management action. The Supervisory Board also appoints the external auditor for the Company and Group financial statements and for the half-year financial report.

In compliance with the Articles of Association, the Supervisory Board has 20 members. Half are representatives of the shareholders, elected by the Annual General Meeting, and half are elected representatives of the employees. Under the co-determination agreement, employees of Group companies in the European Union (EU) and European Economic Area (EEA) may also participate in the election of employee representatives.

An overview of the members of the Supervisory Board can be found on page 60 f. Additional information on the current members of the Supervisory Board is available on our website.

The Supervisory Board has established its own rules of procedure, specifying responsibilities, work processes and required majorities. It has also adopted separate rules of procedure for the Audit Committee. As provided for in the German Co-Determination

Act and included in the provisions of Article 12 of the Articles of Association, the Chairman of the Supervisory Board and his first deputy must be elected by a majority of two-thirds of its constituent members. If a second vote is needed, the shareholder representatives elect the Chairman of the Supervisory Board, and the employee representatives his first deputy, by a simple majority of the votes cast in each case.

The Supervisory Board is quorate if all its members have been invited to the meeting or called upon to vote and if ten members including the Chairman or alternatively 15 members participate in the vote. The Chairman of the Supervisory Board is authorised to make declarations on the Supervisory Board's behalf.

In accordance with item 5.4.1 para. 2 of the German Corporate Governance Code, the Supervisory Board has set itself the following objectives for its future composition:
// The main criteria focus on sustained corporate profitability, personal abilities, talents, experience (especially of an international nature), independence, professional knowledge and enterprise.
// All members of the Supervisory Board should be free of relevant conflicts of interest.
// In selecting candidates for membership, the Supervisory Board should pay due regard to diversity, especially in terms of age, internationality and gender. By the beginning of the next term of office (scheduled for 2014), at least 20% of the members should be female, with this figure increasing to at least 30% by the start of the following term of office (scheduled for 2019). Currently, three members of the Supervisory Board are women: two representatives of the employees (since the Supervisory Board elections in 2009) and one shareholder representative (since February 2010).

The above-mentioned objectives apply to the Supervisory Board as a whole. Shareholder and employee representatives will each contribute their share to meeting them, and the bodies responsible under the co-determination agreement for election proposals to the European Electoral Board are requested to take due consideration of the objectives within the framework of the current rules. The Nomination Committee has updated its list of criteria for nominating candidates for election to the Supervisory Board as shareholder representatives.

In addition, the Supervisory Board's rules of procedure provide for a recommended age limit of 70 for candidates.

Composition and working procedure of the Supervisory Board committees

Munich Reinsurance Company's Supervisory Board has set up five committees: the Standing Committee, the Personnel Committee, the Audit Committee, the Nomination Committee, and the Conference Committee. The full Supervisory Board is regularly informed about the work of the committees by their respective chairmen. The committees' main responsibilities are as follows:

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

Members of the Standing Committee are Dr. Hans-Jürgen Schinzler (Chairman), Herbert Bach, Hans Peter Claußen, Wolfgang Mayrhuber and Dr. Bernd Pischetsrieder.

The **Personnel Committee** prepares the appointment of members of the Board of Management and, together with the Board of Management, concerns itself with long-term succession planning. It also prepares the Supervisory Board's resolution on the remuneration system for the Board of Management, including the total remuneration of the individual members of the Board of Management. The Personnel Committee represents the Company vis-à-vis the members of the Board of Management and is responsible for other personnel matters involving members of that Board unless these are issues that have been allocated to the full Supervisory Board. It approves loan transactions between the Company and members of the Board of Management or parties related to them, as well as any material transactions between the Company or its associated companies and members of the Board of Management or parties related to them. It also decides on secondary occupations that members of the Board of Management may pursue and seats they hold on the boards of other companies.

Members of the Personnel Committee are Hans-Jürgen Schinzler (Chairman), Herbert Bach and Dr. Bernd Pischetsrieder.

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

Members of the Audit Committee are Prof. Dr. Henning Kagermann (Chairman), Christian Fuhrmann, Marco Nörenberg, Anton van Rossum and Dr. Hans-Jürgen Schinzler.

Comprising solely representatives of the shareholders, the **Nomination Committee** suggests suitable candidates to the Supervisory Board for the latter's election proposals to the Annual General Meeting. It has drawn up and adopted a list of criteria on which these proposals are to be based.

Members of the Nomination Committee are Dr. Hans-Jürgen Schinzler (Chairman), Prof. Dr. Henning Kagermann and Dr. Bernd Pischetsrieder.

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

Members of the Conference Committee are Dr. Hans-Jürgen Schinzler (Chairman), Herbert Bach, Hans Peter Claußen and Dr. Bernd Pischetsrieder.

More details of the work of the Supervisory Board committees in the financial year ended can be found in the report of the Supervisory Board to the Annual General Meeting, which is printed on page 17 ff.

Annual General Meeting

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

At the Company's Annual General Meeting, the principle of "one share, one vote" applies. Insofar as shareholders are entered under their own name as being the holders of shares which belong to a third party and exceed the upper limit of 2% of the share capital as stated in the Articles of Association, the shares entered do not carry any voting rights. The aim of this provision is greater transparency of the share register. Besides this, it is intended to facilitate direct contact with the shareholders, especially in connection with the convening of the Annual General Meeting and the exercising of voting rights.

Remuneration report[1]

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

In accordance with item 4 of the German Corporate Governance Code, the remuneration system for the Board of Management was determined by the full Supervisory Board. The necessary preparations for the resolution were made by the Personnel Committee of the Supervisory Board, comprising the Chairman of the Supervisory Board, one shareholder representative and one employee representative.

The remuneration system for the Board of Management was revised with effect from 1 January 2010 on the basis of the remuneration-related amendments to the German Act on the Appropriateness of Management Board Remuneration (VorstAG) and the German Corporate Governance Code, with particular attention being paid to comprehensibility and transparency.

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

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

Structure of the remuneration system for the Board of Management

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

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

Fixed components

Basic remuneration

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

Remuneration in kind/fringe benefits

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

Variable remuneration

The variable remuneration component is geared to the overall performance of the Group and defined organisational units and to the personal performance of the individual members of the Board of Management. Its amount depends on the degree to which annually set objectives for annual and multi-year performance are met. Achievement of objectives is measured at the end of the performance terms, there being no adjustment of the targets during these periods. Payouts are made at the end of the one- and three-year periods under consideration. With a view to promoting a management approach that takes due account of the Company's long-term interests, the members of the Board of Management are obliged to invest 50% and 25% of the paid-out variable remuneration in Munich Reinsurance Company shares.

Variable remuneration based on annual performance

Annual performance targets for the variable remuneration component geared to annual performance are set on the basis of divisional results and individual objectives as well as the Company result (property-casualty) and Munich Re (Group) result. 30% of the target amount for variable remuneration can be earned in the event of full achievement (= 100%) of the objectives. The targets and scaling for Group, Company and divisional objectives are geared to particular indicators, while individual objectives form the basis for the achievement of personal targets. The key indicator used for the Group result is RORAC (return on risk-adjusted capital), which is derived from key figures in external accounting and from other important portfolio and performance data. Information on the definition of RORAC is provided on page 58. The performance measures embodied in value-based management are used for the Company result and the divisional results. The objectives are weighted individually according to the responsibilities of the individual members of the Board of Management.

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

Variable remuneration based on multi-year performance

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

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

Full and pro-rata calculation of the variable remuneration for annual and multi-year performance

The basis for the full and pro-rata calculation of the variable remuneration is the first year. Only the full "eligible" months in this year are taken into account (pro rata temporis). In the case of retirement, occupational disability, death or premature departure from the company for other reasons, the rules for the full and pro-rata calculation apply.

Share-based remuneration agreements in force during the reporting period

Mid-Term Incentive Plan 2009–2011

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

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

The TSR represents the total return on shares, comprising both the rise in the share price and the dividends paid over a period of three years. Further information on the Mid-Term Incentive Plan can be found in the notes to the financial statements under (45) Mid-Term Incentive Plan.

Long-Term Incentive Plan

This remuneration component, with a long-term perspective, is linked to the sustained appreciation of Munich Re's share price. The Long-Term Incentive Plan, launched every year since 1999, was set up for the members of the Board of Management for the last time in 2009. The participants were granted a certain number of stock appreciation rights. These can only be exercised if, after a two-year vesting period, Munich Re's share price has risen by at least 20% since inception of the plan and the shares have outperformed the EURO STOXX 50 index at least twice over a three-month period during the term of the plan.

Whether the stock appreciation rights can be exercised and, if so, when, is not certain. The exercising and proceeds depend on the development of the share price and on fulfilment of the exercise conditions. The amount of income is limited. Up to now, it has only been possible to exercise stock appreciation rights under the plans set up in 1999 and 2003 to 2005. Further information on the Long-Term Incentive Plan can be found in the notes to the financial statements under (44) Long-Term Incentive Plan.

Weighting of remuneration components

In the case of 100% achievement of objectives (annual performance and multi-year performance), the weightings of the individual components in terms of total remuneration for 2010 were as follows: basic remuneration around 30% and variable remuneration around 70%, of which 30% was based on annual performance and 70% on multi-year performance. Annual objectives, multi-year objectives and investment in shares together form a well-balanced and economic, i.e. strongly risk-based, incentive system, designed to ensure that the targets set for the members of the Board of Management do not have undesirable effects. No guaranteed variable salary components are granted.

All in all, the remuneration system for members of the Board of Management was in conformity with the recommendations of the German Corporate Governance Code for 2010. In particular, it also complies with the German regulation of 6 October 2010 on the supervisory law requirements for remuneration schemes in the insurance sector (VersVergV), which in its material points largely corresponds to the German Federal Financial Supervisory Authority's Circular 23/2009 of 21 December 2009. In the circular in question, which was superseded by the VersVergV, the Supervisory Authority had specified in more detail for the German insurance industry the Financial Stability Board principles whose implementation the G20 states had agreed on at their summit meeting in Pittsburgh in September 2009.

Beyond the actual remuneration system, the level of total remuneration has been set and regularly monitored by the full Supervisory Board since 2010, acting on recommendations from the Supervisory Board's Personnel Committee. The consideration of what is appropriate remuneration takes into account data from peer-group companies and the relation to remuneration of other Munich Re employees. Criteria also include the respective Board member's duties, the Board member's personal performance, the performance of the Board as a whole and the financial situation, performance and future prospects of Munich Re. New Board members are generally placed at a level which allows sufficient potential for development in the first three years.

Continued payment of remuneration in the case of incapacity to work

In the case of temporary incapacity to work due to illness or for other cause beyond the Board member's control, the remuneration is paid until the end of the contract of employment. The Company may terminate the contract prematurely if the Board member is incapacitated for a period of longer than 12 months and it is probable that he will be permanently unable to fully perform the duties conferred on him (permanent incapacity to work). In this event, the Board member will receive a disability pension.

Other remuneration

In the case of seats held on other boards, remuneration for board memberships must be paid over to the Company or is deducted in the course of regular remuneration computation. Exempted from this is remuneration for memberships explicitly recognised by the Company as private.

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

In the event of a change of control, only the conditions of the Long-Term Incentive Plan (under which stock appreciation rights were granted to members of the Board of Management for the last time in 2009) provide for special exercise options. Details of this are available in the notes to the financial statements under (44) Long-Term Incentive Plan.

Pensions

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

Beginning in 2009, pension plans for Board members were changed to a defined contribution system. The main aim of this change was the fullest possible outsourcing of all pension-specific risks from the Company's balance sheet. This major risk transfer was achieved by financing increases in entitlements exclusively by paying premiums into insurance policies concluded to cover these benefit obligations. This means the Company is no longer liable for the pension benefits, as these are covered by the aforementioned insurance policies. The longevity risk, the biometric risks of premature occurrence of a pensionable event (e.g. disability or death of a member of the Board during active service), and the capital market risk were thus transferred to the insurer and the individual Board members.

As of 2009, newly appointed members of the Board thus become members of a defined contribution plan. For this plan, the Company provides the Board members with a pension contribution, which in 2009 was related to basic remuneration, for each calendar year (contribution year) during the term of their contract. The pension contribution is paid over to an external pension insurer. This insurer's guaranteed interest rate is 2.25%. The insurance benefits that result from the contribution payments to the external insurer constitute the Company's pension commitment to the Board member. For Board members newly appointed as from 1 January 2009, a uniform pension contribution rate has been set; the annual basic remuneration is multiplied by this rate to arrive at the pension contribution payable.

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

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

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

Benefits on termination of employment

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

Benefit amount:

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

Disability pension // Board members are entitled to a disability pension if, due to permanent incapacity to work, their contract ends by mutual agreement, is terminated by the Company, or their appointment is not extended or revoked. Permanent incapacity to work means if the Board Member is incapacitated for a period of longer than 12 months and it is probable that he will be permanently unable to fully perform the duties conferred on him.

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

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

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

Vested benefits for occupational pension, disability pension and surviving dependants // Vested benefits are paid upon the Board member reaching the age of 60, in the case of incapacity to work, or in the event of the Board member's death.

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

Benefit amount:
// Under the defined contribution plan for new members as from 2009: Annuity based on the policy reserve built up under the external insurance or payment of the policy reserve as a lump sum at the date the insured event occurs
// For members of the Board of Management transferred from the old system to the new: The entitlement under the vested pension is a proportion of the vested pension based on the ratio of actual service with the Company to the period the Board member would have worked for the Company altogether up to the fixed retirement age (Section 2 para. 1 of the German Employers' Retirement Benefits Act). The entitlement from the incremental pension comprises the pension benefits fully financed under the insurance contract up to the occurrence of the insured event based on the pension contributions made up to the date of leaving the Company (Section 2 para. 5a of the German Employers' Retirement Benefits Act). This entitlement is paid out as an annuity or a lump sum.
// In the case of defined benefit plans: The defined benefit is between 30% and 60% of the pensionable basic remuneration. The vested benefits are a proportion of the occupational pension, based on the ratio of actual service with the Company to the period the Board member would have worked for the Company altogether until his 65th birthday (Section 2 para. 1 of the German Employers' Retirement Benefits Act)

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

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

Benefit amount:
// For a period of six months after leaving the Board, previous monthly basic remuneration (only for Board members appointed prior to 2006)
// For the share from the defined benefit plan: Defined benefit of between 30% and 60% of the pensionable basic remuneration, reduced by 2% for each year or part thereof short of the Board member's 60th birthday

Provision for surviving dependants

In the event of the death of a Board member during active service, the surviving dependants receive the previous monthly basic remuneration for a period of six months if the deceased was appointed to the Board of Management before 2006. In the case of Board members appointed as from 2006, the previous monthly basic remuneration is paid to the beneficiaries for a period of three months. If the Board member's death occurs after retirement, the surviving dependants receive the previous monthly occupational pension for a period of three months, provided the marriage/registration of the civil partnership took place and/or the child was born before the Board member started drawing the occupational pension. If the Board member's occupational pension was reduced owing to early retirement, pensions for surviving dependants are based on the reduced occupational pension.

Subsequently, surviving dependants of a Board member who dies during active service or after retirement receive the following benefits:
// Widow(er)'s pension or pension for registered civil partner amounting to 60% of the defined benefit or insured occupational pension. If the spouse or registered civil partner is more than ten years younger than the Board member, the surviving

dependant's pension will be reduced by 2% for each year or part thereof of age difference, but by not more than 50%.
- // Orphan's pension amounting to 20% of the defined benefit or insured occupational pension per orphan.
- // Doubling of the orphan's pension if no widow(er)'s pension or pension for registered civil partner is payable.
- // Surviving dependants' pensions together may not exceed the occupational pension of the Board member. If necessary, the orphans' pensions will be reduced proportionally.

The benefits for surviving dependants for widow(er)s or registered civil partners if the marriage or registered civil partnership was not contracted until a point in time when the Board Member was already drawing the occupational pension, and for orphans if they were not born until after such a point in time. The entitlement for orphans ceases on their reaching the age of 18 (or 20 for orphans of Board members transferred from the old system to the new). For orphans who are in full-time education or vocational training, doing military or civilian service, or unable to support themselves owing to a physical or mental disability, the entitlement is extended until they reach the age of 25 (or 27 for orphans of Board members transferred from the old system to the new). The entitlement to a surviving dependant's pension under the defined contribution plan ceases if the Board member draws the pension in the form of a lump sum. Pensions for surviving dependants cease upon their death.

Pension adjustment

In the case of Board members appointed before 2009, occupational pensions and pensions for surviving dependants are reviewed for adjustment if salaries payable under pay-scale agreements in the insurance industry have increased by more than 12% (based on the average final salary of all pay-scale categories) since the pensions were last fixed or more than three years have passed since that date. The adjustment made will at least be in line with the increase in the cost of living in the meantime according to the consumer price index for Germany. This arrangement also applies to Board members newly appointed as from 2009 and receiving a pension commitment from the Company for the first time before 1 January 1999. For Board members appointed as from 2009 who did not receive a pension commitment from the Company before 1 January 1999, occupational pension and benefits for surviving dependants are adjusted by 1% annually from the date when the pension or benefit in accordance with Section 16 para. 3 item 1 of the German Employers' Retirement Benefits Act starts being drawn. Vested benefits are not adjusted.

Total remuneration of the Board of Management

The basis for reporting the remuneration of Board members is German Accounting Standard No. 17 (DRS 17, revised 2010), according to which the amount shown as remuneration for annual performance is the provision established for that remuneration, since the performance on which the remuneration is based has been completed by the balance sheet date and the requisite Board resolution is already foreseeable. Under the above-mentioned standard, remuneration for multi-year performance is not recognised until the year of payment. The members of Munich Reinsurance Company's Board of Management received remuneration totalling €11.7m (17.8m) for fulfilment of their duties in respect of the parent company and its subsidiaries in the financial year. Total remuneration thus shows a reduction of €6.1m compared with the previous year. The main reasons for this are that, firstly, no performance share units or stock appreciation rights were granted in 2010 and, secondly, provisions for multi-year performance 2010-2012 may not be recognised in remuneration in the year under review, since the underlying performance has not yet been completed.

Remuneration of individual Board members as per DRS 17 (revised 2010)
(in accordance with Section 285 sentence 1 item 9a sentences 5–8 of the German Commercial Code and Section 314 para. 1 item 6a sentences 5–8 of the German Commercial Code)

Name	Financial year	Basic remuneration	Remuneration in kind/fringe benefits	Annual performance (2010) Annual bonus (2009)[1]	Value of performance share units granted[2, 3]	Value of stock appreciation rights granted[4]	Total	Number of performance share units	Number of stock appreciation rights
		€	€	€	€	€	€		
Dr. Nikolaus von Bomhard[5]	**2010**	**1,092,000**	**214,809**	**1,030,666**	–	–	**2,337,475**	–	–
	2009	910,000	35,490	1,240,750	728,000	505,651	3,419,891	4,306	30,333
Dr. Ludger Arnoldussen	**2010**	**519,000**	**37,136**	**685,040**	–	–	**1,241,176**	–	–
	2009	400,000	37,358	482,825	320,000	222,261	1,462,444	1,893	13,333
Dr. Thomas Blunck	**2010**	**519,000**	**27,829**	**640,923**	–	–	**1,187,752**	–	–
	2009	432,500	64,371	569,301	346,000	240,331	1,652,503	2,046	14,417
Georg Daschner	**2010**	**570,000**	**31,536**	**582,541**	–	–	**1,184,077**	–	–
	2009	475,000	33,604	911,418	380,000	263,936	2,063,958	2,247	15,833
Dr. Torsten Jeworrek	**2010**	**750,000**	**31,744**	**754,583**	–	–	**1,536,327**	–	–
	2009	600,000	32,948	986,202	480,000	333,400	2,432,550	2,839	20,000
Dr. Peter Röder	**2010**	**480,000**	**31,983**	**524,160**	–	–	**1,036,143**	–	–
	2009	350,000	28,488	612,815	280,000	194,489	1,465,792	1,656	11,667
Dr. Jörg Schneider	**2010**	**780,000**	**35,730**	**685,230**	–	–	**1,500,960**	–	–
	2009	650,000	39,458	873,950	520,000	361,189	2,444,597	3,075	21,667
Dr. Wolfgang Strassl	**2010**	**519,000**	**28,747**	**258,383**	–	–	**806,130**	–	–
	2009	432,500	26,600	516,652	346,000	240,331	1,562,083	2,046	14,417
Dr. Joachim Wenning	**2010**	**420,000**	**23,517**	**389,004**	–	–	**832,521**	–	–
	2009	300,000	92,732	471,240	240,000	166,700	1,270,672	1,419	10,000
Total	**2010**	**5,649,000**	**463,031**	**5,550,530**	–	–	**11,662,561**	–	–
	2009	4,550,000	391,049	6,665,153	3,640,000	2,528,288	17,774,490	21,527	151,667

1 At the time of preparation of this report, no Board resolution had yet been passed on the amounts to be paid for 2010. The amount shown for annual performance remuneration is based on estimates and the relevant provisions posted. For the 2009 annual bonus, a total of €271,830 more was paid out than had been reserved. The amounts for the 2010 annual performance have been increased accordingly.
2 Performance share units were granted for the first and last time for the financial year under the Mid-Term Incentive Plan 2009–2011.
3 The total expenditure recognised in 2010 (expenses for reserves due to the development in value of the performance share units from the 2009–2011 plan) for the Mid-Term Incentive Plan 2009–2011 breaks down as follows: von Bomhard €116,266, Arnoldussen €130,399, Blunck €140,856, Daschner €154,685, Jeworrek €195,400, Röder €114,001, Schneider €83,182, Strassl –€8,495, Wenning €97,589.
4 The total expenditure recognised in 2010 (expenses for/release of reserves due to the development in value of the stock appreciation rights from the 2003–2009 plans) for the long-term incentive plans breaks down as follows: von Bomhard €133,025.60, Arnoldussen €15,205.80, Blunck –€10,595.78, Daschner €48,892.63, Jeworrek €86,380.56, Röder €19,092.36, Schneider €77,035.80, Strassl –€37,320.55, Wenning –€3,799.37.
5 Remuneration in kind/fringe benefits including anniversary payment.

The Mid-Term Incentive Plan 2009–2011 and the Long-Term Incentive Plan 2009 are accounted for at fair value at the granting date. Details of the fair value are provided in the notes to the financial statements under (45) Mid-Term Incentive Plan and (44) Long-Term Incentive Plan. Whether these variable component amounts will actually be paid out to the Board members and, if so, how high the sums will be, is not yet certain and will depend on the degree to which individual objectives are achieved, on share-price development and on the fulfilment of the exercise conditions of the long-term incentive plans. Future obligations arising from the long-term incentive plans are safeguarded in such a way that the expenses resulting from a growth in value of the stock appreciation rights are neutralised as far as possible by an increase in the value of the share portfolio.

The following table shows the amounts payable for the variable remuneration under the newly structured remuneration system as at 1 January 2010.

Amounts payable for the variable remuneration of the individual Board members in the event of full achievement of objectives of full achievement of objectives (= 100%) as per DRS 17 (revised 2010)
Corridor 0–200%

Name	Annual performance[1, 3]			Multi-year performance[2, 3]			Total amounts payable
	Set	for	€	Set	for	€	€
Dr. Nikolaus von Bomhard	**2010**	**2011**	**798,000**	**2010**	**2011**	**1,862,000**	**2,660,000**
	2009	2010	764,400	2009	2010	1,783,600	2,548,000
Dr. Ludger Arnoldussen	**2010**	**2011**	**363,300**	**2010**	**2011**	**847,700**	**1,211,000**
	2009	2010	363,300	2009	2010	847,700	1,211,000
Dr. Thomas Blunck	**2010**	**2011**	**378,000**	**2010**	**2011**	**882,000**	**1,260,000**
	2009	2010	363,300	2009	2010	847,700	1,211,000
Georg Daschner	**2010**	**2011**	**409,500**	**2010**	**2011**	**955,500**	**1,365,000**
	2009	2010	399,000	2009	2010	931,000	1,330,000
Dr. Torsten Jeworrek	**2010**	**2011**	**546,000**	**2010**	**2011**	**1,274,000**	**1,820,000**
	2009	2010	525,000	2009	2010	1,225,000	1,750,000
Dr. Peter Röder	**2010**	**2011**	**363,300**	**2010**	**2011**	**847,700**	**1,211,000**
	2009	2010	336,000	2009	2010	784,000	1,120,000
Dr. Jörg Schneider	**2010**	**2011**	**567,000**	**2010**	**2011**	**1,323,000**	**1,890,000**
	2009	2010	546,000	2009	2010	1,274,000	1,820,000
Dr. Wolfgang Strassl	**2010**	**2011**	**378,000**	**2010**	**2011**	**882,000**	**1,260,000**
	2009	2010	363,300	2009	2010	847,700	1,211,000
Dr. Joachim Wenning	**2010**	**2011**	**336,000**	**2010**	**2011**	**784,000**	**1,120,000**
	2009	2010	294,000	2009	2010	686,000	980,000
Total	**2010**	**2011**	**4,139,100**	**2010**	**2011**	**9,657,900**	**13,797,000**
	2009	2010	3,954,300	2009	2010	9,226,700	13,181,000

1 At the time of preparation of this report, no Board resolution had yet been passed on the amounts to be paid for 2010. The amount shown for annual performance remuneration is based on estimates and the relevant provisions posted in the table on page 37.
2 The remuneration set for multi-year performance for 2010 is payable in 2013, that for 2011 in 2014.
3 The information on the calculation bases and parameters on page 30 for the amounts set for 2010 also apply to the amounts set for 2011.

Pension entitlements

Personnel expenses of €4.1m (4.0m) were incurred in the financial year 2010 to finance the pension entitlements for active members of the Board of Management. Of these, €1.0m was apportionable to defined benefit plans and €3.1m to defined contribution plans. As a consequence of the risk transfer to an external insurer under the defined contribution system, the visible pension costs since 2009 are noticeably higher. The Company accepts this increase in order to avoid higher costs in future and to eliminate long-term pension-specific risks. The following defined benefits, present values, contribution rates and personnel expenses result for the individual members of the Board of Management:

Pension entitlements

		Defined benefit plan		
Name	Financial year	Defined benefit[1]	Present value of defined benefit as at 31 December	Personnel expenses for provisions[2]
		€/year	€	€
Dr. Nikolaus von Bomhard[3, 8]	**2010**	**407,100**	**7,983,206**	**274,756**
	2009	407,100	6,549,884	265,663
Dr. Ludger Arnoldussen[4, 8]	**2010**	**157,500**	**961,497**	**194,733**
	2009	157,500	796,419	192,923
Dr. Thomas Blunck[5, 8]	**2010**	**120,000**	**1,172,379**	**82,711**
	2009	120,000	883,757	79,922
Georg Daschner[6, 8]	**2010**	**199,500**	**5,544,535**	**0**
	2009	190,000	4,565,015	65,676
Dr. Torsten Jeworrek[7, 8]	**2010**	**171,000**	**2,518,857**	**102,438**
	2009	171,000	1,987,220	98,898
Dr. Peter Röder[3, 8]	**2010**	**90,000**	**1,370,292**	**55,272**
	2009	90,000	1,107,930	53,513
Dr. Jörg Schneider[3, 8]	**2010**	**275,000**	**4,712,708**	**179,163**
	2009	275,000	3,811,266	173,179
Dr. Wolfgang Strassl[3, 8]	**2010**	**120,000**	**2,390,968**	**93,559**
	2009	120,000	1,948,445	90,145
Dr. Joachim Wenning[4, 8]	**2010**	**–**	**–**	**11,411**
	2009	–	–	–
Total	**2010**	**1,540,100**	**26,654,442**	**994,043**
	2009	1,530,600	21,649,936	1,019,919

See table on next page for footnotes.

Pension entitlements

				Defined contribution plan	
Name	Financial year	Pension contribution rate for target total direct remuneration	Entitlement as at 31 December	Present value of entitlement as at 31 December	Personnel expenses for provisions
		%	€/year	€	€
Dr. Nikolaus von Bomhard[3, 8]	**2010**	**17.00**	**51,480**	**1,014,781**	**618,800**
	2009	17.00	25,978	476,301	618,800
Dr. Ludger Arnoldussen[4, 8]	**2010**	**14.75**	**22,144**	**403,689**	**255,175**
	2009	14.75	10,742	181,900	236,000
Dr. Thomas Blunck[5, 8]	**2010**	**16.25**	**26,504**	**449,741**	**281,125**
	2009	16.25	13,375	209,640	281,125
Georg Daschner[6, 8]	**2010**	**–**	**–**	**–**	**–**
	2009	–	–	–	–
Dr. Torsten Jeworrek[7, 8]	**2010**	**19.50**	**42,890**	**774,611**	**487,500**
	2009	19.50	21,215	354,248	468,000
Dr. Peter Röder[3, 8]	**2010**	**20.25**	**26,606**	**511,122**	**324,000**
	2009	20.25	12,547	224,214	283,500
Dr. Jörg Schneider[3, 8]	**2010**	**16.50**	**36,759**	**695,493**	**429,000**
	2009	16.50	18,566	324,891	429,000
Dr. Wolfgang Strassl[3, 8]	**2010**	**21.00**	**30,221**	**595,730**	**363,300**
	2009	21.00	15,249	279,590	363,300
Dr. Joachim Wenning[4, 8]	**2010**	**25.50**	**26,089**	**–[9]**	**357,000**
	2009	25.50	12,159	–	306,000
Total	**2010**		**262,693**	**4,445,167**	**3,115,900**
	2009		129,831	2,050,784	2,985,725

1 In the case of Board members transferred from the old system to the new, the amount corresponds to the value of the vested pension at 31 December 2008; in the case of Mr. Daschner, it corresponds to the defined benefit at 31 December.
2 Expenses for defined benefit plan, including provision for continued payment of salary for surviving dependants.
3 Entitled to a reduced occupational pension on early retirement in the event of premature or regular termination of employment.
4 Entitled to vested benefits under the German Company Pensions Act in the event of premature or regular termination of employment.
5 Entitled to vested benefits under the German Company Pensions Act in the event of premature termination of employment, and to improved vested benefits in the event of regular termination of employment.
6 No transfer to defined contribution system, as Board member had already reached 55 at the conversion date. Entitled to an occupational pension in the event of premature or regular termination of employment.
7 Entitled to vested benefits under the German Company Pensions Act in the event of premature termination of employment, and to a reduced occupational pension on early retirement in the event of regular termination of employment.
8 Entitled to occupational pension in the event of termination of employment owing to incapacity to work.
9 Defined contribution plan with the meaning of IAS 19, Employee Benefits, so no present value shown.

Remuneration structure for senior executives

In accordance with the German regulation on the supervisory law requirements for remuneration schemes in the insurance sector, Munich Re is currently reviewing its system of remuneration for senior executives and making necessary adjustments.

The fixed components for Munich Reinsurance Company senior executives comprise a fixed annual basic remuneration, paid out as a monthly salary, plus customary market fringe benefits and remuneration in kind (e.g. company car, insurance). The variable components are made up of the short-term components "performance-related bonus" and "Company result bonus", and the share-price-linked components Mid-Term Incentive Plan and Long-Term Incentive Plan.

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

The key indicator used for the Company result bonus is RORAC. The targets correspond to the Group objective for the variable remuneration of members of the Board of Management. The Company result bonus basically takes the form of a "bonus pool" model. Depending on corporate performance, an aggregate amount is calculated that can be distributed between staff as a bonus. The higher the management level, the higher the target range under the Company result bonus. The way this bonus works ensures that the performance of Munich Re as a whole is systematically reflected in the remuneration of staff and that the bonus amount bears a reasonable relationship to overall corporate performance.

The Mid-Term-Incentive Plan, with a duration of three years, and the Long-Term Incentive Plan, with a duration of seven years, are based on the corresponding plans for members of Munich Reinsurance Company's Board of Management, as explained on page 31. Besides the senior executives in Munich, the most important executives in Munich Reinsurance Company's international organisation also participate in the Long-Term Incentive Plan.

The individual variable components are granted at all management levels, but with different weighting. The weighting of the aggregate variable remuneration components for the first management level below the Board of Management is more than 50% of total remuneration. Proceeding down the management hierarchy, this percentage decreases successively, making up around one-third of total remuneration at the lowest management level. There is a well-balanced combination of short-, medium- and long-term components. The proportion of medium- and long-term remuneration is over 50% in the variable remuneration for the top management level, so that a longer-term incentive system is provided for. No guaranteed variable remuneration components are granted.

Total remuneration of the Supervisory Board

The rules in place since the financial year 2009 provide for a fixed remuneration component of €50,000 for each member of the Supervisory Board, plus a variable result-related component and a component based on long-term corporate performance. The Chairman of the Supervisory Board receives twice, and the Deputy Chairman one-and-a-half times, the fixed remuneration and the variable remuneration.

The variable result-related remuneration is based on the undiluted earnings per share from continuing operations, as shown in the consolidated financial statements in accordance with International Financial Reporting Standards (IFRSs): each Supervisory Board member receives €4,000 for each full euro by which earnings per share exceed €12, but a maximum of €40,000. Based on earnings per share of €13.06, variable result-related remuneration is thus payable for the financial year 2010. The performance-related remuneration component with long-term incentivisation was introduced in accordance with the German Corporate Governance Code. This amounts to €10,000 and is paid out if earnings per share in the remuneration year exceed earnings per share in the third financial year preceding the remuneration year by at least 30%. No long-term remuneration component is payable for the remuneration year 2010.

Members of the Supervisory Board committees receive an additional amount of 50% of their fixed remuneration, with the chairmen of the committees receiving 100%. This takes account of the substantial workload involved.

The total remuneration of each Supervisory Board member is limited to three times the fixed remuneration, thus ensuring that the overall remuneration of individual Supervisory Board members remains appropriate even if further committees are set up.

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

		Fixed remuneration		Result-related remuneration	
Name	Financial year	Annual	For committee work[2]	Annual	Total
		€	€	€	€
Dr. Hans-Jürgen Schinzler	**2010**	**125,000.00**	**139,000.00**	**10,000.00**	**274,000.00**
Chairman	2009	125,000.00	143,000.00	0.00	268,000.00
Hans Peter Claußen	**2010**	**75,000.00**	**25,000.00**	**6,000.00**	**106,000.00**
Deputy Chairman	2009	52,191.78	17,397.26	0.00	69,589.04
Herbert Bach	**2010**	**50,000.00**	**50,000.00**	**4,000.00**	**104,000.00**
	2009	57,808.22	50,000.00	0.00	107,808.22
Dina Bösch	**2010**	**50,000.00**	**–**	**4,000.00**	**54,000.00**
	2009	34,794.52	–	0.00	34,794.52
Frank Fassin	**2010**	**50,000.00**	**–**	**4,000.00**	**54,000.00**
	2009	34,794.52	–	0.00	34,794.52
Dr. Benita Ferrero-Waldner (from 12.2.2010)	**2010**	**44,246.57**	**–**	**3,539.73**	**47,786.30**
	2009	–	–	–	–
Christian Fuhrmann	**2010**	**50,000.00**	**35,000.00**	**4,000.00**	**89,000.00**
	2009	34,794.52	21,397.26	0.00	56,191.78
Prof. Dr. Peter Gruss	**2010**	**50,000.00**	**–**	**4,000.00**	**54,000.00**
	2009	34,794.52	–	0.00	34,794.52
Prof. Dr. Henning Kagermann	**2010**	**50,000.00**	**64,000.00**	**4,000.00**	**118,000.00**
	2009	50,000.00	58,465.75	0.00	108,465.75
Peter Löscher	**2010**	**50,000.00**	**–**	**4,000.00**	**54,000.00**
	2009	34,794.52	–	0.00	34,794.52
Wolfgang Mayrhuber	**2010**	**50,000.00**	**25,000.00**	**4,000.00**	**79,000.00**
	2009	50,000.00	17,397.26	0.00	67,397.26
Silvia Müller	**2010**	**50,000.00**	**–**	**4,000.00**	**54,000.00**
	2009	34,794.52	–	0.00	34,794.52
Marco Nörenberg	**2010**	**50,000.00**	**35,000.00**	**4,000.00**	**89,000.00**
	2009	34,794.52	21,397.26	0.00	56,191.78
Reinhard Pasch	**2010**	**50,000.00**	**–**	**4,000.00**	**54,000.00**
	2009	34,794.52	–	0.00	34,794.52
Dr. Bernd Pischetsrieder	**2010**	**50,000.00**	**56,000.00**	**4,000.00**	**110,000.00**
	2009	50,000.00	58,000.00	0.00	108,000.00
Anton van Rossum	**2010**	**50,000.00**	**35,000.00**	**4,000.00**	**89,000.00**
	2009	34,794.52	21,397.26	0.00	56,191.78
Andrés Ruiz Feger	**2010**	**50,000.00**	**–**	**4,000.00**	**54,000.00**
	2009	34,794.52	–	0.00	34,794.52
Richard Sommer	**2010**	**50,000.00**	**–**	**4,000.00**	**54,000.00**
	2009	34,794.52	–	0.00	34,794.52
Dr. Ron Sommer	**2010**	**50,000.00**	**–**	**4,000.00**	**54,000.00**
	2009	50,000.00	–	0.00	50,000.00
Dr. Thomas Wellauer (until 30.9.2010)	**2010**	**37,397.26**	**–**	**2,991.78**	**40,389.04**
	2009	34,794.52	–	0.00	34,794.52
Total	**2010**	**1,081,643.83**	**464,000.00**	**86,531.51**	**1,632,175.34**
	2009	852,534.24	408,452.05	0.00	1,260,986.29

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

Remuneration of Supervisory Board members for membership of supervisory boards at Munich Reinsurance Company subsidiaries, in accordance with the companies' respective articles of association[1]

		Fixed remuneration		Result-based remuneration	
Name	**Financial year**	**Annual[2]**	**For committee work[2]**	**Annual**	**Total**
		€	€	€	€
Hans Peter Claußen	**2010**	**57,500.00**	**6,750.00**	**0.00**	**64,250.00**
Deputy Chairman	2009	39,915.75	4,697.26	0.00	44,613.01
Frank Fassin	**2010**	**31,441.78**	**–**	**0.00**	**31,441.78**
	2009	31,565.07	–	0.00	31,565.07
Silvia Müller	**2010**	**33,019.86**	**–**	**0.00**	**33,019.86**
	2009	36,866.44	–	0.00	36,866.44
Marco Nörenberg	**2010**	**33,389.73**	**13,691.10**	**0.00**	**47,080.83**
	2009	37,828.08	15,394.52	0.00	53,222.60
Reinhard Pasch	**2010**	**–**	**–**	**–**	**–**
	2009	1,035.62	258.91	0.00	1,294.53
Richard Sommer	**2010**	**31,343.15**	**–**	**0.00**	**31,343.15**
	2009	31,565.07	–	0.00	31,565.07
Total	**2010**	**186,694.52**	**20,441.10**	**0.00**	**207,135.62**
	2009	178,776.03	20,350.69	0.00	199,126.72

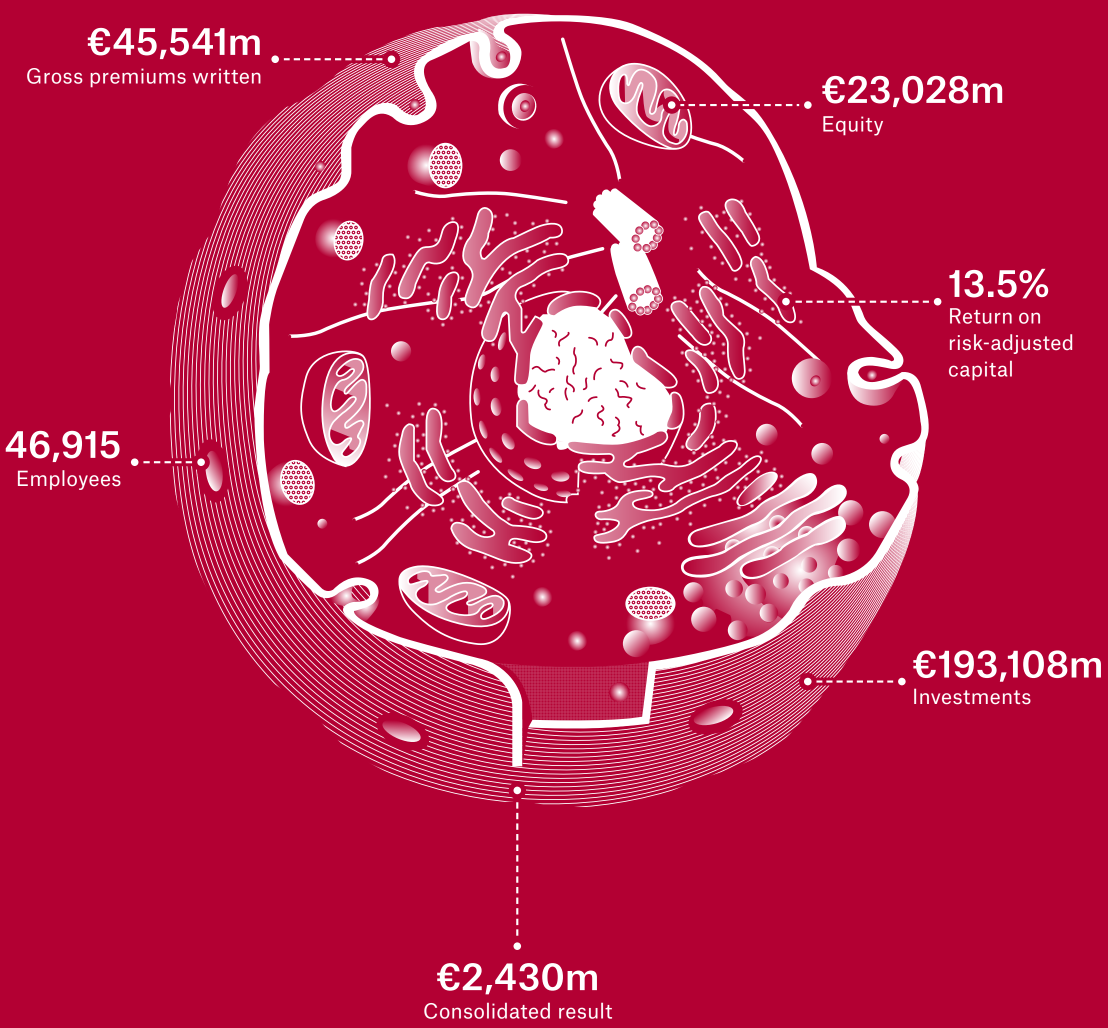
1 Plus turnover tax in each case, in accordance with the relevant provisions of the respective Group companies' articles of association.
2 Including attendance fees in each case insofar as provided for under the relevant provisions of the Articles of Association.

Share trading and shares held by members of the Board of Management and the Supervisory Board

The Company has to be notified promptly of the acquisition or sale of Company shares (or financial investments based on these) by members of the Board of Management and Supervisory Board and by specified persons closely related to or connected with them. This notification must take place for acquisition and sales transactions totalling €5,000 or more in a single calendar year.

Under Section 10 para. 1 of the German Securities Prospectus Act, Munich Reinsurance Company is obliged to publish information of this kind on its website without delay as well as in an annual document.

The total number of Munich Reinsurance Company 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.



Human cells // There are about 220 different types of cell and tissue in the human body, with each cell representing an independent and self-perpetuating system. Each one is able to take up nutrients and release energy for its own use. However, the most important characteristic of human cells is their ability to divide and produce two almost identical new daughter cells.

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Management report

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Munich Re

// Group's organisational set-up reflected in improved segment disclosure; new segment Munich Health
// New ERGO brand: Value proposition sets ERGO apart from its competitors

In order to make the global spectrum of their business model clearer, all our reinsurance units throughout the world appear under the uniform brand of Munich Re. Our primary insurance activities are combined in the ERGO Insurance Group (ERGO). Our international health reinsurance business and health primary insurance outside Germany are organised separately under the Munich Health brand.

Structure

Munich Re is one of the world's leading risk carriers. With its integrated business model consisting of insurance and reinsurance, Munich Re can cover large sections of the value chain in the risk market. The Group strives to leverage synergies in revenue and costs, whilst reducing the risk-based capital required through better diversification. Munich Re is also active in the field of asset management.

Munich Re offers reinsurance solutions worldwide

The reinsurance companies of the Group operate globally. Its primary insurers traditionally focus on Germany and high-growth European markets, but have meanwhile been looking to extend their activities to promising Asian markets such as India, South Korea or China. The companies conduct their business from their respective headquarters and also via a large number of branches, subsidiaries and affiliated companies. Specialist insurers in niche segments, whose business requires special competence in finding solutions, are in some cases coupled to reinsurance as the risk carrier. We therefore transact this business from within reinsurance. Domination and profit-transfer agreements are in place with many Group companies, especially between holding company ERGO Versicherungsgruppe AG and its subsidiaries. Munich Health also operates on a global basis in reinsurance and exploits business opportunities in the field of health primary insurance outside Germany in selected growth markets such as the Gulf region, India, and the USA.

Since 2005, Munich Reinsurance Company and ERGO Versicherungsgruppe AG have been under unified control within the meaning of the German Stock Companies Act. The relevant statutory regulations and a Group directive govern the distribution of responsibilities and competences for key decisions between Group management and ERGO.

Changes in segmentation (since 2010)

Munich Re

- Life reinsurance
- Property-casualty reinsurance
- Life primary insurance
- Health primary insurance[1]
- Property-casualty primary insurance
- Munich Health[2]
- Asset management

[1] Health primary insurance in Germany and travel insurance business.
[2] Health reinsurance business worldwide and health primary insurance business outside Germany.

The present management report summarises the activities of the Group according to its segments of reinsurance, primary insurance and asset management rather than on the basis of its legal or corporate structure or individual companies.

Reinsurance

In reinsurance, we operate in life and property-casualty business, the latter being subdivided into liability, accident, motor, marine, aviation, space, fire, engineering, credit and bonding, and other classes of business. The last heading comprises the remaining lines of property business, i.e. burglary, plate glass, hail (including agricultural reinsurance), water damage, contingency, windstorm, livestock, householders' and homeowners' comprehensive reinsurance as well as fidelity guarantee reinsurance. Under reinsurance, we include specialised primary insurance activities that are handled by the reinsurance organisation and business from managing general agents (MGAs). For the most part, they are currently being transferred to the Munich Re brand under the descriptor "Risks Solutions".

Six divisions handle business in reinsurance

Reinsurance is organised in six divisions.

Our international life business is written in the Life Division.

Our Europe and Latin America Division is responsible for the property-casualty business of our clients from Europe (except Germany), Latin America and the Caribbean.

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

Special and Financial Risks (SFR) is in charge of the classes of credit, aviation and space, agriculture, enterprise and contingency risks, and of alternative markets business. Insurance risk securitisation and risk transfer to the capital markets are handled by our Risk Trading Unit. In addition, the division attends to our own reinsurance requirements (retrocession).

Global Clients and North America handles our accounts with major international insurance groups (hence "Global Clients") and globally operating Lloyd's syndicates as well as Bermuda companies. It also pools our know-how in the North American market. It is responsible for our subsidiaries there, including Munich Reinsurance America, Munich Reinsurance Company of Canada, American Modern Insurance Group (AMIG) and the Hartford Steam Boiler Group (HSB Group) and for international special lines business such as workers' compensation and marine. The division additionally oversees the Watkins Syndicate.

The reinsurance units at a glance[1]

Division	Selected subsidiaries and branch offices outside Germany[2]
Life	American Modern Life Insurance Company, Amelia, Ohio Munich American Reassurance Company, Atlanta, Georgia Munich Re Japan Services K.K., Tokyo Munich Reinsurance Company Canadian Life Branch, Toronto Munich Reinsurance Company Life Reinsurance Eastern Europe/Central Asia, Moscow Munich Reinsurance Company of Australasia Limited – New Zealand Branch, Auckland Munich Reinsurance Company of Australasia Ltd., Sydney Munich Reinsurance Company UK Life Branch, London Southern Pioneer Life Insurance Company, Jonesboro, Arkansas
Europe and Latin America	Bell & Clements (London) Ltd., London Münchener Rück do Brasil Resseguradora S.A., São Paulo[3] Münchener Rückversicherungs-Gesellschaft A.G. Sucursal España y Portugal, Madrid[3] Münchener Rückversicherungs-Gesellschaft AG in München Rappresentanza Generale per l'Italia, Milan[3] Munich Re France Branch, Paris Munich Reinsurance Company UK General Branch, London
Germany, Asia Pacific and Africa	Great Lakes Australia Branch, Sydney Great Lakes Reinsurance (UK) PLC New Zealand Branch, Auckland Münchener Rückversicherungs-Gesellschaft Australian Branch, Sydney Munich Holdings of Australasia Pty. Ltd., Sydney Munich Mauritius Reinsurance Co. Ltd., Port Louis Munich Re Retakaful Malaysia Branch, Kuala Lumpur Munich Reinsurance Company Beijing Branch, Beijing[3] Munich Reinsurance Company Hong Kong Branch, Hong Kong[3] Munich Reinsurance Company Korea Branch, Seoul[3] Munich Reinsurance Company Malaysia Branch, Kuala Lumpur Munich Reinsurance Company New Zealand Branch, Auckland Munich Reinsurance Company of Africa Ltd., Johannesburg Munich Reinsurance Company Singapore Branch, Singapore[3]
Special and Financial Risks	Great Lakes Reinsurance (UK) Plc., London[3] Great Lakes Switzerland Branch, Zurich Munich Re of Malta p.l.c., Floriana[3] New Reinsurance Company Ltd., Zurich[3]
Global Clients and North America	American Alternative Insurance Corporation, Wilmington, Delaware[3] American Family Home Insurance Company, Jacksonville, Florida American Modern Home Insurance Company, Amelia, Ohio American Modern Insurance Company of Florida, Inc., Jacksonville, Florida American Modern Insurance Group, Inc., Amelia, Ohio American Modern Select Insurance Company, Amelia, Ohio American Modern Surplus Lines Insurance Company, Amelia, Ohio American Southern Home Insurance Company, Jacksonville, Florida American Western Home Insurance Company, Oklahoma City, Oklahoma Beaufort Underwriting Agency Ltd., London First Marine Insurance Company, Amelia, Ohio Global Standards, LLC, Wilmington, Delaware Groves, John & Westrup Limited, London HSB Engineering Insurance Limited, London HSB Group, Inc., Hartford, Connecticut HSB Solomon Associates LLC, Wilmington, Delaware HSB Professional Loss Control, Inc., Tennessee MSP Underwriting Ltd., London Munich Re Capital Limited, London Munich Re Holding Company (UK) Ltd., London Munich Reinsurance America, Inc., Wilmington, Delaware[3] Munich Reinsurance Company of Canada, Toronto N.M.U. Group Limited, London

Roanoke Companies Inc., Schaumburg, Illinois
Temple Insurance Company, Toronto
The Boiler Inspection and Insurance Company of Canada, Toronto
The Hartford Steam Boiler Inspection and Insurance Company of Connecticut, Hartford, Connecticut
The Hartford Steam Boiler Inspection and Insurance Company, Hartford, Connecticut
The Princeton Excess and Surplus Lines Insurance Company, Wilmington, Delaware
The Midland Company, Cincinnati, Ohio
Watkins Syndicate Hong Kong Limited, Hong Kong
Watkins Syndicate Middle East Limited, Dubai
Watkins Syndicate Singapore Pte. Limited, Singapore

[1] A complete list of shareholdings can be found on page 269 ff. in the notes to the consolidated financial statements.
[2] Only subsidiaries outside Germany with equity capital generally exceeding €5m are listed by name.
[3] Units that also transact business in Munich Health and are therefore allocated proportionately to reinsurance.

The Corporate Underwriting Division performs an important function for our property-casualty reinsurance, without direct responsibility for operative business: its staff clarify fundamental issues of underwriting policy, oversee quality assurance, and integrate mathematical methods into our business processes. On the claims side, a similar function is performed by Corporate Claims.

Primary insurance

Munich Re's second pillar is primary insurance business, which is concentrated in ERGO. In primary insurance, we offer products from all the main classes of insurance (with the exception of credit insurance). In 2009, Munich Re had increased its almost 95% stake in ERGO by nearly 5%, offering the other shareholders cash compensation for their shares ("squeeze-out"). This offer, which amounted to €97.72 per share, was accepted at the ERGO Annual General Meeting on 12 May 2010. This measure further simplifies the Group's shareholding structures, saves costs and is a logical step in Munich Re's integrated insurance group strategy.

Value proposition sets ERGO apart from its competitors

ERGO implemented its new brand strategy in the year under review and has been marketing life and property-casualty insurance under a single brand since summer 2010. The brands Victoria and Hamburg-Mannheimer were withdrawn from the market. In February 2010, the Group's direct insurer KarstadtQuelle Versicherungen was renamed ERGO Direkt Versicherungen. Through this clear focus on the ERGO brand, the group's all-round offering in primary insurance has become more visible. ERGO sets itself apart from its competitors with the claim "To insure is to understand". This expresses its value proposition and aim of consistently gearing its products and services to people's actual needs. At the same time, ERGO has refined the profile of its specialist brands. In October 2010, health insurance was pooled under the DKV brand, legal protection insurance under D.A.S., and travel insurance continues to be represented by the ERV brand, one of Europe's leading providers.

In international business, the group operates under the ERGO brand name in many markets and will continue to do so even more consistently in future. The Turkish ERGOİSVİÇRE Sigorta, one of the main companies outside Germany, was renamed ERGO Sigorta in spring 2010. Further major companies outside Germany are the Polish property-casualty insurer ERGO Hestia and ERGO Austria. In addition to many European markets, ERGO is present in India, South Korea and China and seeks to tap into other selected markets in Asia. ERGO is now also represented in the American market through D.A.S. Canada.

The primary insurance group at a glance[1]

Segment	Selected subsidiaries[2]
Life	Bank Austria Creditanstalt Versicherung AG, Vienna ERGO Direkt Lebensversicherung AG, Fürth ERGO Lebensversicherung AG, Hamburg ERGO Life N.V., Brussels ERGO Previdenza S.p.A., Milan Hamburg-Mannheimer Pensionskasse AG, Hamburg San Marino Life Impresa sammarinese di assicurazione sulla vita S.p.A., San Marino Sopockie Towarzystwo Ubezpieczen na Zycie Ergo Hestia Spolka Akcyjna, Sopot VICTORIA Lebensversicherung Aktiengesellschaft, Düsseldorf VICTORIA Pensionskasse AG, Düsseldorf VICTORIA-VOLKSBANKEN Versicherungsaktiengesellschaft, Vienna Vorsorge Lebensversicherung AG, Düsseldorf Vorsorge Luxemburg Lebensversicherung S.A., Munsbach
HealthCare	DKV Deutsche Krankenversicherung AG, Cologne ERGO Direkt Krankenversicherung AG, Fürth EUROPÄISCHE Reiseversicherung AG, Munich Europaeiske Rejseforsikring A/S, Copenhagen
Property-casualty	D.A.S. Deutscher Automobil Schutz Allgemeine Rechtsschutz-Versicherungs-Aktiengesellschaft, Munich D.A.S. Österreichische Allgemeine Rechtsschutz-Versicherungs-Aktiengesellschaft, Vienna D.A.S. Société anonyme belge d'assurances de Protection Juridique, Brussels DAS Legal Expenses Insurance Company Limited, Bristol DAS Nederlandse Rechtsbijstand Verzekeringmaatschappij N.V., Amsterdam ERGO Assicurazioni S.p.A., Milan ERGO Daum Direct General Insurance Co. Ltd., Seoul ERGO Direkt Versicherung AG, Fürth ERGO RUSS Versicherung AG, St. Petersburg ERGO SIGORTA A.S., Istanbul ERGO Versicherung AG, Düsseldorf MTU Moje Towarzystwo Ubezpieczeniowe S. A., Sopot Sopockie Towarzystwo Ubezpieczen Ergo Hestia Spolka Akcyjna, Sopot VICTORIA General Insurance Company S.A., Athens VICTORIA-Seguros S.A., Lisbon

1 A complete list of shareholdings can be found on p. 269 ff. in the notes to the consolidated financial statements.
2 Only Group companies with equity capital generally exceeding €50m are listed.

ERGO's many different sales channels include not only the companies' own strong sales organisations but also a wide variety of broker relationships, extensive marketing cooperations and collaboration with the UniCredit Group.

Munich Health

Munich Health in charge of international healthcare business

The global health market is one of the fastest-growing sectors of the economy. This applies to healthcare and insurance alike. In order to maximise the opportunities involved, Munich Re in 2008 combined its health reinsurance worldwide and health primary insurance outside Germany, pooling it under the brand of Munich Health in 2009. Munich Health covers large stretches of the healthcare-sector value chain and is being shown as a separate segment from 2010.

Overview of Munich Health[1]

Companies fully allocated to Munich Health

Apollo Munich Health Insurance Co. Ltd., Hyderabad
DAMAN – National Health Insurance Company, Abu Dhabi
DKV Belgium S.A., Brussels
DKV Globality S.A, Luxembourg
DKV Luxembourg S.A, Luxembourg
DKV Seguros y Reaseguros, Sociedad Anónima Española, Saragossa
ERGO Generales Seguros y reaseguros, S.A., Madrid
ERGO Vida Seguros y Reaseguros, Sociedad Anónima Española, Saragossa
Marina Salud S.A., Alicante
MedNet Holding GmbH, Munich
Munich Health Holding AG, Munich
Munich Health North America, Inc., Wilmington, Delaware
Munich Re Stop Loss, Inc., Wilmington, Delaware
Sterling Life Insurance Company, Bellingham, Washington
Unión Médica la Fuencisla, S.A., Compañía de Seguros, Saragossa

Companies that operate in more than one segment and are allocated proportionately to Munich Health

American Alternative Insurance Corporation, Wilmington, Delaware
Great Lakes Reinsurance (UK) Ltd., London
Münchener Rück do Brasil Resseguradora S.A., São Paulo
Munich Reinsurance Company, Munich
Munich Re of Malta p.l.c., Floriana
Munich Reinsurance America, Inc., Wilmington, Delaware
New Reinsurance Company Ltd., Zurich

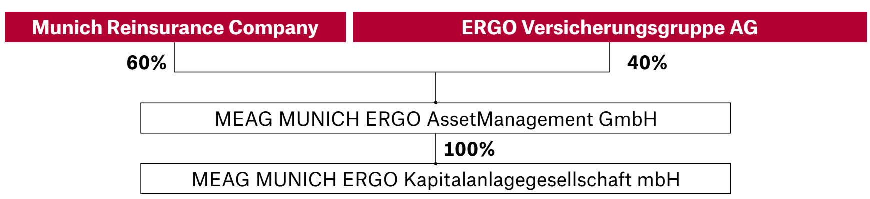
[1] Only Group companies with equity capital generally exceeding €5m are listed. A complete list of shareholdings can be found on page 269 ff. in the notes to the consolidated financial statements.

Asset management

MEAG combines the investment activities of Munich Re. It also offers its comprehensive know-how to external institutional investors and private clients.

Overview of asset management

MEAG Cash Management GmbH, Munich
MEAG Hong Kong Ltd., Hong Kong
MEAG Luxemburg S.á r.l., Luxembourg
MEAG MUNICH ERGO AssetManagement GmbH, Munich
MEAG MUNICH ERGO Kapitalanlagegesellschaft mbH, Munich
MEAG New York Corporation, New York
MEAG Property Management GmbH, Munich



Important tools of corporate management

Munich Re's value-based management philosophy

Munich Re's objective is to analyse risks from every conceivable angle and to assess and diversify them, thereby creating lasting value for shareholders, clients, and staff. A guiding principle of our entrepreneurial thinking and activity is to increase Munich Re's share price on a sustained basis. This is also the aim of our active capital management, on which we report on page 102 f. The main features of our shareholder value approach in practice are the consistent application within the Group of value-based management systems, which we constantly refine.

The framework for any business activity is our risk strategy (see page 117 ff.), from which we derive a detailed network of limitations. Besides value-based parameters, we observe a range of important additional conditions in managing our business. These conditions may be reflected in supplementary targets or may even determine a unit's short-term orientation in a particular situation. They include rules of local accounting systems, tax aspects, liquidity requirements, supervisory parameters, and rating agency requirements.

Our value-based management is characterised by the following aspects:
// We assess business activities not only according to their earnings potential but also relative to the extent of the risks assumed, which is material in measuring added value as well. That is why we have implemented high quality standards for underwriting, pricing, accumulation control and claims management. Only the risk-return relationship reveals how beneficial an activity is from the shareholder point of view.
// With value-based performance indicators we ensure the economic view and the necessary comparability of alternative initiatives and prioritise these.
// We clearly assign responsibilities and make the levers for adding value transparent for both management and staff.
// We closely link strategic and operative planning.

All initiatives are ultimately geared to the overriding financial objective of enhancing corporate value on a sustained basis.

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

Determining value added

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

Adjusted result – Cost of equity = Value added

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

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

Embedded value as a performance indicator

The products of life primary insurance and the bulk of our health primary insurance business are characterised by their long-term nature and the distribution of results over the duration of the policies. For valuing such long-term portfolios, whose performance cannot be reasonably measured on the basis of a single year, we follow the Principles of Market Consistent Embedded Value (MCEV)©[1], the current version of which was published by the European Insurance CFO Forum in October 2009.

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

MCEV relates to the portfolio existing at the valuation date. It encompasses 100% of our life reinsurance business and more than 94% of our life primary insurance and long-term health primary insurance business. By contrast, MCEV does not include the value of future new business. However, the valuation is made under the assumption of continued operations, i.e. taking into account the related costs in particular. Options and guarantees – especially for the policyholders – are explicitly valued using stochastic simulations. MCEV reflects the present value of all cash flows for all important currency regions on the basis of the swap rates and the implicit volatilities at the valuation date of 31 December 2010. Assets that are traded on the capital markets are valued on the basis of the market values observed at the valuation date.

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

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

Assets reflect liabilities

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

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

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

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

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

What we aim to achieve – Situation in 2010

Despite substantial major losses, Munich Re again posted a satisfying consolidated result of €2.4bn (2.6bn) in 2010. This profit is equivalent to a return on equity or RoE of 10.4% (11.8%) in terms of the average value of IFRS equity at the year-end and quarterly reporting dates. Moreover, we achieved a slight improvement to 4.5% (4.3%) in the return on investment, notwithstanding the low interest-rate environment. The return on investment is the ratio of the investment result of €8.6bn (7.9bn) to the average market value of the investment portfolio at the year-end and quarterly reporting dates, totalling

€194bn (181bn). Despite reaching our result target of over €2bn for 2010, we fell short of our long-term return target of a 15% return on risk-adjusted capital after tax (RORAC) over the full cycle. With a RORAC of 13.5% (15.1%), we achieved a respectable result, given the major-loss events and low level of interest rates.

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

In the property-casualty reinsurance segment, there were net expenses for claims and benefits of €9,904m (9,243m) and net operating expenses of €4,437m (4,125m) in 2010, compared with net earned premiums of €14,193m (13,968m). The combined ratio thus amounts to 100.5% (95.3%) – a satisfactory figure considering that the impact of major losses from natural catastrophes in 2010 (€1,564m, or 11.0% of net earned premiums) was greater than in the previous year.

In 2010, paid claims and the change in claims provisions in the property-casualty primary insurance segment totalled €3,130m (2,856m) and net operating expenses €1,621m (1,502m), compared with net earned premiums of €4,813m (4,568m). At 96.8%, the combined ratio in primary insurance was higher than for 2009 (93.2%), but was still good.

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

// The more the claims burden fluctuates over time, the greater the risk is and so the premiums needed to cover the risk must be higher. This means that the loss ratios in good years are low, as are the average loss ratios that provide the reinsurer with an adequate return for assuming the risk. This is particularly true in the case of natural catastrophes, which may occur rarely, but are often very severe when they do.

// Another important distinguishing feature relates to the time-lag between premiums being received and claims being paid. The longer these periods are, the longer the premiums received can be invested in the capital markets. High combined ratios in classes of business in which claims settlement takes a long time (e.g. casualty) therefore generally entail higher returns from investments with which the loss reserves are covered. These returns are not reflected in the combined ratio.

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

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

Risk-based Group return target for the financial year 2011

Given the continued uncertainties involved in estimating possible implications of the financial and economic crisis, it remains difficult to define guidelines for our future entrepreneurial success. Against this background of continuing uncertainties, the targets we have set ourselves for 2011 must be regarded as ambitious. For this purpose, we are again employing a risk-based performance measure which we have used for external communication since 2006: RORAC. We derive this target by placing the profit achieved or aimed at, expressed in euros, in relation to the necessary risk capital, the amount of which we determine using our internal risk model and publish once a year. Information on the internal risk model is provided on page 126 ff. We thus take into account the economic standards currently underlying (at least to some extent) the requirements of supervisory authorities and rating agencies – standards that are set to play a decisive role in future.

RORAC is defined as follows:

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

The numerator in the formula comprises the published IFRS net income adjusted for post-tax income (interest rate x [1 – tax rate]) generated on capital not subject to risk within the given risk tolerance. The basis for the adjustment is the capital exceeding the necessary risk-based capital, which is referred to as additional available economic equity. Its determination is described in detail on page 133. It is also necessary for rating and solvency purposes, as well as for profitable growth, but we strive to keep it lean through our active capital management, because the additional available economic equity in the system presented here only earns a risk-free interest rate. This is due to the fact that all the risk components of the investment and underwriting are covered with risk-based capital by the internal risk model, and thus assigned return requirements. Even though we take a risk-adjusted return as our target, we aspire to meet the high, but fair, expectations of our investors with regard to the return on total capital placed at our disposal.

At what level should the RORAC target be set?

We are adhering to our long-term objective of 15% RORAC after tax across the cycle of insurance and interest-rate markets, although it will be difficult to achieve with the currently low interest rates. As soon as the requirements of Solvency II and the new IFRSs for insurance contracts and financial instruments have been finalised, we will gear our target performance measures to the key indicators from this new framework with its strong economic focus. We are aiming for a consolidated result of around €2.4bn for 2011. Considering the major-loss burden in the first two months of the year, however, this target can only be achieved if random major losses remain below expectations in the further course of the year.

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 project a combined ratio in property-casualty reinsurance of around 97% of our net earned premiums over the market cycle as a whole, based on an expected average major-loss burden from natural catastrophes of 6.5%. Since we were affected by major losses at the end of February 2011, i.e. the floods in Brisbane and Cyclone Yasi (also in Australia) and the earthquake in New Zealand, we will only be able to achieve our target if random major losses remain below expectations in the further course of the year. In property-casualty primary insurance, we expect a combined ratio at a good level of under 95%.

Embedded value as an additional performance indicator

In life primary insurance and in German health primary insurance, MCEV is one of the foundations of our value-based management.

Our targets – Ambitious but attainable

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

Governing bodies of Munich Re

Board of Management

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

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

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

Georg Daschner
Europe and Latin America

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

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

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

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

Dr. oec. publ. Joachim Wenning
Life

Supervisory Board

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

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

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

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

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

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

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

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

Prof. Dr. rer. nat. Dr.-Ing. e.h. Henning Kagermann
Member since 22 July 1999,
last re-elected on 22 April 2009
President of acatech – German Academy of Science and Engineering

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

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

Silvia Müller
Member since 22 April 2009
Employee of ERGO Versicherungsgruppe AG

Marco Nörenberg
Member since 22 April 2009
Employee of ERGO Versicherungsgruppe AG

Reinhard Pasch
Member since 22 April 2009
Employee of ERGO Versicherungsgruppe AG

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

Anton van Rossum
Member since 22 April 2009
Former Chief Executive Officer and former member of the Board of Fortis

Andrés Ruiz Feger
Member since 22 April 2009
Employee of Münchener Rückversicherungs-Gesellschaft Sucursal de España y Portugal

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

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

Dr. Ing. Thomas Wellauer
Member until 30 September 2010
Former member of the Executive Committee of Novartis International AG

Membership of the Supervisory Board Committees

Standing Committee
Dr. jur. Hans-Jürgen Schinzler (Chairman)
Herbert Bach
Hans Peter Claußen
Wolfgang Mayrhuber
Dr. e.h. Dipl.-Ing. Bernd Pischetsrieder

Personnel Committee
Dr. jur. Hans-Jürgen Schinzler (Chairman)
Herbert Bach
Dr. e.h. Dipl.-Ing. Bernd Pischetsrieder

Audit Committee
Prof. Dr. rer. nat. Dr.-Ing. e.h. Henning Kagermann (Chairman)
Christian Fuhrmann
Marco Nörenberg
Anton van Rossum
Dr. jur. Hans-Jürgen Schinzler

Nomination Committee
Dr. jur. Hans-Jürgen Schinzler (Chairman)
Prof. Dr. rer. nat. Dr.-Ing. e.h. Henning Kagermann
Dr. e.h. Dipl.-Ing. Bernd Pischetsrieder

Conference Committee
Dr. jur. Hans-Jürgen Schinzler (Chairman)
Herbert Bach
Hans Peter Claußen
Dr. e.h. Dipl.-Ing. Bernd Pischetsrieder

A report on the remuneration of the Board of Management and the Supervisory Board is provided on page 28 ff.

Other seats held by Board members

Board of Management[1]	Seats held on supervisory boards of other German companies	Membership of comparable bodies of German and foreign business enterprises
Dr. jur. Nikolaus von Bomhard (Chairman)	COMMERZBANK AG ERGO Versicherungsgruppe AG[2] (Chairman) Munich Health Holding AG[2] (Chairman)	–
Dr. rer. pol. Ludger Arnoldussen	–	–
Dr. rer. pol. Thomas Blunck	Münchener & Magdeburger Agrarversicherung AG	Global Aerospace Underwriting Managers Ltd. (GAUM), London New Reinsurance Company Ltd., Zurich (Chairman)
Georg Daschner	–	–
Dr. rer. nat. Torsten Jeworrek	–	–
Dr. rer. pol. Peter Röder	EXTREMUS Versicherungs-AG	Munich Re America Corp., Wilmington[2] Munich Re America, Inc., Princeton[2]
Dr. jur. Jörg Schneider	MEAG MUNICH ERGO Kapitalanlagegesellschaft mbH[2] (Chairman)	–
Dr. oec. publ. Wolfgang Strassl	–	Apollo Munich Health Insurance Company Ltd., Hyderabad, India Storebrand Helseforsikring AS, Oslo
Dr. oec. publ. Joachim Wenning	–	–

[1] Status: 31 December 2010.
[2] Own group company within the meaning of Section 18 of the German Stock Companies Act.

Supervisory Board[1]	Seats held on supervisory boards of other German companies	Membership of comparable bodies of German and foreign business enterprises
Dr. jur. Hans-Jürgen Schinzler (Chairman)	METRO AG	UniCredit S.p.A., Genoa
Hans Peter Claußen (Deputy Chairman)	D.A.S. Allgemeine Rechtsschutz-Versicherungs-AG[2] ERGO Versicherungsgruppe AG[2]	–
Herbert Bach	–	–
Dina Bösch	–	–
Frank Fassin	ERGO Versicherungsgruppe AG[2] Provinzial NordWest Holding AG	–
Dr. jur. Benita Ferrero-Waldner	Gamesa Corporación Tecnológica. S.A.	–
Christian Fuhrmann	–	Munich Re Holding Company (UK) Ltd., London[2]
Prof. Dr. rer. nat. Peter Gruss	Siemens AG	–
Prof. Dr. rer. nat. Dr.-Ing. e. h. Henning Kagermann	Bayerische Motoren-Werke AG Deutsche Bank AG Deutsche Post AG	Nokia Corporation, Finland Wipro Ltd., India
Peter Löscher	–	–
Wolfgang Mayrhuber	Bayerische Motoren-Werke AG Lufthansa-Technik AG[2] UBS Deutschland AG	AUA Austrian Airlines, Austria[2] Brussels Airlines, Belgium[2] Heico Corporation, Miami
Silvia Müller	ERGO Versicherungsgruppe AG[2]	–
Marco Nörenberg	ERGO Versicherungsgruppe AG[2]	–
Reinhard Pasch	–	–
Dr. e.h. Dipl.-Ing. Bernd Pischetsrieder	METRO AG	Tetra-Laval International S. A. Group, Pully
Anton van Rossum	–	Credit Suisse Groupe AG, Zurich Rodamco Europe NV, Amsterdam Royal Vopak NV, Rotterdam (Chairman) Solvay S.A., Brussels
Andrés Ruiz Feger	–	–
Richard Sommer	ERGO Versicherungsgruppe AG[2]	–
Dr. phil. Ron Sommer	–	JSFC Sistema, Russia MTS OJSC, Russia Sistema Shyam Teleservices Ltd., India Tata Consultancy Services Ltd., India
Dr. Ing. Thomas Wellauer (until 30 September 2010)	–	–

1 Status: 31 December 2010 (in the case of members who have left the Board of Management, the information shows the status at the date of their departure).
2 Own group company within the meaning of Section 18 of the German Stock Companies Act.

Business environment

// Global economic recovery continues
// Market conditions for insurance and reinsurance remain challenging
// New Solvency II insurance supervisory regime about to enter crucial implementation phase

General parameters

More complex environment poses challenge to underwriting

Our business environment is one of increasing complexity, with an upward trend in major insurance-relevant events. We are seeing a disproportionate rise in insured losses in relation to economic activity, for which we believe climate change is partly responsible, in addition to an increase in values in exposed regions. As a result, new risk potentials and accumulation hazards are emerging. Demographic shifts are also leading to fundamental changes in many parts of the world, confronting social security systems with enormous challenges. It is therefore imperative to carry on refining risk models and to translate new findings into actuarial practice. A group like Munich Re, among the leaders in integrated risk management, can take long-term advantage of the resulting opportunities in both insurance and reinsurance. Conversely, our prospects for generating short-term profits during booms are restricted by our fundamentally conservative business policy in certain areas, governed by our pronounced risk awareness.

Economic parameters

The year 2010 was marked by a global economic recovery. Nevertheless, great uncertainty persisted on the capital markets: fear of defaults on government bonds issued by countries on the periphery of the eurozone produced huge fluctuations in the euro exchange rate and a flight to the perceived safe havens of German and US government bonds. Interest rates remained low.

Real gross domestic product (GDP)

Growth in %	2010 (Estimate)	2009	2008	2007	2006
World[1]	5.0	–0.6	2.8	5.3	5.2
Industrialised countries[1]	3.0	–3.4	0.2	2.7	3.0
Emerging and developing countries[1]	7.1	2.6	6.0	8.7	8.2
USA	2.8	–2.6	0.0	1.9	2.7
Eurozone	1.8	–4.1	0.5	2.9	3.0
Germany	3.6	–4.7	1.0	2.7	3.4
UK	1.7	–4.9	–0.1	2.7	2.8
Japan	4.3	–6.3	–1.2	2.4	2.0
China	10.3	9.2	9.6	14.2	12.7

[1] National economic output weighted for aggregation with purchasing power parities.
Source: International Monetary Fund

The recovery of the **global economy**, which had begun in mid-2009, continued in 2010 as expected, with momentum exceeding expectations in some industrialised countries. However, there were still major differences across the world. While growth in the economies of some industrial nations was weak, most emerging and developing countries showed high growth rates. Among the emerging countries, China recorded particularly strong economic expansion.

Varying developments in the eurozone

There were regional differences within the **eurozone** as well. Whereas Spain, Greece and Ireland remained in recession and the economies of France and Italy grew only slowly, Germany benefited from the upswing in the world economy. The annual average unemployment rate in **Germany** fell to 7.7%, with the number of jobless (3.2 million) at its lowest level since 1992.

The economic upswing in the **USA** lost momentum in the course of the year. Although the unemployment rate declined in comparison with year-end 2009, it was still high in the fourth quarter at a seasonally adjusted 9.6%.

With global demand recovering, inflationary pressure increased as expected, but in industrialised countries it remained slight, owing to low capacity utilisation and high unemployment. Despite a strong recovery driven by exports, **Japan** experienced a further year of deflation.

Inflation: Change in consumer price index

%	2010 (Estimate)	2009	2008	2007	2006
Industrialised countries	1.5	0.1	3.4	2.2	2.4
Emerging and developing countries	6.3	5.2	9.2	6.5	5.6
USA	1.6	–0.4	3.8	2.8	3.2
Eurozone	1.6	0.3	3.3	2.1	2.2
Germany	1.1	0.4	2.6	2.3	1.6
UK	3.3	2.2	3.6	2.3	2.3
Japan	-0.7	–1.4	1.4	0.0	0.3
China	3.3	–0.7	5.9	4.8	1.5

Source: International Monetary Fund, national statistical institutes and European Statistical Office

Capital markets

In the "Prospects" section of our 2009 management report, we mentioned the negative medium- to long-term effects of rising public debt on economic development. The heightened sensitivity of investors to default risks of government bonds was clearly evident in 2010, leading to volatility on the capital markets. After the beginning of the year, when Greece in particular grappled with the problem of rising risk premiums and had to seek financial support from the EU partner countries and the International Monetary Fund (IMF), capital market players' distrust spread to other countries on the eurozone's periphery. This initially caused the euro to fall substantially in value, not only against the US dollar but also against other leading currencies. To calm the capital markets and secure the stability of the single currency, the member countries of the eurozone, the European Commission and the IMF set up a "rescue umbrella" of loans and guarantees with a total volume of €750bn. Ireland then availed itself of this support with an amount of €85bn in November. In the second half of the year, muted growth prospects for the US economy triggered a fall in the dollar against the euro and the yen. Speculations about an imminent "devaluation race" between the currencies led to high volatility in exchange rates.

Rescue umbrella of €750bn set up

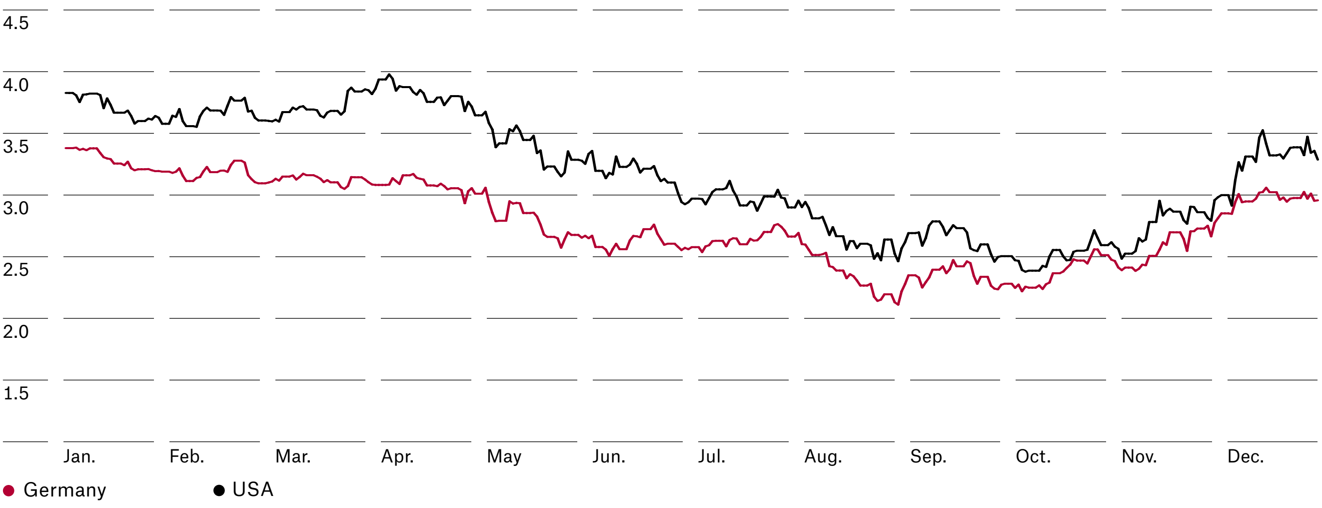
Development of the US$/€ exchange rate

Development of the £/€ exchange rate

Development of the yen/€ exchange rate

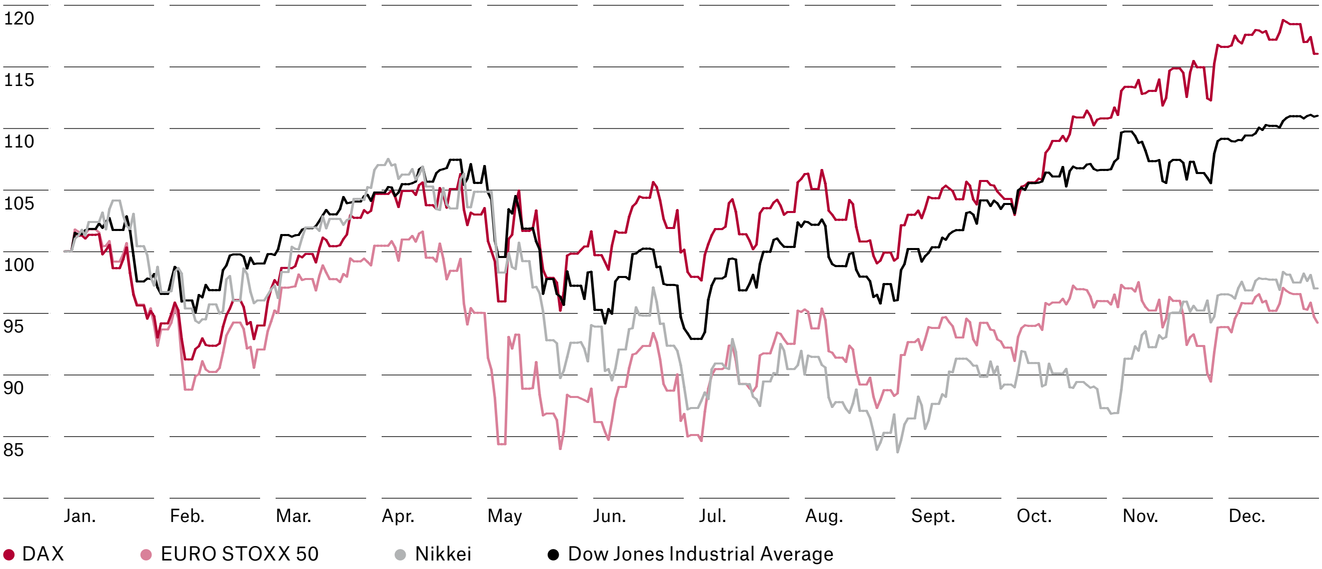
The combination of great uncertainty on the financial markets, low inflationary pressure and high unemployment in many industrialised countries caused the major central banks to adhere to their low-interest-rate policies. Key interest rates of the ECB and the Bank of England remained at 1% and 0.5% respectively, while the Japanese central bank lowered its rate from 0.1% to 0–0.1%. The US Federal Reserve left its key interest rate unchanged at 0–0.25% and, in autumn 2010, also decided on a further round of unconventional monetary policy measures to keep long-term interest rates low. As a result, our expectation of a moderate rise in the yields of long-term government bonds was not fulfilled. Yields at year-end were just below their start-of the-year level, although a distinct increase was evident in the last quarter.

Development of yields on ten-year government bonds



Price volatility on the stock markets remained within reasonable bounds in 2010 compared with the two previous years, but at times reflected the remaining uncertainty about economic development and the stability of the financial system. Over the year as a whole, the markets moved differently, with the DAX in particular outperforming important comparative indices. The oil price at the end of December was 10% higher than at the beginning of the year.

Share price performance 1.1.2010 = 100



Insurance industry

While vibrant economic development in many countries had a positive effect on the demand for insurance, price stagnation curbed premium growth in many segments of property-casualty insurance. Business in life and health insurance, on the other hand, increasingly recovered. Altogether, therefore, **global premium volume** grew moderately in the year under review, with demand for insurance cover in many emerging countries again rising very dynamically.

The capital base of insurers and reinsurers, which had already recovered from the consequences of the international financial crisis in the course of 2009, continued to strengthen and even surpassed its pre-crisis level in 2010.

In the first half of the year, high investment profits recorded by **reinsurers** contrasted with heavy losses from natural catastrophes. The market conditions for reinsurers did not improve. Prices moved sideways with a slight downward trend in the renewals at the turn of the year and at 1 April and 1 July. In the renewals at 1 January 2011, they showed a further fall on average.

According to preliminary estimates, the **primary insurance sector** in Germany increased its premium income by 4.7% in 2010, compared with growth of 4.2% in the previous year. Life insurance benefited considerably from single-premium business and posted a significant improvement of 6.8% in premium volume. Property-casualty business saw only marginal growth, with premium increasing by 0.7%. Premium income in private health insurance rose by 6.0%.

Regulatory changes

With a view to avoiding a new financial crisis, further changes were made to regulatory requirements for financial markets and institutions.

At European level, a system of authorities for financial market supervision (European System of Financial Supervision, ESFS) has been created. A new body is the **European System Risk Board** (ESRB), whose purpose is to identify macrorisks, serve as an early-warning system for the financial markets, warn of systemic risks within the EU financial market, and make suitable recommendations. As part of the ESFS, moreover, a strong European financial supervisory authority for insurance and occupational pensions has been created, which started work at the beginning of 2011. To this end, the previous European committee (CEIOPS) has been transformed into an authority (EIOPA) with certain rights of intervention vis-à-vis markets, insurance institutions and national supervisors. Parallel to this, the EU committees for the supervision of banking and securities trading are being converted into authorities. National supervisors will essentially retain their existing powers.

In the USA, the **Dodd-Frank Wall Street Reform and Consumer Protection Act** has strengthened regulation of the whole financial sector. Besides operating as the US central bank, the Federal Reserve may in future supervise insurers as well. In addition, there will be a Federal Insurance Office, which is to represent the USA internationally and be responsible for treaties with other states regarding the supervision of insurance companies.

As far as the new European insurance supervisory regime **Solvency II** is concerned, work in 2010 concentrated on the implementing measures to be issued, which will regulate numerous important details. Adoption of these measures is not expected before summer 2011.

In Germany, following the lead of international agreements, a **law on the supervisory requirements for remuneration systems** of financial institutions and insurance companies was passed. This regulation specifies that remuneration must always be appropriate, transparent and geared to a company's sustainable development. In addition, the German Federal Financial Supervisory Authority, BaFin, may prohibit or restrict the payment of variable remuneration components if the company in question does not fulfil minimum capitalisation requirements.

Business performance

Overview and key figures

// Heavy burden from major losses
// Very good investment result despite difficult environment
// Return on risk-adjusted capital (RORAC) of 13.5% after tax

Return on risk-adjusted capital (RORAC)

%	2010	2009	2008
RORAC	13.5	15.1	7.2
Long-term target	15.0	15.0	15.0

Dividend

		2010	2009	2008
Total dividend payout	€bn	1.1	1.1	1.1
Dividend amount	€	6.25	5.75	5.50

The past year was marked by high claims expenditure for major losses. On the other hand, we posted a very good investment result, in spite of the pronounced volatility on the capital and currency markets. We report on our investment performance on page 94 ff.

Although the **return on risk-adjusted capital** (RORAC) was below our long-term target, it is nevertheless a clear sign of our earnings strength given the difficult environment. We want our shareholders to participate in last year's success through another increase in the dividend: we will therefore propose to shareholders at the Annual General Meeting a dividend of €6.25 (5.75) per dividend-bearing share, thus maintaining our profit distribution at a high level. We also continued our share buy-back programme, on which we report on page 102 f.

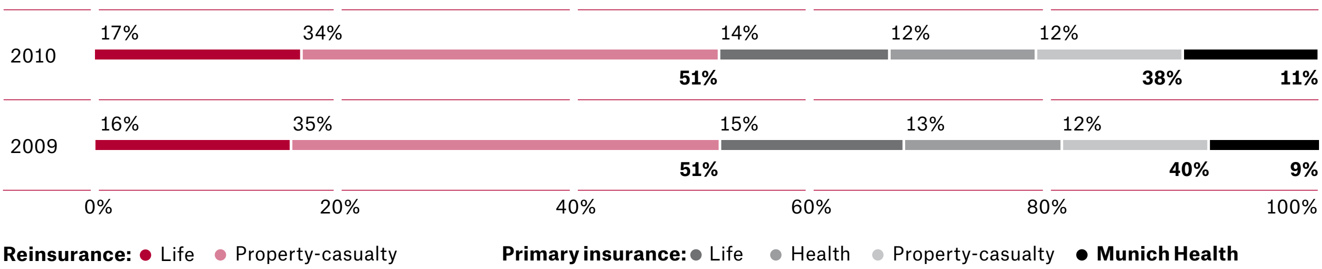
Key figures[1]

		2010	2009	2008	2007	2006
Gross premiums written	€bn	45.5	41.4	37.8	37.3	37.4
Combined ratio						
Reinsurance property-casualty	%	100.5	95.3	99.4	96.4	92.6
Primary insurance property-casualty	%	96.8	93.2	90.9	93.4	90.8
Munich Health[2]	%	99.7	99.4			
Technical result	€m	1,965	2,747	2,756		
Investment result	€m	8,642	7,883	5,916	9,253	8,972
Non-technical result	€m	2,013	1,974	1,078		
Operating result	€m	3,978	4,721	3,834	5,573	5,877
Consolidated result	€m	2,430	2,564	1,579	3,923	3,519
Investments	€bn	193.1	182.2	174.9	176.2	176.9
Net technical provisions	€bn	171.1	163.9	157.1	152.4	153.9
Equity	€bn	23.0	22.3	21.1	25.3	26.3

[1] Previous years' figures adjusted owing to recognition of Munich Health as a separate segment (see "Recognition and measurement").
[2] Excluding health insurance conducted like life insurance.

The increase in **gross premium** was attributable to currency translation effects and organic growth. Owing to the high claims costs, the combined ratio in both reinsurance and primary insurance considerably exceeded the previous year's level. The fact that we still managed to post a similarly good consolidated result to that of the previous year was due to the very satisfying investment result and a lower tax rate.

Group premium income[1]



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

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.

Not all the **investments** we hold to cover our technical provisions and other liabilities are managed separately by field of business. This means that for our reinsurance companies which conduct life, health and property-casualty reinsurance, we have to divide up investment results and investment portfolios that cannot be directly allocated to a particular segment. In those cases where, as reinsurers, we post technical provisions with our clients to collateralise our obligations, the original amounts of the resulting deposits retained and associated interest income are naturally allocated precisely to the respective segment. The same applies to the portfolios and investment income from reinsurance covers for unit-linked annuity insurance with variable guarantees ("GMxB"). For all other portfolios and investment income, we undertake what is inevitably an imprecise division based on an allocation key. We have refined the method employed for this calculation. Up to 2009, with the exception of Munich Reinsurance Company, we divided investment portfolios and investment results on the basis of the amount of the technical provisions. For the division of Munich Reinsurance Company's investment result, certain result components were allocated to the segments directly and then the remainder according to premium volume. As of 2010, we are allocating investment result and investment portfolio according to a key based on the technical provisions. The figures for the previous year have been adjusted accordingly.

Consolidated result

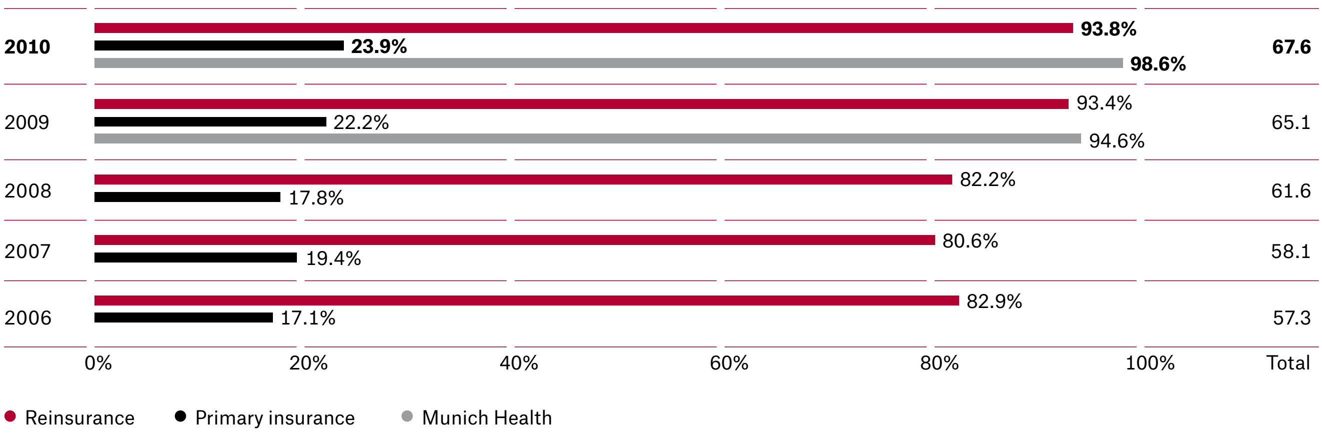
	2010	Prev. year	Change
	€m	€m	%
Reinsurance	2,099	2,576	–18.5
Primary insurance	656	367	78.7
Munich Health	63	27	133.3
Asset management	37	19	94.7
Consolidation	–425	–425	–
Total	**2,430**	**2,564**	**–5.2**

In the period under review, our **reinsurance** business was affected by high claims costs from major losses, leading to a reduction in the technical result. Further details on business performance in reinsurance can be found on page 75 ff.

Despite impairment losses of goodwill amounting to €109m, our **primary insurance** business posted a higher consolidated result, thanks to a better investment result. We report on primary insurance on page 87 ff.

Munich Health contributed a higher consolidated result in the year under review. This segment, which covers our health reinsurance business worldwide and our primary health insurance outside Germany, is shown for the first time as a separate segment as per IFRS 8 in 2010. Its business was previously disclosed mainly in the segments "life and health reinsurance" and "health primary insurance". Without the business written by Munich Health, the segment "life and health reinsurance" has become simply "life reinsurance". The health primary insurance segment continues to include our German health insurance business and our travel insurance business. The figures for the previous year have been adjusted accordingly. Further details of Munich Health's business performance can be found on page 92 f.

Percentage of premium from foreign business[1]



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

Whereas in reinsurance and Munich Health we operate on a global basis, in primary insurance the bulk of our premium comes from the German market. The portion of international business in primary insurance increased further due to organic growth and positive exchange rates.

At €692m (1,264m), **tax expenditure** was lower than in the previous year. The effective tax rate of 22.2% (33.0%) is well below the usual tax burden in Germany. Besides the fact that parts of the Group are subject to a comparatively low nominal burden, this low Group tax burden is due to the consolidated results posted in the USA. We were able to offset a large portion of these positive results with existing tax loss carry-forwards for which no deferred tax assets had previously been recognised. The results are therefore not affected by either current or deferred taxes.

The **reduction in the effective tax rate** compared with the previous year is mainly due to a higher proportion of profits from the USA in the consolidated result. Apart from this, the effective tax rate for last year was increased by subsequent tax payments for the previous year.

Currency influences

The consolidated financial statements are affected by changes in exchange rates. The profit-neutral translation of our foreign subsidiaries' financial statements into the Group presentation currency – the euro – is reflected in our reserve for currency translation adjustments, thus influencing the amount of Group equity. Generally speaking, rising exchange rates for foreign currencies increase Group equity, while falling exchange rates reduce it.

In contrast to this, currency translation differences are largely recognised in profit or loss in our subsidiaries' individual financial statements. This involves the translation of foreign currency items into the respective functional currency, i.e. the currency in which the individual financial statement is prepared. Overcoverage[1] in a particular foreign currency leads on balance to a positive result contribution if exchange rates for that currency rise, and in a negative result contribution if they fall. With undercoverage, the effects are the opposite. In the consolidated financial statements, we recognise these currency translation differences under the other non-operating result.

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

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

Events after the balance sheet date

With effect from 1 January 2011, we acquired 100% of the shares in US Medicare provider Windsor Health Group (Windsor). The purchase price amounted to US$ 131m (€98m). More details can be found in the notes to the consolidated financial statements under (53) Events after the balance sheet date.

Also with effect from 1 January 2011, we acquired 100% of the voting shares in 11 wind park companies for a provisional purchase price of €40.5m. Further information is provided in the notes to the consolidated financial statements under (53) Events after the balance sheet date.

In China, ERGO intends to establish a joint venture with the Shandong State-owned Assets Investment Holding Company (SSAIH) to offer mainly life insurance products for private clients in the province of Shandong. SSAIH and Munich Re will each hold half the shares in the planned joint venture. Under the articles of association, we will pay RMB 300m (€34m) for our portion of the share capital. The company, whose start-up will begin as soon as the supervisory authority has given its approval, is to be called ERGO China Life Insurance Co. Ltd.

The floods triggered by heavy rains in Australia continued into the new year. On top of this, in February 2011, Australia was hit by Cyclone Yasi. For 2011, we currently expect a claims burden from these events in the low to mid three-digit million euro range after retrocession. In addition, a severe earthquake of magnitude 6.3 occurred on 22 February 2011 near the city of Christchurch in New Zealand, with resulting exposure for Munich Re.

Under the share buy-back programme decided on by Munich Reinsurance Company's Board of Management on 7 May 2010, we repurchased a further 1.7 million Munich Re shares with a volume of €195m after the balance sheet date up to 25 February 2011.

Reinsurance

// Rise in premium income of 8.4% to €23.6bn, primarily owing to large-volume transactions
// Combined ratio of 100.5% satisfactory given significantly higher major-loss burden
// Investment result of €3.4bn
// Satisfactory consolidated result of €2.1bn

Key figures

		2010	2009	2008	2007	2006
Gross premiums written						
Life	€m	7,901	6,796			
Life and health	€m			7,130	7,293	7,665
Property-casualty	€m	15,701	14,987	14,739	14,224	14,551
Loss ratio						
Health[1]	%			76.0	72.0	68.5
Property-casualty	%	69.3	65.8	69.6	67.9	64.7
Thereof natural catastrophes[2]	Percentage points	11.0	1.4	6.2	4.7	1.0
Expense ratio						
Health[1]	%			23.1	26.4	27.8
Property-casualty	%	31.2	29.5	29.8	28.5	27.9
Combined ratio						
Health[1]	%			99.1	98.4	96.3
Property-casualty	%	100.5	95.3	99.4	96.4	92.6
Operating result[3]						
Life	€m	434	718			
Life and health	€m			930		
Property-casualty	€m	2,509	3,381	2,892		
Consolidated result						
Life	€m	293	465			
Life and health	€m			705	714	561
Property-casualty	€m	1,806	2,111	1,695	2,586	2,134

1 Excluding health business conducted like life insurance.
2 2006–2007 adjusted owing to change in methodology.
3 Not available for the financial years 2006–2007, since IFRS 8 was applied for the first time in the financial year 2009.

Munich Re operates in virtually all classes of reinsurance. We offer a full range of products, from traditional reinsurance to innovative solutions for risk assumption. We increasingly use our extensive risk knowledge to develop customised solutions for our clients to meet their diverse needs.

Marketing

As reinsurers, we write our business directly with the primary insurers and also via brokers. In addition to traditional reinsurance business, we also participate as Risk Solutions in the primary insurance business of industrial clients, insurance pools, public-private partnerships, and business in specialist niche segments. Our risk expertise is key to our success.

Result

In 2010, Munich Re's reinsurance business was impacted by high claims costs for major losses. At €2,228m (1,157m), the total burden from major losses was higher than the projected amount and the multi-year average, with 11.0 (1.4) percentage points of the combined ratio attributable to natural catastrophes. The consolidated result declined by 18.5% to €2.1bn (2.6bn). Our investment result was good at €3,436m (3,796m), mainly owing to gains on the disposal of investments. Our operating result for reinsurance, which includes the investment result, decreased by 28.2% to €2.9bn (4.1bn). The technical result totalled €1.3bn (1.9bn).

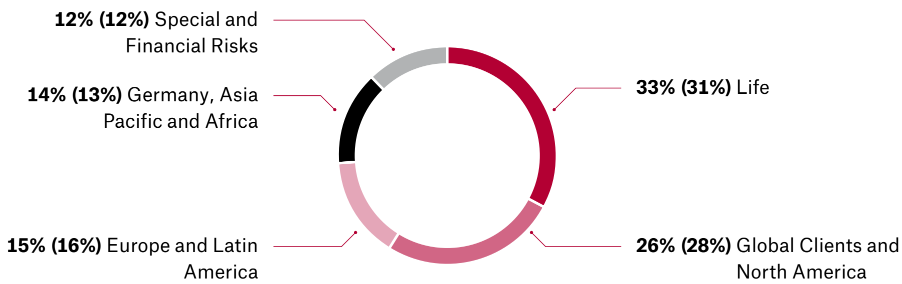
Premium

Premium growth of 8.4%

At €23.6bn (21.8bn), our premium volume in 2010 showed an increase of 8.4%. If exchange rates had remained the same, premium would have risen by 1.5%. Approximately €19bn or 81% of premium was written in foreign currency, of which 37% was in US dollars and 12% in Canadian dollars. 19% of our premium volume was transacted in euros.

We continued to adhere strictly to our underwriting policy of risk-based prices, terms and conditions. The high market capacity, which for economic reasons was not matched by a corresponding increase in demand, caused prices on reinsurance markets unaffected by claims burdens to generally come under moderate pressure. Thanks to our active cycle management, the prices in our portfolios were maintained at a stable level in 2010. In addition, we achieved a rise in premium volume owing to large-volume transactions in life reinsurance.

Gross premiums by division



Life

// Increase in premium of 16.3%
// Market Consistent Embedded Value (MCEV) of €8,284m

Life reinsurance treaties are valued on the basis of Market Consistent Embedded Value (MCEV) Principles. MCEV comprises a company's equity and the value of in-force covered business. The latter is the present value of future profits (where profits are post-taxation shareholder cash flows from the in-force covered business and the assets backing the associated liabilities) calculated using financial and actuarial methods, taking into consideration the time value of the financial options and guarantees and the explicitly determined costs of capital (see also page 55 ff.).

The MCEV of total life reinsurance business increased to €8,284m (6,773m) in the past financial year. The total earnings of €1,018m (1,616m) were accounted for in almost equal measure by in-force business and new business written in 2010. The value added by new business of €475m (562m) comprises both sustainable new business in a variety of markets and several major blocks of business. A presentation regarding MCEV is available on Munich Re's website.

Growth in premium of 16.3%

With a gross volume of €7,901m, premium income in life reinsurance was up 16.3% compared with the previous year. This increase was mainly fuelled by a number of large-volume reinsurance treaties where life reinsurance primarily serves as a capital substitute. These treaties, most of which were concluded in 2009 with clients in North America, Asia and continental Europe, led to a further rise in premium in 2010. An opposite effect derived from the consequences of the global recession, which had a partial impact on our clients' business development and thus on the volume of business available in reinsurance.

However, we expect fundamental growth impulses for our future new business to come from such developments as the continuing privatisation trends in the provision for old age, long term care and disability, and the dynamic expansion of the insurance markets in Asia. We see increasing demand in the management of investment risks in life insurance products, and have therefore created the infrastructure necessary to provide our clients with comprehensive solutions for covering options and guarantees dependent on the capital markets. Besides this, we are successively expanding the spectrum of services we offer our clients with the aim of thus obtaining access to profitable reinsurance. Of particular significance in this regard are consulting services and products to enhance the efficiency of our clients' core processes. For example, our subsidiary **Allfinanz** provides the latest internet-based software solutions for automating the underwriting process in life insurance.

The situation in important individual markets is as follows:

An integral part of our life reinsurance business in **Germany** is occupational disability risk coverage. In this segment, the implications of the financial crisis had to be monitored especially carefully. Our market and product expertise enabled us to support our clients, particularly in developing future-oriented product concepts. Claims experience was not subject to any exceptional burdens, thanks to the consultancy we provided to our clients in the area of claims management and the now noticeable economic recovery. Nonetheless, the elimination of intra-Group reinsurance in 2009 led to a decline in premium income of around €0.3bn in the reinsurance segment in 2010.

In the **USA** our subsidiary Munich American Reassurance Company posted higher gross premiums of €1.7bn (1.5bn), thus maintaining its position among the leading life reinsurers. Despite intense competition, we see good opportunities for profitable growth arising in the area of pure mortality covers from the provision of reinsurance capacity tailored to our clients' requirements. The technical result was below our expectations. While claims experience in our core business – mortality risks coverage – was favourable, we anticipate that claims in long term care insurance will rise. For reserve-strengthening and write-downs of deferred acquisition costs for this business, we therefore incurred expenses of around €315m.

In **Canada,** Munich Re, Toronto (Life) again achieved growth in premium income and its result in 2010, thus assuming a leading market position in all lines in which it conducts business: life, disability, health, critical illness and long term care. Premium income grew to €2.2bn (1.6bn), mainly owing to the conclusion in 2009 of large-volume transactions for which the full annual premium is shown for the first time in 2010. The favourable claims experience in individual life business made a particularly large contribution to the outstanding result. Thanks to its market position, our Canadian branch is excellently placed to maintain the momentum in its business development and result in 2011.

With premium income of almost €1.0bn (0.6bn), the **Asian life insurance markets** became one of the main premium and result drivers in life reinsurance business in 2010. We introduced forward-looking product concepts in the living benefits segments and other consulting services geared to client requirements. We were thus able to significantly advance our clients' business development and participate in this via reinsurance. In addition, we have had particular success in Asia with transactions aimed primarily at strengthening client solvency. Our global transfer of know-how provides us with a competitive advantage in the developing markets. In 2010, we continued to expand our involvement in the region, converting our representative office in Tokyo into a branch in July. We will thus be even more successful in exploiting the special business opportunities resulting for us as reinsurers from the structural transformation of Japanese life insurance.

Competition in the **British life insurance market** remains intense. An oversupply of reinsurance capacity is exerting persistent pressure on the price of pure mortality covers. We are prepared to sacrifice market share where our expectations regarding risk-based pricing cannot be met. In group reinsurance business, we expanded our range of products, above all in the area of automated business processes. The business prospects in this area continue to be good for 2011. To optimise the diversification of our portfolio, we are therefore looking into attractively priced options for the assumption of longevity risks for the British market in particular. In the United Kingdom, Munich Re, London (Life) posted gross premium income totalling €0.8bn (0.8bn).

Life business in **Spain and Portugal** has grown strongly in recent years. To further support the expansion of our leading position and better leverage the potential in Latin America, we will considerably strengthen the team at Munich Re, Madrid in 2011, assigning it operational management responsibility for Spain, Portugal and Latin America. This will benefit our business especially in countries with high economic growth rates, such as Brazil.

Our subsidiary Munich Reinsurance Company of Australasia Ltd., which writes life reinsurance business in **Australia and New Zealand,** has recorded strong growth in recent years. In 2010, it posted a further increase in premium income of 45.5% and secured attractive profit margins.

On the **African continent,** we also recorded profitable growth. Our subsidiary Munich Reinsurance Company of Africa Ltd. raised its premium income by 45.7% to €153m. There are still good opportunities for above-average and profitable growth in the African markets, especially South Africa.

Property-casualty

// Satisfactory result of €1,806m
// Combined ratio of 100.5%

In the light of high claims expenditure for random major losses, we achieved a satisfactory result in property-casualty reinsurance. Thanks to our capital strength and our risk expertise, we succeeded in achieving good terms and conditions in the 2010 treaty renewals and keeping the profitability of our portfolio virtually constant in a still highly competitive market environment.

For the coming years, we see growth potential resulting from the introduction of Solvency II, particularly in Europe but also in some Asian markets. As solvency requirements increase, so should the demand for reinsurance solutions. We are already engaging in intensive dialogue with our clients and have launched the necessary measures to prepare for this development.

Result

Combined ratio of 100.5%

In 2010, we posted an operating result of €2,509m (3,381m) and a satisfactory consolidated result of €1,806m (2,111m). Over the market cycle as a whole, Munich Re's target is a combined ratio of around 97% of net earned premiums. At 100.5% (95.3%), the combined ratio in 2010 clearly exceeded this figure, owing to the high major-loss expenditure.

Aggregate losses from natural catastrophes came to €1,564m (196m), representing 11.0 (1.4) percentage points of net earned premiums and thus well above the projected 6.5%. The earthquake in Chile was the largest individual loss in 2010 at €748m. In terms of Munich Re's loss burden, the earthquake was the third-largest loss in our history, after the attack on the World Trade Center (2001) and Hurricane Katrina (2005). Besides this, there were other major natural catastrophes, the most notable being the earthquake in New Zealand in September (€339m), the floods in Australia in December (€267m), two hailstorms in Australia in March (€171m), Winter Storm Xynthia in Europe at the end of February (€47m), and the damage from heavy snowfalls on the US East Coast in February (€30m). By contrast, the hurricane season in the North Atlantic was relatively benign. Major tropical cyclones did form, but fortunately they seldom made landfall in densely populated coastal regions.

At €664m (962m), man-made major losses were lower in 2010 than in the previous year, which had been burdened by default losses in credit and surety insurance due to the financial crisis. The loss that stood out was the explosion of the Deepwater Horizon oil rig in April, for which Munich Re has reserved a low three-digit million euro amount.

Sizeable losses were also caused by various pharmaceutical liability cases (€121m), leaking tubes following refurbishment at a nuclear reactor (€51m), the explosion in a power plant in the USA (€51m), and the solidifying of aluminium in the potlines of a plant in Qatar (€47m).

Combined ratio by property-casualty division

%	2010	2009	2008	2007	2006
Germany, Asia Pacific and Africa	102.5	100.1	106.5	106.0	94.2
Europe and Latin America	110.8	87.2	91.7	95.0	97.8
Global Clients and North America	99.6	88.8	101.4	95.8	91.9
Special and Financial Risks	89.2	112.6	99.0	83.8	81.1

The combined ratios of the individual divisions developed differently. The Special and Financial Risks Division, which in 2009 had been badly hit by the financial crisis and default losses in trade credit, surety and D&O insurance, improved its combined ratio to 89.2%. Some 0.2 (0.4) percentage points of this were attributable to retrocession cover for the whole reinsurance segment – business which is fully accounted for in the Special and Financial Risks Division. The combined ratio for the other divisions was higher than in the previous year, owing to the burden from major losses. In the Germany, Asia Pacific and Africa Division, the combined ratio rose owing to major losses in Australia. The Europe and Latin America Division recorded an increase of 23.6 percentage points, owing mainly to the earthquake in Chile. The combined ratio in the Global Clients and North America Division rose to 99.6% (88.8%), an acceptable figure in view of the major losses from the Chilean earthquake and Deepwater Horizon.

Premium

The renewal negotiations for reinsurance treaties in 2010 produced satisfactory outcomes. As expected, the market environment was more difficult than in the previous year. The capital markets recovered more quickly than expected and, as a result, so did the balance sheets of many insurers and reinsurers. There was sufficient capacity available in most lines of business. Generally, prices showed a slight downward trend, some exceptions being the motor insurance market in the UK or markets and lines recently affected by major losses. The Chilean earthquake, for instance, meant that prices for natural hazard covers in the region rose significantly, while the weather-related losses in Australia led to a stabilisation of the price level there. Rate increases were also implemented in lines that had been hit by losses in 2009, such as credit reinsurance, some natural hazard covers and offshore energy covers in the Gulf of Mexico. Marine business and the engineering classes, on the other hand, suffered from recession-induced declines in prices and volume. Thanks to our disciplined underwriting policy, we were able to maintain the quality of our portfolio. In areas where there is currently little prospect of profitable results, such as sectors of motor business in eastern Europe and Germany, but also in credit business and selected US liability segments, we consistently reduced capacity. At €15.7bn (15.0bn), we nevertheless managed to increase our premium volume by 4.8%. We expanded our business in the segment of complex liability risks, making available capacity at short notice for high-quality risks and writing profitable new business. Premium income was also boosted by our strong involvement in niche segments.

As in the previous year, around one-third of our treaty business was written at differential terms, i.e. at better terms and conditions than those obtained by other reinsurers, or in the form of exclusive treaties where we were the sole reinsurer.

In contrast to the previous year, the development of the euro against other currencies had a positive effect of €798m on our premium income.

Gross premiums written in property-casualty

€m	2010	2009	2008	2007	2006
Germany, Asia Pacific and Africa	3,268	2,836	3,152	2,917	2,881
Europe and Latin America	3,472	3,378	3,868	3,861	3,526
Global Clients and North America	6,140	6,058	5,086	5,751	6,097
Special and Financial Risks	2,812	2,713	2,573	1,608	1,945

Gross premiums by class of business

€m	2010	2009	2008	2007	2006
Liability	2,112	2,162	2,118	2,227	2,394
Accident	278	353	503	547	713
Motor	2,793	2,218	2,441	2,643	2,913
Marine, aviation, space	1,838	1,900	1,836	1,730	1,751
Fire	4,350	4,339	3,998	3,932	3,763
Engineering	1,658	1,536	1,457	1,286	1,239
Credit insurance	744	632	825	710	688
Other classes of business	1,928	1,847	1,561	1,149	1,090
Total	**15,701**	**14,987**	**14,739**	**14,224**	**14,551**

Trends and growth in selected markets and at our subsidiaries

In **Germany,** premium income fell to €1,303m (1,416m), partly due to continuing erosion of primary insurers' original rates and increases in cedant retentions, and partly because we withdrew from business where we could not obtain risk-commensurate prices, terms and conditions.

The pressure on primary insurers' rates in motor insurance, the class of business with the largest premium volume, persisted on a broad front. Reinsurance premium volume also declined market-wide with lower margins, causing us to further reduce our motor business in 2010.

In **Greater China,** premium volume rose to €735m (423m). We diversified and optimised our portfolio by forgoing business that did not meet our profitability requirements, writing new large-volume and profitable treaties in China, and expanding our client base. We also participated in strong original growth.

Our premium volume in **Japan and Korea** grew to €578m (554m), despite the competitive insurance and reinsurance environment and the effects of the global financial crisis. Notwithstanding the difficult economic situation and the strong yen, we were able to keep the capacity we provided in Japan constant, especially for coverage of the natural hazards earthquake and typhoon. In addition, we supported Japanese companies in their international expansion, in designing products and in enhancing their risk management in anticipation of new solvency and accounting regulations (IFRS).

Regulatory developments in **India** continue to give cause for hope that the market will be opened to international reinsurers. Given the medium- and long-term growth potential – also in the reinsurance sector – Munich Re is continuing to keep all its strategic options open.

In **Australia and New Zealand,** we remained the market leader and recorded year-on-year premium growth to €788m (555m). However, the result was burdened by the hailstorms and floods in Australia and the earthquake in New Zealand. Despite the turbulences on the financial markets, the capitalisation of Australian insurance companies is still very solid so that – given our high market share – the growth potential in traditional reinsurance business is limited in the medium term.

In the **United Kingdom,** we were able to increase our premium level by 1.6% to €2,985m (2,937m), despite the keen competition in the reinsurance market. We strictly adhered to our policy of withdrawing from business that did not offer risk-commensurate prices and conditions, but we managed to more than compensate for this with growth in profitable motor business via our participation in a strategic partner. We also again improved the premium level of our primary insurance business written via our managing general agency (MGA) Bell & Clements, thanks to organic growth with existing clients, to new products and to selected shares in niche business.

In **Spain,** our premium income decreased to €403m (448m), owing partly to the continuing economic crisis and partly to our systematic withdrawal from non-profitable business. We nevertheless succeeded in maintaining our leading market position.

In **Latin America,** we extended our market leadership, with premium income climbing to €691m (606m). While prices generally remained constant, rates for natural catastrophe covers rose significantly in some cases. The result benefited from our profit-oriented underwriting policy and a low claims burden in the Caribbean. We were only marginally affected by the earthquake in Haiti, owing to low insurance density.

Most of the losses from the earthquake in Chile involved the Latin American market and our branches in Madrid and London. We immediately set up a local claims management task force which enabled us to give our clients direct support for efficient claims settlement and to swiftly make advance claims payments. Thanks to this high degree of flexibility and service, we have been able to expand our market share at considerably higher prices.

Our subsidiary **Münchener Rück do Brasil Resseguradora S.A.** increased its premium volume to €163m (126m), thus maintaining a leading position in the market. Owing to low claims costs, the combined ratio improved markedly to 83.2% (120.1%).

Münchener Rück do Brasil Resseguradora S.A.

		2010	Prev. year	Change
				%
Gross premiums written	R$ m	378	347	8.9
Thereof property-casualty	R$ m	335	322	4.0
Net earned premiums	R$ m	169	147	15.0
Thereof property-casualty	R$ m	146	131	11.5
Loss ratio property-casualty	%	49.7	83.0	
Expense ratio property-casualty	%	33.5	37.1	
Combined ratio property-casualty	%	83.2	120.1	
Result for the year	R$ m	25.0	–22.5	–
Investments	R$ m	363	202	79.7

In the **Global Clients and North America Division,** we registered a slight overall increase in premium owing to the full consolidation of the HSB Group. We took advantage of attractive growth opportunities in selected products and existing client accounts, but consistently shed business that was unprofitable due to pressure on reinsurance rates, including large-volume treaties. We increased our stake in Lloyd's MSP Syndicate from 73.2% to 84.7%.

In **US business,** we posted pleasing results both at Munich Reinsurance America, Inc. and at the primary insurers AMIG and HSB Group. North America was largely spared natural catastrophes in 2010. We successfully completed the integration of the HSB Group at the beginning of 2010. Its premium income of €643m has been consolidated for a full year for the first time, as compared with nine months in the previous year. The result was again very satisfactory at €122m. Benefiting from synergies with Munich Re, the HSB Group is selectively expanding its international activities in promising markets. Since mid-2010, the primary insurance operations in the USA have been even more closely aligned under single management. With stronger cross-selling, we will leverage further business potential in future.

Munich Reinsurance America

		2010	Prev. year	Change
				%
Gross premiums written	US$ m	3,621	3,360	7.8
Thereof property-casualty	US$ m	3,111	3,042	2.3
Net earned premiums	US$ m	2,881	2,677	7.6
Thereof property-casualty	US$ m	2,364	2,366	–0.1
Loss ratio property-casualty	%	71.0	63.4	
Expense ratio property-casualty	%	33.2	30.3	
Combined ratio property-casualty	%	104.2	93.7	
Result for the year	US$ m	276.5	314.5	–12.1
Investments	US$ m	15,611	13,474	15.9

Munich Reinsurance Canada Non-Life Group – Munich Reinsurance Company of Canada and Temple Insurance Company – again made a very positive contribution to the result, despite several weather-related events. The expansion of our specialty insurance activities via Temple Insurance Company is also progressing well.

Munich Reinsurance Canada Non-Life Group

		2010	Prev. year	Change
				%
Gross premiums written	Can$ m	399	414	–3.6
Property-casualty	Can$ m	399	414	–3.6
Net earned premiums	Can$ m	298	295	1.0
Property-casualty	Can$ m	298	295	1.0
Loss ratio property-casualty	%	60.7	57.2	
Expense ratio property-casualty	%	34.6	32.9	
Combined ratio property-casualty	%	95.3	90.1	
Result for the year	Can$ m	59.6	76.0	–21.6
Investments	Can$ m	1,550	1,510	2.6

Our Swiss subsidiary **New Reinsurance Company Ltd. (NewRe)** posted another very pleasing result. In traditional business, it now focuses exclusively on non-proportional covers, writing a considerable volume of natural catastrophe business. In addition, it is successfully establishing itself in the market for structured, made-to-measure reinsurance solutions. NewRe continued its consistent cycle management, compensating for its active reduction in traditional business with newly acquired structured contracts. At Sfr 1,289m (1,518m), its business volume was distinctly lower in the financial year 2010 due to the scheduled termination of a large-volume quota share treaty which had been concluded to cover a client's capital requirements during the financial crisis.

New Reinsurance Company Ltd.[1]

		2010	Prev. year	Change
				%
Gross premiums written	Sfr m	1,289	1,518	–15.1
Thereof property-casualty	Sfr m	702	941	–25.4
Net earned premiums	Sfr m	1,162	1,465	–20.7
Thereof property-casualty	Sfr m	590	887	–33.5
Loss ratio property-casualty	%	57.2	67.8	
Expense ratio property-casualty	%	26.9	21.6	
Combined ratio property-casualty	%	84.1	89.4	
Result for the year	Sfr m	136.3	205.8	–33.8
Investments	Sfr m	3,858	4,387	–12.1

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

In **marine reinsurance,** premium income was lower than in 2009, totalling €1.2bn. Some €392m (361m) of this was earned by our Lloyd's Watkins Syndicate. The decrease in premium was caused by the global fall-off in trade on account of the recession. Besides this, pressure on rates in the classic marine lines continued in 2010, especially cargo insurance. We also withdrew consistently from unprofitable business. In reinsurance business exposed to natural hazards and major losses, we were able to achieve improvements in prices, terms and conditions in 2010. For 2011, we must reckon with a further fall in premium income as a result of our rigorous profit-oriented underwriting policy in a difficult market environment. However, we are proceeding on the assumption that in the offshore energy sector, rates in the insurance and reinsurance markets will rise owing to the known exposures to natural catastrophes and the Deepwater Horizon loss. We will take advantage of our market position to generate profitable business from this development. Our initiative to provide cover for offshore oil drilling is a step in the same direction.

Special and financial risks business

We continued to extend our leading position in **agricultural reinsurance,** where the business we wrote mainly comprised state-supported crop insurance programmes, with a large portion stemming from the USA. In close consultation with selected cedants, we are applying our vast experience and expertise in this business to other regions with a high potential for earnings and growth.

In the market for **aviation and space risks,** pressure on market rates increased. Premium volume was up 4.6% to €635m (607m). In space business, our position as market leader and the conclusion of long-term treaties enabled us to largely avoid the consequences of the pressure on rates. The result also benefited from only moderate claims costs. In aviation business, the rise in rates apparent in some sub-segments in 2009 did not continue, despite a sequence of major losses in 2010. Consequently, the combined ratio rose to 87.7% (83.4%).

In our **financial risks** segment, credit and bonding reinsurance is the most important class of business. Here we reinsure financial risks related to transactions of goods and services worldwide or emanating from bonds and guarantees. This segment is closely linked to global economic development but also to regional economic trends. Together with our clients, we took specific measures in the crisis years 2008 and 2009 to control risks in the reinsurance portfolios and implemented improvements in prices, terms and conditions on the primary insurance side. These activities, along with the swift recovery of the economy, had a positive effect in the financial year 2010, enabling us to lower our combined ratio in credit and bonding to 82.4% (173.4%). Premium income developed as expected, totalling €744m (632m). For 2011, with the improvement in the macroeconomic situation continuing, we expect credit and bonding results to stabilise at a good level in primary insurance; the same applies to our results in reinsurance.

Our **Risk Trading Unit** places insurance risks on the capital and retrocession markets. We provide this unit's services primarily for our clients but we also use them for our own purposes when laying off insurance risks is expedient from a risk management perspective. In 2010, for example, US hurricane capacity was placed with investors in two client transactions (US$ 305m and US$ 96m). Munich Re also provided consulting services in a further capital market transaction (US$ 150m). In addition, we acquired protection for the scenarios European windstorm and US hurricane in a transaction of our own in the first half-year (EOS Wind, US$ 80m). The total number of transactions made Munich Re one of the most important players in the capital market in this respect in 2010. In the meantime, we have also become one of the main European investors in insurance-linked securities (ILS), which allows us to systematically exploit further market opportunities.

We offer tailored solutions for industry and major clients

Through primary insurance companies in our Group, we offer our clients in **industrial and major project business** a wide range of products, customised solutions and services based on our recognised industry- and risk-related knowledge. We operate the business in our unit Corporate Insurance Partner with experts in Munich, London, Paris, New York, Princeton and Singapore. Our specialist knowledge in identifying and assessing risks and in structuring insurance solutions allows us to create value in a highly dynamic and globalised environment and to stand out from our competitors. We succeeded in slightly increasing our premium volume in this segment. The combined ratio for 2010 was burdened by investments for the expansion of these activities and major losses such as the earthquake in Chile.

Primary insurance

// Year-on-year increase of 5.4% in total premium income to €19.2bn; premium growth in German and international business
// Good combined ratio of 96.8%, despite numerous natural hazard events
// Investment result of €5.6bn
// Result of €656m significantly higher than in previous year
// Successful implementation of new brand strategy

Key figures

		2010	2009	2008	2007	2006
Overall premium income[1]	€bn	19.2	18.2	18.1	18.3	17.7
Gross premiums written						
Life	€m	6,484	6,294	6,053		
Health	€m	5,499	5,171	5,840		
Life and health	€m				11,647	11,606
Property-casualty	€m	5,498	5,131	5,105	5,639	5,147
Loss ratio property-casualty	%	63.1	60.3	58.4	58.6	55.8
Expense ratio property-casualty	%	33.7	32.9	32.5	34.8	35.0
Combined ratio property-casualty	%	96.8	93.2	90.9	93.4	90.8
Operating result[2]						
Life	€m	355	218	350		
Health	€m	236	216	153		
Property-casualty	€m	678	474	488		
Consolidated result						
Life	€m	172	27	–12		
Health	€m	165	83	16		
Life and health	€m				358	319
Property-casualty	€m	319	257	152	626	726

[1] Primary insurance premium income comprises the following: In the life primary segment, it includes not only gross premiums written but also savings premiums for unit-linked life insurance and capitalisation products in accordance with the statutory accounting guidelines applicable in the insurer's home country. In the health and property-casualty primary insurance segments, it comprises the gross premiums written.
[2] Not available for the financial years 2006–2007, since IFRS 8 was applied for the first time in the financial year 2009.

Munich Re's primary insurance segment comprises all the activities of the ERGO Insurance Group (ERGO) with the exception of health insurance business outside Germany, which is handled by Munich Health. ERGO operates in nearly all branches of life, health and property-casualty insurance. Some 75% of gross premiums written derive from Germany, and the remaining 25% mainly from other European countries. Overall, around 90% is transacted in euros.

Marketing

ERGO offers the appropriate sales channel for every client. There are over 20,000 full-time self-employed agents, direct sales staff, brokers and strong cooperation partners servicing clients in Germany and abroad. ERGO has a broad-based distribution partnership agreement in Germany, central and eastern Europe with the major European bank UniCredit Group. Through its travel insurer ERV, ERGO works with more than 17,000 partners in the tourist industry in Germany, its main sales partners being travel agents and tour operators.

2010 marks the year of the new brand strategy

In primary insurance, 2010 was clearly dominated by the new brand strategy decided on by ERGO in November 2009. Its implementation was successfully concluded in the year under review. The core aspects of this strategy are to focus on a single ERGO brand in life, property-casualty and direct insurance business, and to enhance the specialists' profile in healthcare (DKV), legal protection (D.A.S.) and travel insurance (ERV). Changing client requirements can be accommodated in this way, and further growth triggered long term by a more visible all-round offering.

In the first quarter of 2010, the brand restructuring was launched with the renaming of KarstadtQuelle Versicherungen as ERGO Direkt Versicherungen. In summer, important milestones achieved were the presentation of ERGO as an operational brand following entry of the new ERGO companies in the German commercial register and the start of the large-scale advertising campaign on 18 July. Life insurer Hamburg-Mannheimer Versicherungs-AG was renamed ERGO Lebensversicherung AG. Property-casualty insurer Victoria Versicherung AG is now called ERGO Versicherung AG, into which the property-casualty insurers of D.A.S. and Hamburg-Mannheimer have been merged. At the beginning of October, the implementation of the new brand strategy was brought to a conclusion with a reorganised brand presence for the areas of health and legal protection. Victoria Krankenversicherung was merged into DKV and Hamburg-Mannheimer Rechtsschutz-Versicherungs-AG into D.A.S. In international business, the ERGO brand also gained in significance: ERGOİSVİÇRE Sigorta was renamed ERGO Sigorta, and at ERGO Hestia the new brand presence and logo gives greater emphasis to ERGO.

Result

Result of €656m

In the year under review, ERGO was able to maintain the upward trend initiated in the second quarter of 2009. The result in the primary insurance segment totalled €656m (367m), or 78.7% more than the previous year's crisis-weakened figure, while the consolidated result for the ERGO subgroup came to €355m (173m). A major factor in the increase was the investment result, which improved by 20.8% on the previous year, in particular owing to the year-on-year reduction of €740m in write-downs and losses on disposals. Another positive effect of €46m before tax and policyholders' participation resulted from the derivatives used to hedge against prolonged low-interest-rate scenarios. There was an adverse impact, however, from impairment losses of goodwill totalling €109m for ERGO SIGORTA A.S, Istanbul, in the second quarter of the year. This write-down reflects the difficult profit situation on the Turkish motor insurance market.

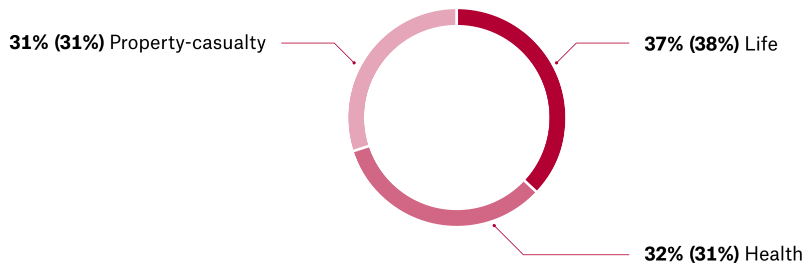
The operating performance was also satisfactory: in 2010, we posted a result increase of 39.8% to €1,269m (908m). The technical result amounted to €648m (814m), not only because of the difficult conditions in important markets such as Turkey, Poland and South Korea but also owing to natural hazard events like the long, harsh winter and floods on the Odra and Vistula. These events had a greater impact on property-casualty insurance than in the previous year, especially in our international business.

Premium

Total premium income growth of 5.4%

In the financial year 2010 overall, premium volume across all lines of business totalled €19.2bn (18.2bn), representing an increase of 5.4%. Expansion was particularly prominent in international business, reflecting organic growth and favourable trends in exchange rates in important markets. Although our premium volume in primary insurance largely stems from the eurozone, our income was still positively influenced by changes in exchange rates, above all the Polish zloty. At €14.5bn (14.0bn), overall premium income from Germany was up 3.6% on the previous year. Gross premiums written in 2010 totalled €17.5bn (16.6bn). Unlike overall premium income, gross premiums written do not include the savings premiums of €1.7bn (1.6bn) from unit-linked life insurance and capitalisation products. ERGO's premium growth is especially pleasing in view of the brand changeover in Germany, where our sales forces have done an excellent job.

Gross premiums by segment



Life

The consolidated result in life insurance for the past financial year amounted to €172m (27m), benefiting from write-ups of hedging instruments.

We value the life, health and personal accident insurers with their long-term liabilities on the basis of Market Consistent Embedded Value (MCEV) Principles. MCEV comprises a company's equity and the value of in-force covered business. The latter is the present value of future profits (where profits are post-taxation shareholder cash flows from the in-force covered business and the assets backing the associated liabilities) calculated using financial and actuarial methods, taking into consideration the time value of the financial options and guarantees and the explicitly determined costs of capital (see also page 55 f.).

MCEV of €2,375m

The MCEV of life primary insurance business decreased to €2,375m (3,155m) in the financial year 2010, largely owing to the strong fall in interest rates and high interest-rate volatility. This constitutes a challenge for the industry as a whole. Given the strict rules of market-consistent valuation at 31 December 2010, long-duration contracts that provide guarantees for policyholders sometimes show declining results, despite our hedging against prolonged phases of low interest rates. Total MCEV earnings came to –€602m (1,329m), with the value of new business totalling €114m (96m). A detailed presentation of MCEV is available on Munich Re's website.

Premium growth of 3.6% in German business and increased volume in international business

Overall premium income in life insurance was up by 3.6% in 2010. In international business, premium showed significant growth of 5.3%, reaching a total of €2.1bn. The rise is due not least to the satisfying development in Poland and Belgium, where we posted growth of 131.7% and 30.3% respectively. The substantial increase in Poland is mainly attributable to our bank cooperation agreements. In Germany, we recorded premium income of €6.0bn (5.9bn) over the year as a whole, representing expansion of 3.0%. Gross premiums written in and outside Germany rose by 3.0%.

New business in life insurance

	2010	Prev. year	Change
	€m	€m	%
Germany			
Regular premiums	331	340	–2.6
Single premiums	1,609	1,260	27.7
Total	**1,940**	**1,600**	**21.3**
Annual premium equivalent[1]	492	466	5.6
International			
Regular premiums	180	165	9.1
Single premiums	800	738	8.4
Total	**980**	**903**	**8.5**
Annual premium equivalent[1]	260	239	8.8

[1] The annual premium equivalent corresponds to the regular premium income plus 10% of single-premium volume.

Premium from German new business climbed to €1.9bn compared with 2009, an increase of 21.3% on the same period last year. This is primarily due to single-premium business, where we recorded double-digit growth rates in traditional annuity business. Nevertheless, we adopted a restrained approach in marketing these products and only wrote business on the basis of stringent risk and return considerations. Given the current economic environment, clients are still shying away from concluding long-term contracts with regular premium payments for old-age provision. In terms of annual premium equivalent (APE) – the customary international performance measure – our new German business volume was up by 5.6% compared with the previous year. International business rose by 8.5% to €980m. Measured as APE, it increased by 8.8%.

Health

MCEV of €1,733m

In the health insurance segment, the consolidated result for 2010 rose to €165m (83m). The MCEV amounted to €1,733m (1,971m) at the end of the financial year. Since only short-term interest-rate guarantees are provided in this business, the interest-rate environment did not have such a strong impact as in life insurance. Total MCEV earnings nevertheless fell to –€122m (168m), while the value added by new business decreased to €28m (36m).

The most recent health reform in Germany has changed the conditions in German comprehensive health insurance since 1 January 2009, increasing the influence of policyholder behaviour in particular: policyholders now have the right to change provider and take ageing reserves with them in some cases, while insurers cannot cancel the policies of clients who have failed to pay their premiums and must continue to indemnify them for certain treatment. The alterations are taken into account in the MCEV model on the basis of current experience, but future client behaviour is still difficult to estimate. Changed assumptions due to future experience could influence our MCEV figures substantially. Discussions regarding the German healthcare system are still ongoing, and possible future statutory changes could lead to significant changes in our MCEV figures.

Premium income rose by 6.3%

As from the beginning of 2010, premium volume in health climbed by 6.3% to €5.5bn (5.2bn). Business with supplementary benefit covers grew by 6.0%, while premium income in comprehensive health insurance expanded by 6.9%, reflecting the marked price increases we were obliged to make at the beginning of 2010 owing to a general rise in medical costs. Premium growth in the year under review was also driven by the conclusion of a major contract in the previous year. New business expanded considerably – by 21.1% to €299m (247m) – due to the conclusion of the above-mentioned contract in comprehensive health insurance and to growth in supplementary health insurance, where we recorded expansion thanks to the introduction of new products. In travel insurance, which is included in the health segment, we registered a rise in premium volume of 10.3% in 2010. After a difficult 2009, we see this as a sign that the travel sector has recovered.

Property-casualty

Combined ratio at a good level of 96.8%

The consolidated result in property-casualty insurance totalled €319m (257m). At 96.8%, the 2010 combined ratio was higher than for 2009 (93.2%) but was nevertheless still good. Market-wide problems in important countries like Turkey, Poland and South Korea and natural hazard events such as the long, harsh winter and flood losses were responsible for considerably higher claims expenditure in international business. The combined ratio rose to 107.8% (102.5%) in international business, but in our key market Germany it was a very good 89.8% (87.9%).

In the past financial year, premium volume increased, the growth of 7.2% largely deriving from international business. In Greece, we grew our premium income by 46.0% thanks to our exclusive partnership with Piraeus Bank. There was also significant premium expansion in Poland (+19.6%) and South Korea (+36.8%), reflecting favourable trends in exchange rates. In international business, we posted a total premium volume of €2.3bn (2.0bn) for 2010, a rise of 18.0% against the previous year. In German business, premium income totalled €3.17bn (3.16bn), an increase of 0.4%. This development was largely driven by commercial and industrial insurance, where we achieved 2.8% growth in premium to €773m (752m). In the highly competitive class of motor insurance, our premium volume showed a modest increase to €601m (593m) against 2009. In a still difficult legal protection market, premium income for direct business fell by 2.0%. Our business with personal accident policies was down by a marginal 1.5%, while other personal lines business remained essentially stable.

Munich Health

// Marked increase in premium income of 29.3% to €5.1bn
// Combined ratio of 99.7% from January to December
// Investment result of €142m
// Consolidated result for the year of €63m

Key figures

		2010	Prev. year	Change
				%
Gross premiums written	€bn	5.1	4.0	29.3
Loss ratio[1]	%	78.5	80.0	
Expense ratio[1]	%	21.2	19.4	
Combined ratio[1]	%	99.7	99.4	
Operating result	€m	131	133	–1.5
Consolidated result	€m	63	27	133.3

[1] Excluding health insurance conducted like life insurance.

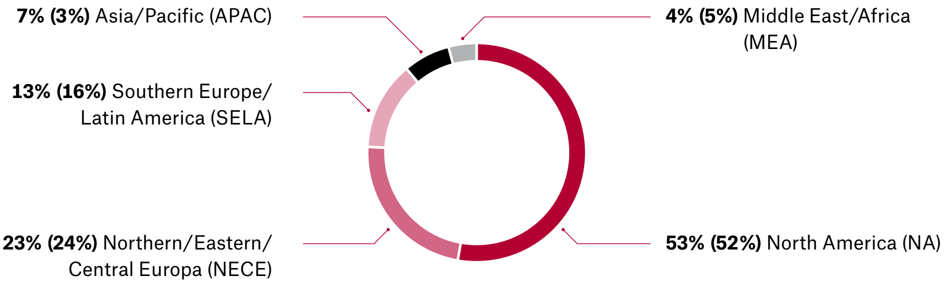
In recent years, the global health market has become one of the fastest-growing sectors of the economy in terms of both insurance and care provision. This trend will become even more pronounced in the future due to advances in medicine, improved life expectancy and the development of healthcare markets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

Munich Health thus covers our health reinsurance business worldwide and our health primary insurance outside Germany. The cornerstones of Munich Health are the international subsidiaries of our health primary insurer DKV, the specialised US health insurer Sterling Life Insurance Company (Sterling), Munich Re's worldwide health reinsurance business, and the service companies of the MedNet Group.

In 2010, the **consolidated result** totalled €63m (27m). There was a slight reduction of 6.0% in the investment result to €142m (151m), and our operating result also decreased moderately by 1.5% to €131m (133m).

Gross premiums written were appreciably higher than in the previous year, climbing by 29.3% to €5.1bn (4.0bn). If exchange rates had remained the same, premium volume would have risen by 20.2% year on year.

Gross premiums by market region



Acquisition in the USA expands managed-care competence

International health primary insurance business showed an increase of 9.1% to €1,925m (1,764m), with premium growth particularly pronounced in the United Kingdom, Spain and Belgium. At Sterling, premium volume for the whole of 2010 was down, given the more stringent US regulatory framework for the senior segment on which it focuses: premium income came under pressure from sales restrictions. In the fourth quarter, Munich Re announced the acquisition of Windsor. The transaction was completed on 1 January 2011. The cooperation between Sterling and Windsor enables us – thanks to Windsor's provider network of physicians and hospitals – to use and expand our overarching managed-care competence, in keeping with the new legal requirements. We have thus laid the foundations for profitable growth in the USA, the world's largest health insurance market.

In reinsurance the growth in premium income by 45.5% to €3,215m (2,210m) is essentially due to new, large-volume treaties providing capital relief to our clients in North America and Asia.

The **combined ratio** in the Munich Health segment for 2010 was 99.7% (99.4%). This key indicator relates only to short-term health business, not to business conducted like life insurance (for instance, in Belgium and Luxembourg), the figure for the latter amounting to 12.5% (15.4%) of gross premiums written in the year under review. The relatively high combined ratio was due to a greater claims burden from individual reinsurance accounts in Asia, the Middle East and Italy. By contrast, Sterling's combined ratio was improved, benefiting partly from cost-saving measures introduced because of the drop in Medicare Advantage business.

Investment performance

// Fixed-interest securities and loans continue to dominate the portfolio with share of 84%
// Another good result of €1.6bn from gains on disposal
// Pleasing return on investment of 4.5%

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

Investment mix[1]

	Reinsurance					
	Life		Property-casualty		Life	
€m	31.12.2010	Prev. year	31.12.2010	Prev. year	31.12.2010	Prev. year
Land and buildings, including buildings on third-party land	267	211	1,178	1,095	1,760	1,775
Investments in affiliated companies	16	12	67	61	20	7
Investments in associates	54	43	282	256	192	190
Loans	47	61	188	283	31,045	29,852
Other securities held to maturity	–	–	–	–	42	83
Other securities available for sale						
Fixed-interest	11,905	10,461	45,110	44,711	35,803	36,456
Non-fixed-interest	974	359	5,419	1,832	1,892	1,913
Other securities at fair value through profit or loss						
Held for trading						
Fixed-interest	–	–	424	546	50	50
Non-fixed-interest	–	–	25	20	3	4
Derivatives	331	87	154	185	323	284
Designated as at fair value through profit or loss						
Fixed-interest	–	–	–	–	233	372
Non-fixed-interest	–	–	–	–	8	20
Deposits retained on assumed reinsurance	5,069	5,171	1,499	1,347	136	118
Other investments	330	141	787	882	623	633
Investments for the benefit of life insurance policyholders who bear the investment risk	–	–	–	–	4,953	4,024
Total	**18,993**	**16,546**	**55,133**	**51,218**	**77,083**	**75,781**

1 After elimination of intra-Group transactions across segments.

		Primary insurance			Munich Health		Asset management		Total	
	Health		Property-casualty							
	31.12.2010	Prev. year	31.12.2010	Prev. year	31.12.2010	Prev. year	31.12.2010	Prev. year	31.12.2010	Prev. year
	623	635	340	309	16	15	63	46	4,247	4,086
	20	19	71	67	1	2	8	10	203	178
	107	106	150	141	52	32	51	55	888	823
	15,319	14,225	2,312	2,184	24	17	–	–	48,935	46,622
	–	–	–	1	–	–	–	–	42	84
	11,794	11,099	5,202	5,063	2,447	1,692	93	84	112,354	109,566
	634	978	655	807	174	129	21	21	9,769	6,039
	–	–	–	–	1	4	–	–	475	600
	–	1	–	–	1	–	–	–	29	25
	37	32	12	5	10	3	–	–	867	596
	–	–	–	–	–	–	–	–	233	372
	–	–	–	–	–	–	–	–	8	20
	1	1	3	3	194	158	–	–	6,902	6,798
	87	68	463	341	129	10	780	265	3,199	2,340
	3	1	–	–	1	1	–	–	4,957	4,026
	28,625	**27,165**	**9,208**	**8,921**	**3,050**	**2,063**	**1,016**	**481**	**193,108**	**182,175**

Investment principles

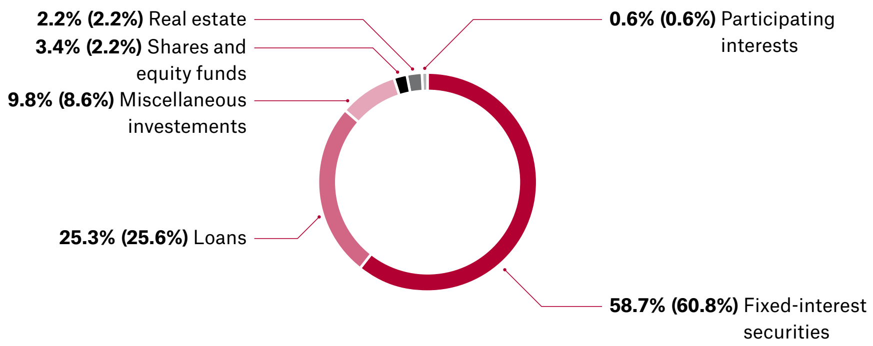
Our **investment strategy** considers supervisory requirements aimed at ensuring optimum security and profitability, with sufficient liquidity at all times, and an appropriate mix and spread. We also comply with all other legal requirements. We only make investments in assets from which we expect an appropriate return, our asset managers paying strict attention to the risk tolerance of each company and the principle of sustainability. As far as possible, we reduce currency risks by matching our expected liabilities with assets in correlated currencies. We also take care that the maturities of our fixed-interest securities are aligned with those of our liabilities. The methods we use to control investment risks are described in detail in the risk report on page 116 ff.; our approach to asset-liability management is explained on page 102.

Significant developments in the financial year 2010

The performances of the most important share price indices varied over the course of the year: the DAX, for example, recorded an increase of around 16% since January, whereas the EURO STOXX 50 lost around 6% in the same period. There were similar discrepancies in the bond markets. While yields on German government bonds fell further, risk spreads on government bonds of peripheral eurozone countries rose strongly. Through restructurings in our portfolio, we benefited from falling interest rates and realised gains on disposals that contributed significantly to the improvement in our result from €7.9bn to €8.6bn. We were thus able to achieve a gratifying return on investment of 4.5% (4.3%), which was appreciably higher than our previous year's projection.

Distribution of investments by type

Total: €193.1bn (182.2bn)



The **carrying amount of our investments** rose in 2010. Apart from new investments, this was due in particular to the fall in the euro against the US dollar over the year as a whole (despite a marked recovery in the second half-year). This significantly increased the market values of our investments held in foreign currencies when translated into euros.

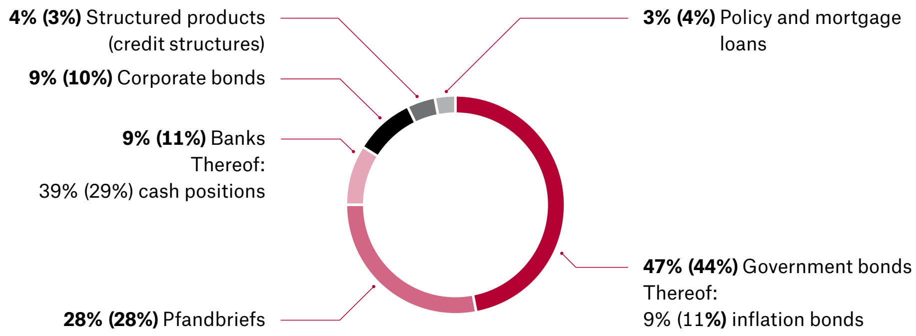
Valuation reserves not recognised in the balance sheet

	31.12.2010			Prev. year		
€m	Valuation reserves	Fair value	Carrying amount	Valuation reserves	Fair value	Carrying amount
Land and buildings[1]	1,695	8,353	6,658	1,722	8,280	6,558
Associates	311	1,181	870	186	982	796
Loans	1,553	50,488	48,935	1,287	47,909	46,622
Other securities	1	43	42	2	86	84
Tangible assets in renewable energies	–	46	46	–	–	–
Total	**3,560**	**60,111**	**56,551**	**3,197**	**57,257**	**54,060**

[1] Including owner-occupied property.

Given a decline in risk-free interest rates, we also benefited from adherence to our policy of lengthening the duration of our investments, which amounted to 6.3 (5.9) years at the balance sheet date. However, rising risk spreads meant that our total valuation reserves (excluding owner-occupied property), which are partly recognised in the balance sheet, fell from €7.9bn to €7.4bn.

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



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

In 2010, our investment portfolio continued to be dominated by fixed-interest securities, loans and short-term fixed-interest investments. Over 47% of these are government bonds or instruments for which public institutions are liable, of which 14% are bonds of Portuguese, Italian, Irish, Greek, and Spanish issuers. Additionally, around 28% of our interest-bearing investments are in securities and debt instruments with top-quality collateralisation, around 43% of which are German pfandbriefs.

In the period under review, we switched from corporate bonds into equities, at the same time extending our hedging against falling share prices. At the reporting date, corporate bonds made up 9% of our fixed-interest portfolio. Our portfolio of structured interest-bearing products, which are held chiefly by our reinsurance companies, expanded by €0.8bn to €6.1bn (5.3bn), mainly due to exchange-rate developments and a few additions. Around 79% of these securities have an AAA rating.

At the balance sheet date, we held €7.2bn (7.8bn) in inflation-indexed bonds. These offer a certain degree of protection against the risks of future inflation and a rise in interest rates.

Investing in real assets such as equities and real estate also diversifies our portfolio and increases the level of protection against the inflation risk. In the period under review, we carefully increased our equity portfolio (including investments in affiliated companies and associates at market value) to €7.9bn (5.2bn). At the reporting date, our economic equity exposure after allowing for derivative financial instruments was 4.4% (2.8%).

Investment result

Investment result

€m	2010	2009	2008	2007	2006
Regular income	7,749	7,629	7,859	8,110	7,834
Write-ups/write-downs	–403	–1,122	–2,847	–1,032	–865
Net realised capital gains	1,649	1,612	2,208	2,803	2,559
Other income/expenses	–353	–236	–1,304	–628	–556
Total	**8,642**	**7,883**	**5,916**	**9,253**	**8,972**

Investment result by type of investment

	2010	Prev. year	Change
	€m	€m	%
Real estate	339	253	34.0
Investments in affiliated companies	9	–18	–
Investments in associates	50	–123	–
Mortgage loans and other loans	2,150	1,984	8.4
Other securities	6,173	5,663	9.0
Deposits retained on assumed reinsurance and other investments	114	150	–24.0
Investments for the benefit of life insurance policyholders who bear the investment risk	271	441	–38.5
Expenses for the management of investments and other expenses	464	467	–0.6
Total	**8,642**	**7,883**	**9.6**

Regular investment income rose, due to our larger portfolio of fixed-interest securities and loans and to our cautious resumption of investments in credit-exposed securities. In addition, there was an increase in income from associates.

The net balance from **write-ups and write-downs** was –€403m (–1,122m). We posted small net write-ups of €80m (–366m) on our swaptions, due primarily to falling interest rates. Swaptions are used by our life primary insurers as protection against reinvestment risks in low-interest-rate phases. Mainly owing to the volatile stock markets, we made writedowns of €277m (385m) on our non-fixed-interest securities.

For our investment portfolio as a whole, we again posted good **net realised gains on disposal** in 2010. Some €634m (943m) came from the disposal of non-fixed-interest securities available for sale, while around €90m was apportionable to the reduction of our stake in Helvetia Holding AG, St. Gall, from approximately 8.2% to under 3% in the second quarter. The total disposal result also contains €1,067m (782m) from fixed-interest securities available for sale. This includes the sale of corporate bonds we had acquired in the previous year, which subsequently recorded market gains as risk spreads fell. Furthermore, when switching investments in government bonds, we profited from the interest-rate level remaining low. Altogether, therefore, Munich Re benefited from its conservative yet active asset management.

We generated €271m (441m) from investments for the benefit of life insurance policyholders who bear the investment risk. We post this in the investment result under "other income/expenses".

Total assets under management

		31.12.2010	Prev. year	Change
				%
Third-party investments	€bn	10.2	7.9	29.1
		2010	**Prev. year**	**Change**
				%
Group asset management result	€m	37	19	94.7

MEAG MUNICH ERGO AssetManagement GmbH is the asset manager of Munich Re. In addition to its asset management function for the Group, MEAG also offers its expertise to private and institutional clients. The amount managed by MEAG in private-client business via investment funds totalled €2.1bn (2.0bn). Assets under management for institutional clients outside the Group rose by around 37% to €8.1bn (5.9bn), reflecting the fact that MEAG was able to win new clients. The assets managed by PICC Asset Management Company Ltd. (PAMC), Shanghai, 81% of which belongs to PICC People's Insurance Company of China, and 19% to MEAG, reached €30.0bn (18.8bn).

Financial position

// Debt leverage down 0.2 percentage points
// Asset-liability management as basis for our investment strategy
// Share buy-back programme continued

Munich Re's financial strength continues to be assigned the second-highest **rating category** by each of the leading rating agencies.

Financial strength ratings for Munich Re

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

Analysis of our capital structure

Munich Re's capital structure is essentially governed by its activity as an insurer and reinsurer. Investments on the assets side of the balance sheet serve mainly to cover technical provisions (74.7% of the balance sheet total). Equity (9.7% of the balance sheet total) and bonds classified as strategic debt (2.2% of the balance sheet total) are the most important sources of funds.

Group equity

Development of Group equity

€m	31.12.2010	31.12.2009	31.12.2008
Issued capital and capital reserve	7,388	7,388	7,388
Retained earnings	10,735	10,667	10,843
Other reserves	2,238	1,473	1,036
Consolidated result attributable to equity holders of Munich Reinsurance Company	2,422	2,521	1,555
Non-controlling interests	245	229	285
Total	**23,028**	**22,278**	**21,107**

The increase in equity was attributable not only to the consolidated result but also to a rise in the reserve for currency translation adjustments and to marginally higher net unrealised gains, which derived mainly from our non-fixed-interest securities available for sale. The dividend payment and share buy-back programme, on which we report on page 102 f., had a lowering effect on equity. Our valuation reserves not recognised in the balance sheet and totalling €3.6bn (3.2bn) are dealt with on page 97.

Strategic debt

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

Debt leverage

		2010	Prev. year	Change
		€m	€m	%
Strategic debt		5,405	5,302	1.9
Group equity		23,028	22,278	3.4
Total		**28,433**	**27,580**	**3.1**
Debt leverage	%	19.0	19.2	

Strategic debt includes subordinated liabilities amounting to €4,847m. These are described in the notes to the consolidated financial statements under (19) Subordinated liabilities.

Our subordinated bonds are recognised in part as own funds by the German Federal Financial Supervisory Authority (BaFin). When this is considered in calculating the strategic debt, the latter is reduced to €1,738m and the debt leverage amounts to only 7.0%.

Technical provisions

Reinsurance business accounts for approximately 32% of technical provisions, primary insurance for about 67% and Munich Health for some 1%. In contrast to liabilities under loans and securities issued, we cannot foresee with certainty how high our liabilities from underwriting business will be and when they will arise. This is especially true of reinsurance. Whereas in property insurance a major portion of the provisions is generally paid out within two to three years, in life or liability insurance substantial amounts may still be due decades after the contracts were concluded. The currency distribution of our provisions reflects the global orientation of our Group. Besides the euro, our main currencies are the US dollar and pound sterling. We ensure that our business is sufficiently capitalised at all times by monitoring the situation continuously and taking suitable measures, which are dealt with in the section on capital management.

Restraints on disposal

Since we are an international (re)insurance group, some of our financial resources are subject to restraints on disposal. Supervisory authorities in some countries, for example, require foreign reinsurers to establish premium and reserve deposits with primary insurers or set up trust accounts with certain financial institutions. At the reporting date, this involved investments with a volume of €10.4bn (12.7bn).

In addition, there were contingent liabilities, which are described in the notes to the consolidated financial statements under (50) Contingent liabilities, other financial commitments.

Asset-liability management

The structure of our technical provisions and other liabilities is the basis for Munich Re's investment strategy, the main focus of which is asset-liability management: our aim is to ensure that economic factors influence the value of our investments and that of our technical provisions and liabilities in the same way, thus cushioning the effect of capital market fluctuations. For this purpose, we mirror important features of the liabilities, such as maturity patterns, currency structures and inflation sensitivities, on the assets side of the balance sheet by acquiring investments with similar characteristics if possible. In this approach, any deviations from the structure of our liabilities are made consciously, taking due account of our risk tolerance and the risk spreads. In 2010, for instance, we extended the maturities of our investments in relation to our liabilities and were able to benefit from the fall in interest rates. In addition, we are endeavouring in our asset-liability management to partially structure our investment portfolio in such a way that investments increase in line with rising inflation rates.

To configure our asset management as effectively as possible, we also use derivative financial instruments, which are described in the notes to the financial statements under (9) Other securities at fair value through profit or loss.

Capital management

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

We derive our economic capital from IFRS equity by means of various adjustments. These are described on page 132 f.

We return surplus capital to equity holders primarily through attractive dividends, within the scope permitted by Munich Reinsurance Company's revenue reserves as determined under German commercial law, and provided this does not impair our strategic flexibility or overall capital strength. In addition to dividend payments, we use share buy-backs as a further instrument for returning capital.

At the balance sheet date on 31 December 2010, our revenue reserves under German commercial law accounting amounted to €1,667m. In 2010, we acquired 11.8 million shares worth €1,300m – 5.7 million shares or a volume of €650m under the 2009/2010 share buy-back programme completed by the Annual General Meeting on 28 April 2010, and 6.1 million shares or a total of €650m under the 2010/2011 programme involving share buy-backs of up to €1bn. After the balance sheet date and up to 25 February 2011, we repurchased a further 1.7 million shares with a volume of €195m. Since the beginning of the share buy-backs in November 2006, we have been able to return a total of over €10bn to our shareholders including dividend payouts. After completion of the 2010/2011 share buy-backs, the revenue reserves shown as at 31 December 2010, calculated in accordance with German commercial law, will decrease to €1,473m. We intend to continue our attractive capital repatriation policy with a further share buy-back programme in 2011. Up to the Annual General Meeting in 2012, a buy-back volume of up to €500m is planned. In the interests of our shareholders, we will carefully weigh up the benefit of further buy-backs against the advantages of comfortable capitalisation, also with a view to opportunities for organic and possibly external growth.

In addition, subject to the approval of the Annual General Meeting, we intend to pay our shareholders a dividend of €6.25 per share for the financial year 2010 from Munich Reinsurance Company's net retained profits.

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

Composition of the issued capital

As at 31 December 2010, Munich Reinsurance Company's share capital of €587,725,396.48 was divided into 188,468,471 registered, no-par-value, fully paid shares. These shares constitute a single category of stock. The rights and obligations deriving from them follow from the pertinent statutory requirements and Articles of Association. The shares are endowed with full voting and dividend rights, with the exception of the 8,089,888 registered, no-par-value, fully paid shares held by Munich Re itself at 31 December 2010 (Section 71b of the German Stock Companies Act). Each voting share carries one vote at the Annual General Meeting. With respect to the Company, the only parties deemed shareholders in accordance with the German Stock Companies Act (Section 67) are those entered in the Company's register of shareholders.

Restrictions on voting rights or the transfer of shares

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

Shareholdings exceeding 10% of the voting rights

Warren E. Buffett and companies in his group informed us in accordance with Section 21 of the German Securities Trading Act (WpHG) that they hold a total share of 10.244% of Munich Reinsurance Company's voting rights. They notified us, as at 12 October 2010, of the following direct or indirect shareholdings exceeding 10% of the voting rights:

Shareholdings exceeding 10% of the voting rights

%	Direct holding	Indirect holding
Warren E. Buffett, USA	0.053	10.191
Berkshire Hathaway Inc., Omaha, USA		10.191
OBH LLC, Omaha, USA		10.191
National Indemnity Company, Omaha, USA	10.191	

Warren E. Buffett and the aforementioned companies in his group informed us in a letter dated 15 October 2010 that the objective of the investment is to generate trading profits and not to implement strategic objectives.

Shares with special control rights

There are no shares with special control rights.

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

The legal parameters for the appointment and dismissal of members of the Board of Management are specified in the Company's co-determination agreement, Articles 13 and 16 of the Articles of Association, Sections 84 and 85 of the German Stock Companies Act, and Sections 121a paras. 1 and 7a of the German Insurance Control Act. Munich Re's co-determination agreement and Articles of Association have taken over the legal tenets of the German Co-Determination Act. The Supervisory Board appoints the members of the Board of Management and may dismiss them at any time for good cause. On initial appointment, members of the Board of Management are usually given contracts for a term of between three and five years. Extensions of up to five years are possible and – in exceptional cases – members of the Board of Management may also be appointed by a court of law.

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

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

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

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

The powers of the members of the Board of Management are defined in Sections 71 and 76 to 94 of the German Stock Companies Act. The Board of Management has the following powers to issue and buy back shares (the complete wordings of the relevant resolutions and provisions in the Articles of Association can be viewed on our website):

// The Annual General Meeting of 28 April 2010 authorised the Company under agenda items 7 and 8, pursuant to Section 71 para. 1 item 8 of the German Stock Companies Act, to buy back shares until 27 April 2015 up to a total amount of 10% of the share capital at the time of the Annual General Meeting resolution (€587,725,396.48). The shares acquired plus other own shares in the possession of the Company or attributable to the Company in accordance with Section 71a ff. of the German Stock Companies Act may at no time amount to more than 10% of the share capital. The shares may, in accordance with the provisions of the authorisation, be acquired in various ways: the Company may buy back shares amounting to a maximum of 5% of the share capital using derivatives. The Board of Management is authorised to use shares thus acquired for all legally admissible purposes, in particular those specified in the authorisation, whilst excluding subscription rights. Among other things, the Board of Management is empowered under Section 71 para. 1 item 8 sentence 6 of the German Stock Companies Act to retire the shares without requiring further approval from the Annual General Meeting. The Board of Management availed itself of this authorisation to acquire shares by resolution of 7 May 2010. By 31 December 2010, a total of approximately 6.1 million shares had been purchased for an overall price of €650m. As part of the 2009/2010 share buy-back programme, around 5.7 million shares were acquired between January and April 2010 for an overall price of €650m. As announced in April 2010, these shares and the approximately 3.2 million shares already repurchased in 2009 were retired in a simplified process.

// The Annual General Meeting of 28 April 2010 resolved to cancel the Contingent Capital 2005 of €100m and authorised the Board of Management to issue, with the consent of the Supervisory Board, convertible bonds or bonds with warrants on one or more occasions up to 27 April 2015 for a maximum nominal amount of €3bn with or without a limited maturity period. Shareholders are generally entitled to a subscription right in respect of these bonds, but the Board of Management is authorised, with the consent of the Supervisory Board, to exclude this subscription right in the cases specified in the authorisation. The holders of such bonds may be granted conversion or option rights in respect of shares issued by the Company up to a maximum amount of €117m of the share capital, in accordance with the respective bond or warrant conditions; as a precautionary measure, capital of €117m was conditionally authorised under Article 4 para. 3 of the Articles of Association (Contingent Capital 2010).

// Under Article 4 para. 1 of the Articles of Association, the Board of Management is authorised, with the consent of the Supervisory Board, to increase the Company's share capital at any time up to 21 April 2014 by an amount of up to €280m by issuing new shares against cash or non-cash contribution (Authorised Capital Increase 2009). In accordance with the above-mentioned provisions of the Articles of Association, it may exclude subscription rights.

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

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

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

Based on our underwriting guidelines, our reinsurance agreements generally include a clause that grants both parties to the agreement a right of extraordinary cancellation in the event that "the other party merges with another company or its ownership and control undergoes a material change". Such or similar clauses are typical of the industry. Munich Reinsurance Company's long-term incentive plan provides for special exercise conditions in the event of a change of control. This plan is for members of the Board of Management, senior management and top executives in Munich Re's international organisation, which is explained in detail in the remuneration report.

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

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

Group solvency

Munich Re is subject not only to the supervisory requirements applying to individual insurance companies but also to supervision at Group level. Furthermore, Munich Reinsurance Company as the parent has introduced suitable control methods and, when reporting to BaFin, which is also responsible for the Group, includes supplementary aspects at Group level, such as shareholdings, consolidated financial data and intra-Group transactions.

Solvency in the case of insurance companies is generally understood to be the ability of an insurer to always meet the obligations assumed under its contracts. In concrete terms, this means an insurance company must fulfil specific minimum capital requirements. The aim of the "adjusted solvency" rules is to prevent the multiple use of equity to cover risks from underwriting business at different levels of the Group hierarchy. To calculate the adjusted solvency, the minimum equity required for the volume of business (required solvency margin) is compared with the eligible equity actually available (actual solvency margin) on the basis of the IFRS consolidated financial statements. To determine the eligible capital elements, the IFRS equity is adjusted; in particular, it is increased by portions of the subordinated liabilities and reduced by intangible assets. Munich Re's eligible capital is more than two-and-a-half times higher than the legal requirement.

Adjusted solvency

		31.12.2010	Prev. year	Change
				%
Eligible capital of the Group	€bn	22.2	21.2	4.7
Adjusted solvency ratio	%	260.5	268.5	

The adjusted solvency ratio decreased from 268.5% in the previous year to 260.5% in 2010, mainly due to the increased solvency requirement.

Analysis of the consolidated cash flow statement

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

Consolidated cash flow statement

	2010	Prev. year[1]	Change
	€m	€m	%
Cash flows from operating activities	8,836	8,654	2.1
Cash flows from investing activities	–7,696	–5,263	–46.2
Cash flows from financing activities	–1,384	–2,680	48.4
Cash flows for the financial year	**–244**	**711**	**–**

1 Previous year's figures adjusted pursuant to IAS 7 (see "Changes in accounting policies").

In the consolidated cash flow statement, the consolidated profit of €2,430m is used as the starting point for determining the **cash inflows from operating activities**. The consolidated result is adjusted by €7,141m to take account of the higher technical provisions. In reinsurance, provisions for future policy benefits increased, partly due to new business. Provisions for future policy benefits also rose in primary insurance, with companies outside Germany expanding their portfolios and writing new business. The technical provisions for life insurance policies where the investment risk is borne by the policyholders (unit-linked life insurance) grew as a result of pleasing portfolio development. The net gains on the disposal of investments – which in adjusting the consolidated profit have to be deducted from the cash flows – are essentially attributable to the disposal of securities available for sale.

The **cash outflows for investment activities** were determined by payments for the acquisition of investments. They exceeded the inflows from the sale and/or maturity of investments by €7,042m. In November 2010, through its subsidiary EUROPÄISCHE Reiseversicherung AG (ERV), Munich, Munich Re paid €3.4m to acquire a further 75.0% in the subsidiary CJSIC "European Travel Insurance", Moscow, and a further 70.1% in the subsidiary Geschlossene Aktiengesellschaft Europäische Reiseversicherung, Kiev. Both companies had been previously accounted for using the equity method. In the cash flow statement, we have reduced the purchase price by the cash of €1.1m held.

The **cash outflows for financing activities** stem mainly from the purchase of own shares with a volume of €1,268m and the dividend payment of €1,076m in 2010.

Overall in the year under review, cash – which encompasses cash with banks, cheques and cash in hand – decreased by €182m (including currency effects) to €2,900m.

Other success factors

// Munich Re as clients' first port of call for all risk matters
// Ongoing development of innovative coverage concepts for new and complex risks
// Corporate responsibility for our staff, society and the environment

Clients and client relationships

Munich Re has differently structured client bases in reinsurance and primary insurance. In reinsurance, we work together with over 4,000 corporate clients from more than 160 countries. Our primary insurers in the ERGO subgroup service some 40 million (mainly private) clients in over 30 countries in Europe and Asia. The Munich Health business segment has over six million clients in primary insurance and 400 in reinsurance.

Reinsurance

Clients benefit from financial strength and risk knowledge

As reinsurers, we deploy our extensive risk knowledge to develop individual solutions for our clients to meet their diverse needs. We therefore provide our cedants with the full range of underwriting products. We regularly assume a pioneering role in the development of new coverage concepts, for instance for offshore oil drilling operations. We also offer our clients consulting and other risk-related services. Our client management is geared to providing premium solutions and intensifying cooperation with our clients.

With branches and subsidiaries around the world, we ensure that our clients can always find us where they need us.

Primary insurance

ERGO focuses consistently on clients' needs

In primary insurance, we attend to the needs of private, commercial and industrial clients, with private clients making up the bulk of our customers. ERGO offers them products and services in connection with old-age provision and saving schemes, health, legal and travel protection. Thanks to our many different sales channels, clients can choose how to approach us: via one of the 20,000 full-time self-employed agents, through brokers, via the internet, by phone for direct insurance, or via a number of sales partners.

Since the summer of 2010, the ERGO Insurance Group has been selling life and property-casualty covers under a single ERGO brand in its home market of Germany. ERGO has made a clear promise to clients: "To insure is to understand" expresses our aim of focusing directly on our clients' requirements. This encompasses needs-oriented consultancy, clear and comprehensible communication, innovative services, and rapid support in the event of a loss.

Munich Health

Munich Re's global healthcare insurance and reinsurance expertise is pooled under the Munich Health brand. This set-up enables us to specifically leverage identified opportunities with integrated, smart solutions for individual local needs.

With our unique, combined focus on risk carrying and risk management in health, Munich Health delivers individual, sustainable solutions. The special combination of resources provides the basis for the success and security of our clients in their respective markets.

Asset management

MEAG is present in Europe, Asia and North America and centrally manages all important asset classes such as bonds, equities and real estate. Our investment experts follow a prudent, risk-based approach with the aim of achieving long-term, above-average performance. Key factors in this regard are the close cooperation and trust they enjoy with clients in the Group and with other institutional investors, the good service they provide to private investors and MEAG's years of experience in handling investment risks. The financial crisis has shown that we set the right course for generating positive returns after the difficult market phase of 2002/2003.

Research and development

An in-depth understanding of risks is the basis of our business. That is why we analyse known risks on an ongoing basis to determine whether there have been any changes in their structure or occurrence probability. We focus on identifying new risks at an early stage and offering solutions for known risks that have hitherto been uninsurable.

Reinsurance

Traditional liability and property covers also recurrently provide innovation opportunities. Munich Re has developed an insurance solution covering oil companies against liability risks from oil disasters during offshore drilling operations. Climate change and the necessary development of renewable energy technologies also allow scope for innovation. For instance, we have devised an insurance solution that covers the performance guarantees provided by solar module manufacturers – an important milestone for the funding of photovoltaic projects.

In many countries, we also work closely with governments and specialist insurance providers to set up catastrophe funds for insuring the agricultural sector against extreme weather events such as windstorm, drought, flood, and late frost.

Primary insurance

In primary insurance, our emphasis lies on analysing and forecasting demographic trends. These trends constitute important parameters for calculating policy durations and hence for structuring products. Demographic change also impacts social security systems and consequently influences our clients' need for private provision.

In cooperation with universities, ERGO's health insurer DKV is examining the link between health behaviour and risks. In 2010, a representative DKV study on the state of health in Germany, which was prepared in collaboration with Cologne's sports university, conducted a first thorough analysis of the situation in Germany.

Munich Health

This business field combines our long-standing experience and expertise in health reinsurance and health primary insurance and our risk management services. For the analysis of health risks, Munich Health already offers its clients tools for standardised medical risk assessment. Munich Health's experts are working continuously on the further expansion of analytical capabilities using prognostic methods. Enhancing the efficiency of internal processes is a significant success factor for Munich Health and its clients. The use of new automation options and test algorithms, e.g. in the transmission of claims notification and claims processing data, can detect billing errors and fraud at an early stage and help to reduce medical and operating costs.

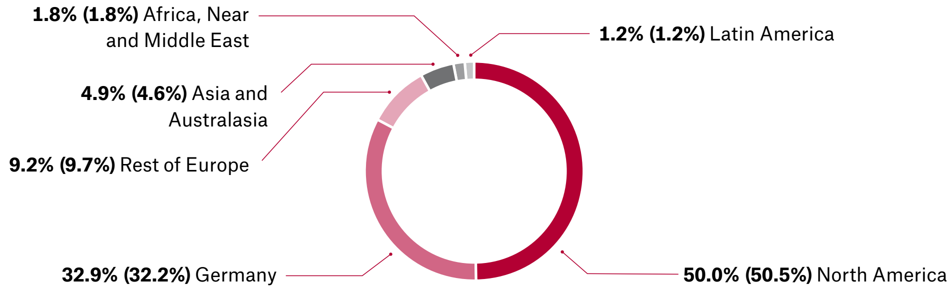
Staff

The financial year saw a variety of cross-corporate initiatives in the Group. The brand restructuring in primary insurance succeeded in creating a pioneering spirit amongst employees in the wake of the new brand's successful launch. In reinsurance, we carried out the first performance and talent management process on a global scale and on the basis of uniform criteria, generating scope for activities that enable us to appraise, promote and flexibly deploy our top performers and talent within the Group worldwide in accordance with consistent and transparent processes.

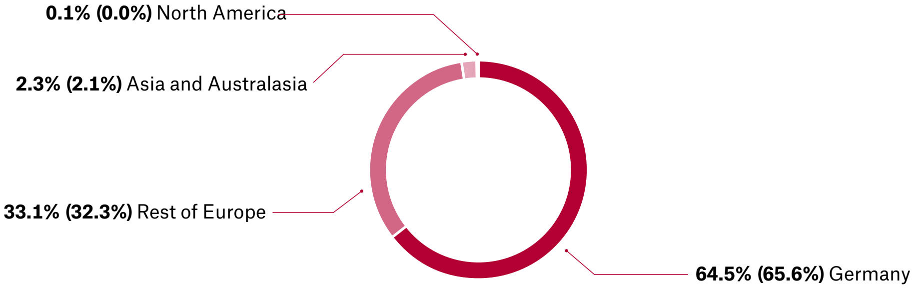
The availability of competent, motivated staff and high-calibre talent continues to be an important feature of successful human resources work. The optimal utilisation of our staff's many qualifications, different ways of thinking, cultural and social backgrounds and their individual qualities are an important economic success factor for us. Our philosophy is unity through diversity, and the recognition and encouragement of variety and individuality in our employees is an essential element of our corporate culture. A Group-wide project on the subject of diversity management will open up new paths in this context.

Staff by region

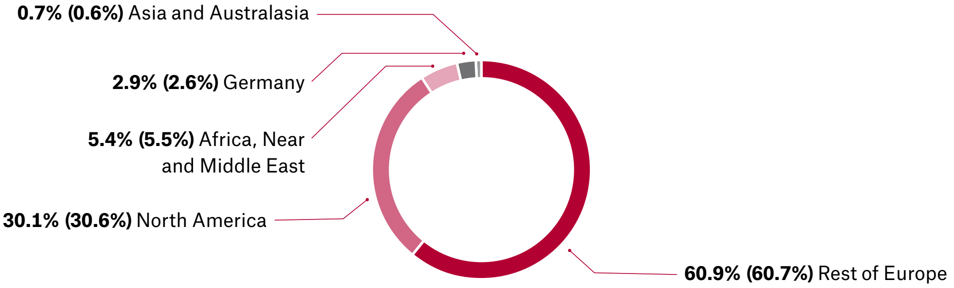
Reinsurance
Total: 11,370 (11,309)



Primary insurance
Total: 30,887 (31,145)



Munich Health
Total: 3,899 (4,007)

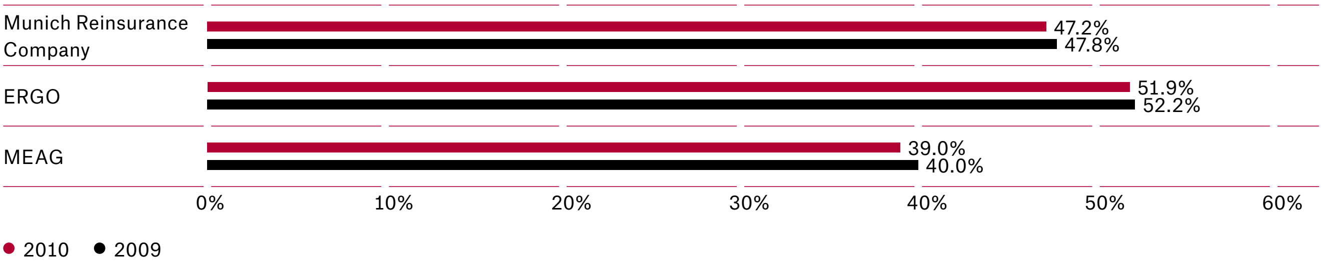


Over 90% of the 759 (788) staff in asset management work in Germany.

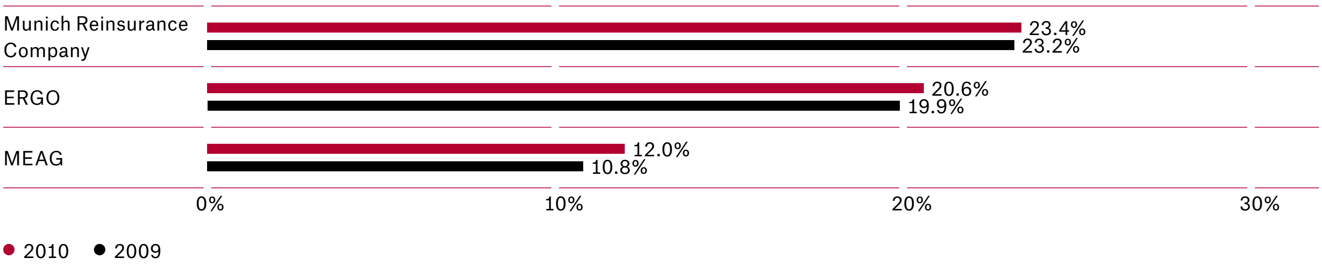
Length of service at main Group companies in Germany

	Munich Reinsurance Company		ERGO		MEAG	
%	2010	Prev. year	2010	Prev. year	2010	Prev. year
One year and less	4.2	7.8	3.2	1.6	5.1	4.8
Over one year and up to five years	20.6	17.2	9.7	9.6	36.5	38.1
Over five years and up to ten years	28.7	29.5	17.0	20.3	30.8	38.2
Over ten years and up to 20 years	29.1	27.1	41.3	41.0	23.3	15.0
Over 20 years	17.4	18.4	28.8	27.5	4.3	3.9

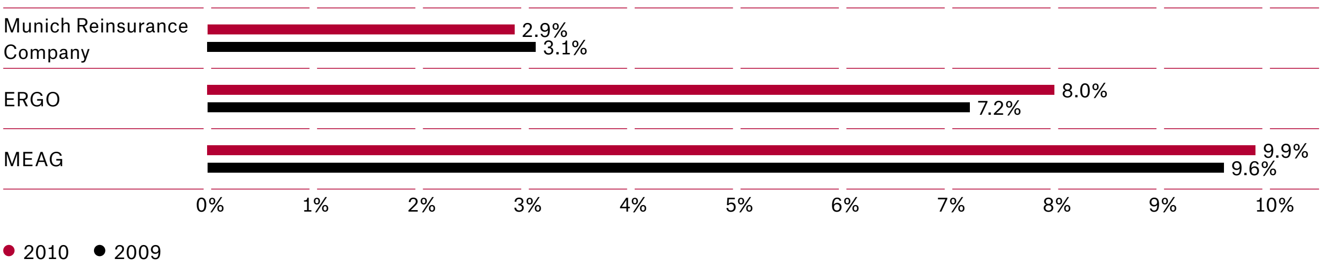
Percentage of female staff at main Group companies in Germany



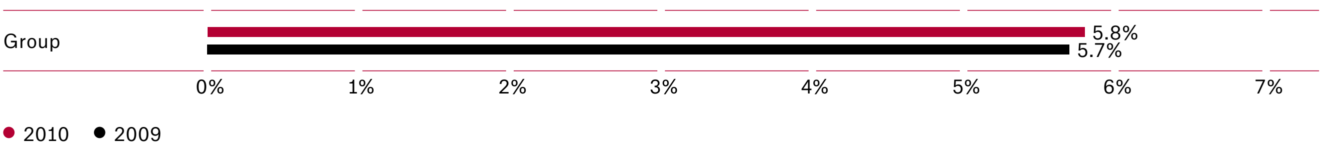
Percentage of females in management positions at main Group companies in Germany



Overall staff turnover at main Group companies in Germany



Percentage of trainees (Germany)



Investments in training at main Group companies in Germany

		Munich Reinsurance Company		ERGO		MEAG	
		2010	Prev. year	2010	Prev. year	2010	Prev. year
Total	€k	10,226	8,939	16,588	21,985	824	936
Per staff member	€	2,694	2,462	833	1,396	1,075	1,180

Reduced investment in further training at ERGO is attributable to the fact that, under the "New ERGO" project, events with a large number of participants and other measures were organised without external support, i.e. at low cost.

Reinsurance

Our overall remuneration system comprises a well-balanced package of components reflecting and underlining our corporate culture that recognises and rewards performance. In view of the successful 2009 financial year, Munich Reinsurance Company paid out the Company result bonus for the first time in Munich in 2010, a new variable salary component that allows all employees to share in the Company's good results. The distribution of this bonus payment is based on individual performance and demonstrates to staff that it pays to work hard.

Our business success is rooted in our excellent knowledge and its market-oriented implementation. Initiatives that promote staff training and professional development were therefore a focal point of attention in 2010. Our international graduate trainee programme was expanded by a further ten positions in 2010 to a total of 30 – an investment in young talent. Munich Re's career path for experts was further strengthened: outstanding experts in specialist areas relevant to business can now advance up to senior-executive level. They have a set of suitable talent management measures to support them. This represents another step in putting expert and management career paths on an equal footing.

In accordance with our globally oriented human resources strategy, we are taking measures designed to promote international occupational mobility and development. A new programme prepares employees from our international organisation for appointments to management positions outside their home countries. High-quality leadership skills are one of our prime objectives. The latest international survey on leadership behaviour confirmed the previous year's positive result. At the same time, we conducted the first worldwide survey on employee satisfaction to determine what we refer to as the "engagement" index. The overall outcome (both on a national and international level) was good.

Primary insurance

The "New ERGO" project to implement our brand strategy was supported with a comprehensive change management programme in which staff were actively involved. In so doing, we achieved a high level of acceptance. From the corporate guiding principles developed in the project, we derived a "staff promise" which will be an important platform for our HR policies over the next few years.

The reduction in personnel begun in 2009 and required under the project "Continuous improvement of our competitive position" was concluded according to plan and without giving rise to any forced redundancies.

Munich Health

The qualitative measures of our human resources management also apply to Munich Health staff. At the same time, management is continuing to work on integrating all the experts and business models within Munich Health and expanding our professional expertise in the international healthcare market.

Asset management

MEAG continues to base its HR policies on the professional and personal development of staff. A programme has been established that provides managers who are assigned leadership responsibility for the first time with the key skills needed for effective management.

Corporate responsibility

Munich Re's business environment is constantly in flux, presenting ever new opportunities and risks. Defining factors, such as climate change, technological progress, the globalised financial markets and demographic trends, constitute major challenges. A forward-looking and responsible approach throughout the company is an integral part of our business model. This approach is specified in more detail in our corporate responsibility strategy, and was reinforced when Munich Re joined the United Nations Global Compact in 2007.

In primary insurance and reinsurance, we develop new solutions such as special cover concepts for renewable energy or rates for climate-friendly vehicles, and provide advice on holistic healthcare programmes. As a global risk carrier, we also offer microinsurance geared to the financial situation and living conditions of disadvantaged population groups. Internationally, we are actively involved in the United Nations Environment Programme (UNEP FI) and work together with a group of major international financial enterprises on Principles for Sustainable Insurance (PSI). Another example is the industry initiative of Dii GmbH, which Munich Re established in 2009 in conjunction with the Desertec Foundation and other international enterprises. The declared aim is to develop a suitable technical, economic, and political framework for carbon-free power generation in the deserts of North Africa and the Middle East.

The same premises regarding corporate responsibility also apply to investments, where our asset management company MEAG manages significant sums worldwide. In 2006, we became the first German company to sign the UN Principles for Responsible Investment (PRI). In addition, our globally binding General Investment Guidelines in place since 2005 specify that at least 80% of Group-wide investments in shares and government and corporate bonds should comply with sustainability criteria. Munich Re also systematically invests in renewable energy and new technologies. In mid-2010, we launched our investment programme RENT (renewable energy and new technologies). And we also attach great importance to high sustainability standards in new building projects and real estate acquisition.

With our own office buildings, we focus our activities on reducing greenhouse gas emissions
// by reducing travel, energy and heat consumption, and waste;
// by using water and paper sparingly;
// by increasingly replacing conventional sources of energy with renewable ones.

A fifth of our staff in the Group works in buildings certified to the international environmental management standard ISO 14001. In 2009, our Munich site became climate-neutral, our declared aim being to achieve carbon-neutrality in the whole reinsurance group by 2012.

Our understanding of corporate responsibility also involves assuming responsibility for the community in which we live and work. In addition to systematically promoting education and science, Munich Re supports selected cultural and social projects. Health is another cornerstone of our activities, as exemplified by a range of prevention projects in which ERGO is engaged. Munich Re's commitment is backed by the various foundations we have set up, which contribute significantly to sustainable development.

Our shares have featured in the most respected sustainability indices, e.g. the Dow Jones Sustainability Index (DJSI) and the FTSE4Good Index. Both listings were successfully reaffirmed in autumn 2010. Corporate responsibility issues are gaining in importance in our communication with shareholders.

Risk report

// Munich Re's risk situation in 2010 manageable and under control
// Solvency ratio still comfortable
// Uniform worldwide system for managing risks

Risk governance and risk management system

Risk management organisation, roles and responsibilities

Remit and objectives
Risk management is a key part of our corporate governance. It underpins our financial strength, enabling us to meet our obligations to clients and creates sustained value for our shareholders. In addition, it protects Munich Re's reputation. We achieve these objectives through worldwide risk management encompassing all of our operations.

Organisational structure
To ensure that our risk management operates efficiently and effectively, we have established specific risk management functions and bodies. Our Integrated Risk Management (IRM) Division supervises risk management Group-wide, building on decentralised structures in all units of the Group. It is headed by the Chief Risk Officer (CRO), who, like the local CROs at other companies in the Group, is supported by interdisciplinary teams of highly qualified staff. Our extensive documentation, guidelines and instructions ensure that staff in our risk management structure and the Group as a whole are kept informed of our risk strategy, organisation and processes.

This guarantees that our risk management covers the whole Group, and the resultant transparency enables us to actively manage the risks incurred.

Risk governance
Munich Re's risk governance fosters the development and maintenance of an appropriate risk and control culture, which encompasses all significant risk categories. It is supported by committees at Group and business-segment level:

Group level
The CRO is a permanent member of the **Group Committee**, the central committee responsible for Group-wide issues, the development and management of strategy, financial control, and risk management and investment matters.

The Group Committee meets quarterly as the **Group Risk Committee**, the membership of which additionally includes further specialists from our insurance and reinsurance operations, to deal with risk issues affecting the Group as a whole.

Besides this, the Group Committee also meets quarterly as the **Group Investment Committee**, which includes additional specialists from our insurance and reinsurance operations and MEAG. This committee is the central management committee for major Group-wide issues affecting the Group's investments. It is also concerned with risk matters.

Additionally, there is a **Reputational Risk Committee** (see page 125 for details).

Segment level
The **Global Underwriting and Risk Committee (GURC)** was formed from within the ranks of the Reinsurance Committee to function as a special risk committee for reinsurance.

Risk management for primary insurance is primarily decentralised to ERGO IRM and supported by risk management structures in all areas of ERGO. The ERGO Board of Management has established the **ERGO Risk Committee** as a decision-making body.

With effect from the 2010 financial year, Munich Re is reporting on Munich Health as a separate segment managed by the Munich Health Board. The **Munich Health Risk Committee** was also set up in April 2010 to deal with risk matters.

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

Munich Re's risk strategy takes into account the interests of both clients and shareholders. Its objectives are:

Risk strategy

Objectives

Maintain our financial strength, thereby ensuring that our liabilities to our clients can be met	Protect and increase the value of our shareholders' investment	Safeguard Munich Re's reputation

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

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

The risk appetite laid down ensures that an appropriate balance is maintained between business opportunities and risks incurred. Our risk strategy process has already proved its worth in both the financial crisis and the subsequent government debt crisis.

Implementation of strategy and the risk management cycle

The risk appetite defined by the Board of Management is reflected in our business planning and integrated into the management of our operations. In the event of capacity shortages or conflicts with the systems of limits and rules, there are fixed escalation and decision-making processes which ensure that business interests and risk management aspects are reconciled. If necessary, risks are ceded or hedged by means of reinsurance, derivatives or other forms of risk relief.

Our **implementation of risk management at operational level** embraces the identification, measurement, analysis and assessment of risks, and the resultant risk reporting, limitation (reduction to a level we have defined as appropriate) and monitoring, which enables us to follow all significant risks closely.

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

Constant refinement of our risk measurement tools

We are constantly refining our **risk measurement** tools, which are tailored to the segment we are monitoring. In each case, the lead risk measure is an economic risk measure. We regularly compare the results produced by our risk model with both regulatory and rating-agency measures at a number of levels, including Group, segment, legal entity and risk type. We also regularly perform benchmarkings of our risk-model results and participate in industry surveys to constantly challenge and refine our risk measurement tools. Beyond this, we compare our model with the current status of Solvency II and take part in the Quantitative Impact Studies. We explain the results of our internal risk model on page 126 ff.

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

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

Quantitative **risk monitoring** based on indicators is carried out both centrally and within units, e.g. at MEAG for investments or at ERGO IRM, and then centrally conflated. We monitor qualitative risks on a decentralised or centralised basis, depending on their significance and classification.

Control and monitoring systems

Uniform worldwide system for managing risks

In 2010, we largely completed the enhancement of our internal control system (ICS). The ICS is a uniform worldwide system for managing operational risks integrated across all risk dimensions and areas of the Group that both meets Group management needs and satisfies local legal and regulatory requirements.

The Board of Management has Group-wide responsibility for the ICS, which falls structurally under the responsibility of the CRO. Experts and staff in our specialist areas are responsible for the detailed content of the system and perform the risk and control assessments. By involving them, we have been able to reinforce the harmonised understanding of risk within the Group and considerably raise awareness of the importance of risk and controls in our operational processes.

Using a holistic risk management approach, we have made the identification, analysis, assessment and documentation of significant operational risks and key controls more efficient and effective. Moreover, the optimisation of risk and control accountability through clear assignment of responsibilities and the definition of risk management measures has created transparency.

For each of Munich Re's business segments, the ICS delivers a risk map, i.e. the significant risks and processes are systematically linked. The map shows all relevant risk control points. Even risks and controls that cut across different divisions can be clearly identified. By making our risk situation transparent, we can react rapidly and efficiently to changes in internal and external requirements. This means that we are able to identify risks at an early stage, address control shortcomings immediately and take effective remedial action.

The ICS is a "learning system", which reviews the risks, risk assessments and controls at least once a year and makes adjustments where necessary. Internal Audit also reviews the effectiveness of the ICS as part of its audit plan at least annually and assesses the need to adapt it to take account of changes in parameters.

Appropriate internal controls for accounting risks

We also use the ICS to manage accounting risks with comprehensive internal controls, enabling us to guarantee that financial reporting is reliable and, in particular, our published financial statements are correct.

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

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

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

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

Transactions are posted at the companies included in the consolidation using a standard general ledger in place throughout most of the Group, with harmonised basic data, standard processes and posting rules, and a standard interface for delivery of data from companies to the Group or subgroup. Clear authorisation systems regulate access to accounting systems.

Dual control is applied throughout the process of preparing individual company and consolidated financial statements. System and accounting checks are in place at every stage of the closing process. Any errors are analysed, followed up and corrected.

Risk reporting

Internal risk reporting provides all Board members with regular information on the risk situation, both as regards the individual risk categories (ongoing) and the entire Group (quarterly). The Audit Committee of the Supervisory Board and BaFin also receive the quarterly internal risk report.

Early-warning mechanisms thus ensure that negative trends are identified in sufficient time for countermeasures to be taken.

The aim of our external risk reporting is to provide a clear overview of the Group's risk situation. This includes information on our risk management methods and processes, our risk governance, and the individual risks to which Munich Re is exposed.

We not only meet legal requirements with our risk reporting, but also create transparency for management, our clients and our shareholders.

Significant risks

According to our classification, significant risks are risks that could have a long-term adverse effect on the assets, liabilities, financial position or results of Munich Re. We have applied this definition consistently to the individual business units and legal entities, taking account of their individual risk tolerance. The competent risk management units are responsible for assessing whether a risk is significant for a unit within the meaning of the above definition. Specifically, we have identified the following categories from which significant risks can arise.

Underwriting risk: Property-casualty insurance

This is defined as the risk of insured losses in property-casualty business being higher than our expectations.

Significant risks in property-casualty insurance are the premium and reserve risks. Premium risk is the risk of future claims payments relating to insured losses that have not yet occurred being higher than expected. The reserve risk is the risk of technical provisions established to cover losses that have already been incurred being insufficient.

Premium risk

Primary responsibility for controlling the premium risk lies with operational management. Managers of operations grant underwriting authorities and lay down internal processes with the intention of ensuring that a high level of quality is maintained; in doing so, they take account of both the specific exposures in their business and the knowledge and experience of each member of staff.

This operational responsibility is increased or limited by instructions and procedures, which define the activity of each underwriting unit and recognise the particular characteristics of the insurance business concerned.

In particularly critical areas, the underwriting authorities granted to the operating units are restricted, minimum standards prescribed to ensure transparency, and quality assurance and risk management processes laid down.

Selected exposures may only be written after approval by the committees responsible.

For the natural hazard and terrorism scenarios, budget capacities compatible with the risk strategy are allocated to each underwriting unit. Before business is accepted, risk data must be recorded and the potential loss quantified in accordance with mandatory rules, and the business may only be written if sufficient budget capacity is available.

In order to prevent Munich Re's risk appetite being exceeded as a result of participation in a single risk, mandatory procedures ensure that the extent to which we might already be involved in such a risk is checked before it is written to ascertain the size of our overall participation.

Due to the diversity and extensive ramifications of Munich Re's business, it is not possible to produce a set of rules for acceptance that would fully cover relevant risks. The expertise of the underwriter on the ground is therefore of prime importance and we recognise this by providing training and IT systems for risk assessment and pricing, publishing internally information sheets and underwriting recommendations, and setting up working groups to create and transmit underwriting knowledge.

Reserve risk

The estimation of reserves is fraught with uncertainty. This is due to the fact that the settlement of claims that have arisen before the balance sheet date is dependent on future events and developments. Unforeseen loss trends resulting from court rulings, changes in the law, differences in loss adjustment practice, medical and long term care, and economic factors such as inflation can have a considerable impact on loss experience.

We calculate the reserves for losses and claims settlement costs in accordance with actuarial practice based on substantiated assumptions, methods and assessments. The assumptions are regularly reviewed and updated.

Consistency through Group-wide reserving rules

Application of Group-wide reserving rules guarantees a consistent procedure. In addition, internal audits are carried out Group-wide to provide a continuous check of compliance with the rules and the appropriateness of the reserves.

Further information on underwriting risk can be found in the notes to the consolidated financial statements under (38) Risks in property-casualty business.

Underwriting risk: Life and health insurance

The underwriting risk in this case is defined as the risk of insured benefits payable in life or health insurance business being higher than expected. Of particular relevance are the biometric and lapse risks. We differentiate between risks that have a short-term or long-term effect on our portfolio.

Controlling pandemic scenarios through budgets

Random annual fluctuations in insurance benefits or surrender behaviour can lead to short-term falls in the value of the portfolio. This applies particularly to expenses, which can rise as a result of exceptional one-off events such as a pandemic. For pandemic scenarios, budgets derived from the risk strategy are allocated to the operational units.

It may also be necessary to adjust the actuarial assumptions we use for biometrics and surrender behaviour, which constitute long-term risks for the portfolio. In life insurance, it is mortality, longevity and disability risks that are especially relevant; in health insurance, it is morbidity risks, although if there is a lasting change in the actuarial assumptions applied in primary insurance, long-term contracts generally provide for premium adjustments.

The assessment of our business on an embedded-value basis is based on these actuarial biometric and surrender assumptions, which are regularly reviewed and adapted to take account of new findings, in particular relating to our own experience and expected future developments.

The remarks on underwriting guidelines and limits (see “property-casualty” section) also apply to life and health reinsurance business. In primary insurance, regular reviews of the actuarial assumptions by actuaries and the requisite amendment of rating rules ensure that risks and processes are properly controlled.

Further information on underwriting risk can be found in the notes to the consolidated financial statements under (37) Risks in life and health insurance business.

Market risk

We define market risk as the risk of economic losses resulting from changes in values in the capital markets. This includes equity risk, the general and specific interest-rate risk, property risk and currency risk. The general interest-rate risk describes all changes in the risk-free interest-rate curve, whereas the specific interest-rate risk takes account of changes in credit risk spreads. We also include in market risk the risk of changes in inflation rates and implicit volatilities (cost of options). Fluctuations in market prices affect not only our investments but also our underwriting liabilities, especially in life insurance. Due to the long-term interest-rate guarantees given in some cases and the variety of options granted to policyholders in traditional life insurance, the amount of the liabilities is highly dependent on the capital markets.

Control of market risks by means of suitable limit and early-warning systems and through our asset-liability management

We deal with market risks by means of suitable limit and early-warning systems and through our asset-liability management, which is described on page 102. We limit the deviations in overall investments from those investments that are economically required to cover underwriting liabilities and needed to pursue our business operations with minimum market risk. A breakdown of investments by type can be found on page 94 f. We also make use of derivative financial instruments, which are described under (9) Other securities at fair value through profit or loss.

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

The investments we make in our operations must comply with Group-wide minimum standards as defined in our General Investment Guidelines. Besides this, we take account of restrictions on investments resulting from our risk strategy.

A detailed presentation of the economic risk capital for market risks can be found on page 130 f. Sensitivity analyses of the market-price risks associated with financial instruments can be found in the notes to the consolidated financial statements under (40).

Credit risk

We define credit risk as the financial loss that Munich Re could incur as a result of a change in the financial position of a counterparty, such as an issuer of securities or other debtor with liabilities to our Group.

In addition to credit risks arising out of investments and transactions with clients, we actively assume credit risk through the writing of insurance and reinsurance business, including trade credit reinsurance and surety business, financial reinsurance and the granting and insurance of loans. Credit risks can also arise through risk transfers to the capital markets and other financial transactions.

Monitoring and control of credit risks through our Group-wide cross-balance-sheet counterparty limit system

We use a cross-balance-sheet counterparty limit system valid throughout the Group to monitor and control our Group-wide credit risks. The limits for each counterparty (a group of companies or country) are based on its financial situation as determined by the results of our fundamental analyses, ratings and market data and the risk appetite defined by the Board of Management. The Group-wide limit for a counterparty is broken down for the reinsurance and primary insurance segments, and for the underwriting and investment sides. The basis for the exposure figure is the estimated financial loss in the event of default by the counterparty after realisation of collateral (credit equivalent exposure – CEE). The CEE factors are estimated on the basis of historical analyses and expert opinions.

In order to take account of other country risks besides the credit risk of government bonds, our Group Development function also prepares a specific country scoring in addition to the pure default rating. It covers the main political and economic risks and those relating to internal security in a country, thus enabling us to assess comprehensively additional country risks of varying importance for different business segments. It has to be considered in underwriting and investment decisions and serves as an indicator for decisions on individual limits. We also monitor our accumulations in certain sectors and regions and limit them where appropriate.

In the area of retrocession, we control the default risk through the Retro Security Committee. The experts on the committee review the quality of our potential retrocessionaires independently and on the basis of various criteria (e.g. minimum ratings, market data and capital requirements) and issue appropriate limits in line with a guideline produced by IRM. This system enables us to achieve a broad and high-quality spread of cessions in the reinsurance market.

We reduce the credit exposure for capital market placements, such as our catastrophe bond, by requiring first-class collateral or integrating suitable hedging mechanisms into the structure.

We set very high standards for issuers of fixed-interest securities in which we invest, and these are reflected in our Group-wide investment principles. There are additional limits on investments in structured products according to their risk profile.

Operational risk

Munich Re defines operational risks as potential losses resulting from inadequate processes, technical failure, human error or external events. These include criminal acts committed by employees or third parties, insider trading, infringements of antitrust law, business interruptions, inaccurate processing of transactions, non-compliance with reporting obligations and disagreements with business partners.

Through our internal control system, we identify and mitigate these risks (see page 119 f.). It is our declared corporate aim, which we consistently pursue, to make employees aware of the potential risks and to continue to strengthen our risk culture. This includes willingness to learn from mistakes and to recognise them as opportunities for improvement.

Liquidity risk

Our objective in managing liquidity risk is to ensure that we are in a position to meet our payment obligations at all times.

In insurance business, premium income is generally received some time before claims and other benefits are paid to our clients, which generates significant liquidity.

In addition, at Munich Re we attach particular importance to
// real-time cash-flow management matched to our needs;
// a balanced investment structure aligned with our financial obligations, with investment primarily in asset classes that take due account of security, liquidity and ability to realise at market prices; and
// frequent simulation of the impact of particular strains on our liquidity.

We also optimise the availability of liquidity in the Group by means of internal funding and a cash pool fed by Group companies. Guaranteeing compliance with supervisory regulations, we ensure through strict availability requirements that every entity is in a position to meet its payment obligations.

Management of the liquidity risk through our holistic risk strategy

We also manage liquidity risk through our holistic risk strategy, with the Board of Management defining limits for liquidity risk, on which minimum liquidity requirements for our operations are based. These risk limits are reviewed annually and compliance with the minimum requirements continuously monitored. The management of liquidity risk includes taking account of

// known and expected payment obligations through regular, detailed liquidity planning at individual entity level and a central cash-flow reporting system;
// short-term margin and collateral obligations arising out of derivative positions where companies make use of such instruments;
// unexpectedly high payments resulting, for example, from accumulation losses that far exceed normal loss expectations.

Strategic risk

Munich Re defines strategic risk as the risk of making wrong business decisions, implementing decisions poorly, or being unable to adapt to changes in its operating environment. The existing and new potential for success in the Group and the segments in which it operates creates strategic risks, which generally arise early on and can lead to a significant long-term reduction in corporate value.

We counter this risk by discussing significant strategic issues and decisions in our Strategy Committee and regularly monitoring their implementation. The Strategy Committee comprises the members of the Group Committee, and hence the CRO, plus the Chief Executive Officers (CEOs) of the business segments and the Head of Group Development. As a result, strategic decision-making processes are intermeshed with risk management. IRM is additionally involved in the operational business planning and in the processes for mergers and acquisitions.

Reputational risk

We define reputational risk as the risk of a loss resulting from damage to the Group's public image (for example with clients, shareholders or other parties).

We monitor reputational risk through identification processes we have established in various internal units. As soon as we receive an indication that such a risk exists or could arise in the course of a process or transaction, the information is submitted to a Reputational Risk Committee, which was set up specifically for this purpose. The committee decides on the action to be taken in the case in question, with a view to ensuring that operational risks are not accompanied by reputational risks. The committee is made up of experts from various units and is headed by the Compliance Officer. Rules of procedure regulate the functions and work of the committee. They are derived primarily from our Code of Conduct, which sets out the main rules and principles for legally correct and responsible behaviour by employees.

Economic risk capital

Overview of the risk situation

Munich Re's risk situation in 2010 manageable and under control

We use our central risk management to assess our risk situation on the basis of qualitative and quantitative factors. Throughout the entire period under review, Munich Re's risk situation was manageable and under control. In the interests of our clients and shareholders, our carefully implemented, modern risk management processes combined with our solid level of capitalisation ensured the solvency and viability of the Group at all times. In addition to the underwriting and capital market risks inherent in our business model, which we can assess very well so that we are fully aware of the implications of taking them, there are a large number of other risks to which Munich Re – like every other undertaking – is exposed. The incidence of these risks is not planned and their occurrence probability and impact are generally difficult to estimate. We therefore closely monitor our environment and our own Group to identify even these risks in good time and to take suitable measures to avert loss or damage.

On page 121 ff., we provide several examples of the above-mentioned risks and how we deal with them.

Internal risk model

Managing business using our own integrated risk model

Munich Re manages its business on the basis of a consolidated Group view, using its own integrated risk model to determine the capital needed to ensure the Group's ability to meet its commitments even after extreme loss events.

The Munich Re Group's risk model indicates the stochastic profit and loss distribution of the available financial resources over a one-year time horizon. It is based on separately modelled distributions for the risk categories "property-casualty", "life and health", "market", "credit" and "operational risks". We regularly review these distribution assumptions, comparing them with loss events that have actually occurred, and adjust them if necessary.

Every risk category is depicted in both reinsurance and primary insurance. In the Munich Health segment, the life and health risk category and operational risks are shown, but not market and credit risk, which are covered in the reinsurance and insurance segments through our internal risk control.

We also show the **diversification effects** we achieve through both our broad spread across the different risk categories (underwriting, market and credit) and our combination of primary insurance and reinsurance business. This enables us to reduce our capital requirements. At the same time, we recognise that the various risks are not completely independent of each other by taking account of tail dependencies. Compared with a situation where the risks are assumed to be independent, this results in a lesser diversification effect, which is reflected in a higher capital requirement.

A key figure calculated using the internal model is our **economic risk capital (ERC)**. By economic risk capital, we mean the amount of capital that Munich Re needs to have available, with a given risk appetite, to cover unexpected losses in the following year.

To determine Munich Re's economic risk capital, we use the economic profit-loss distribution across all risk segments. The economic risk capital corresponds to 1.75 times the value at risk of this distribution over a one-year time horizon with a confidence level of 99.5%. The value at risk with a confidence level of 99.5% gives the economic loss for Munich Re which, given unchanged exposures, will be statistically exceeded in no more than one year in every 200. It represents the future risk tolerance under Solvency II. By calculating 1.75 times the capital requirement in respect of this risk tolerance, our Group adopts a conservative approach, aimed at offering our clients a high degree of security.

The distribution of economic losses between the individual legal entities in Munich Re may vary, but the ability of one unit to support another in the event of a loss is in some cases subject to legal constraints. In determining Munich Re's capital requirements, restrictions of capital fungibility resulting from legal or regulatory requirements are therefore explicitly taken into account.

Economic risk capital (ERC)

					31.12.2010				Prev. year[1]	Change
€bn	Group	Reinsurance	Primary insurance	Munich Health	Segment diversification	Group	Reinsurance	Primary insurance	Segment diversification	Group
Property-casualty	8.9	8.8	0.6	–	-0.5	7.6	7.5	0.5	-0.4	1.3
Life and health	5.1	3.9	1.3	0.7	-0.8	3.7	3.2	0.9	-0.4	1.4
Market	9.9	5.5	7.9	–	-3.5	6.8	4.0	5.3	-2.5	3.1
Credit	4.5	3.4	1.2	–	-0.1	3.1	2.4	0.7	–	1.4
Operational risk	1.6	1.3	0.5	0.1	-0.3	1.5	1.3	0.5	-0.3	0.1
Subtotal	**30.0**	**22.9**	**11.5**	**0.8**	**-5.2**	**22.7**	**18.4**	**7.9**	**-3.6**	**7.3**
Diversification effect	-9.3	-8.1	-2.0	–	–	-5.3	-4.9	-1.2	–	-4.0
Total	**20.7**	**14.8**	**9.5**	**0.8**	**-4.4**	**17.4**	**13.5**	**6.7**	**-2.8**	**3.3**

[1] Munich Health is shown separately as from 2010. The previous-year figures have not been adjusted.

Increase of €3.3bn in economic risk capital

The table shows Munich Re's economic risk capital and risk categories as at 31 December 2010. Over the past year, the economic risk capital rose by €3.3bn. The following factors contributed to this development:

// The economic risk capital for the **property-casualty** risk category, which includes credit reinsurance and surety business, increased by €1.3bn. Significant factors were higher exposure in nearly all natural catastrophe scenarios than in the previous year, partly due to the weaker euro, and a change in the placement of external retrocessions.

// The economic risk capital for our **life and health business** rose by €1.4bn, owing in particular to portfolio growth in life business, currency translation effects and the lower interest-rate level in the USA, Canada and Europe.

// The economic risk capital for **market risks** grew by €3.1bn, drivers being the increased equity-backing ratio (after allowing for derivatives) and the higher interest-rate risk in primary insurance, mainly due to the lower interest rates.

// The economic risk capital for **credit risks** was up by €1.4bn, mainly due to the higher market-induced assessment of credit risks, as reflected in lower ratings. In life primary insurance, lower risk buffers (future profit sharing) means an increased assumption of risk by insurers and thus a rise in the credit risk recognised.

// As last year, we used scenarios to determine the economic risk capital requirement for **operational risk**. The scenarios were prepared by various expert teams in the Group and are reviewed and refined annually as part of the ICS review (see page 119 f.).

// The **diversification effect** between the risk categories “property-casualty”, “life and health”, “market”, “credit” and “operational risks” grew by around €4.0bn, mainly due to the increase of €7.3bn to €30.0bn in the subtotals of the individual risk categories and reduced tail dependencies between risk categories. Tail dependencies are estimated using cross-balance-sheet scenarios, evaluated annually on the basis of the current risk profile. The segment diversification increased markedly in the risk categories “market” and “life and health”. The rise in respect of the market risk is mainly due to the higher interest-rate-risk share in the segments reinsurance and primary insurance. In the life and health risk, the increase in the diversification effect is due to the modelling of the Munich Health segment and the higher risk capital in the reinsurance and primary insurance segments.

Property-casualty

As described, Munich Re actively manages its risk exposure. This includes restricting our exposure through limits and budgets for natural catastrophe risks, where our experts consider scenarios for possible natural events, the scientific factors, occurrence probabilities and potential loss amounts. On the basis of these models, the impact of various events on Munich Re’s portfolio is calculated and represented in mathematical terms in the form of a stochastic model. These models form the basis for the ERC calculation for the “large and accumulation losses” category, which apart from natural hazard scenarios includes man-made losses, and for the limits and budgets for accumulation losses.

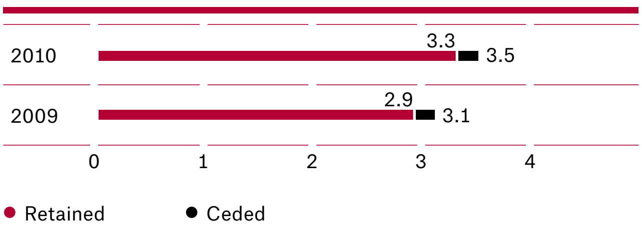
The exposures of the reinsurance segment are updated for the quarterly ERC calculations, and we use the data to adjust the stochastic models for natural hazards. The current limit utilisation – also referred to as budget consumption – is determined by a bottom-up process. As ERGO’s portfolio is more stable, its exposure is only updated annually.

Largest natural catastrophe exposure in “Atlantic Hurricane” scenario

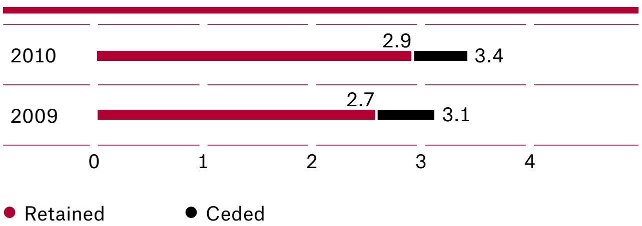
The largest natural catastrophe exposure for Munich Re is the €3.3bn currently retained for the “Atlantic Hurricane” scenario (value at risk for a 200-year return period). Our exposure to European windstorms has been quantified at €2.9bn using the scenarios we have drawn up.

The following diagrams show our estimated exposure to the two peak scenarios for a return period of 200 years.

Atlantic Hurricane
Aggregate VaR (return period: 200 years)
€bn (before tax)



Storm Europe
Aggregate VaR (return period: 200 years)
€bn (before tax)



The figure for both scenarios has risen due to the change in the placement of external retrocessions. In the case of "Atlantic Hurricane", an additional factor is the weakening of the euro against the US dollar.

The underwriting risk capital for property-casualty is made up as follows from the two components "basic losses" and "large and accumulation losses":

Economic risk capital (ERC) – Property-casualty

	31.12.2010				Prev. year				Change
€bn	Group	Reinsurance	Primary insurance	Segment diversification	Group	Reinsurance	Primary insurance	Segment diversification	Group
Basic losses	4.1	4.0	0.5	-0.4	4.2	4.1	0.5	-0.4	-0.1
Large and accumulation losses	8.4	8.2	0.3	-0.1	6.9	6.8	0.2	-0.1	1.5
Subtotal	**12.5**	**12.2**	**0.8**	**-0.5**	**11.1**	**10.9**	**0.7**	**-0.5**	**1.4**
Diversification effect	-3.6	-3.4	-0.2	–	-3.5	-3.4	-0.2	–	-0.1
Total	**8.9**	**8.8**	**0.6**	**-0.5**	**7.6**	**7.5**	**0.5**	**-0.4**	**1.3**

Losses with a potential cost exceeding €10m at Group level are classified as large losses. Accumulation losses are losses affecting more than one risk (or more than one line of business). We classify all other losses as basic losses.

The significant rise in the economic risk capital for **large and accumulation losses** is mainly due to the above-mentioned increase in the peak scenarios "Storm Europe" and "Atlantic Hurricane". We have also changed the placement of our external retrocessions. In the case of basic losses, the annual readjustment of the models has resulted in a virtually unchanged requirement for economic risk capital.

For **basic losses**, we calculate the risk of subsequent reserving being required for existing risks within a year (reserve risk) and the risk of an under-rating (premium risk). To achieve this, we use analytical methods that are based on standard reserving procedures but take into account the one-year time horizon. The risk arising out of large and accumulation losses is depicted using the above-mentioned models, the models for large losses being calibrated on the basis of historical claims experience.

As a global risk carrier, we can diversify our portfolio through the broadest possible mix and spread of individual risks, significantly reducing the volatility of total claims payments and substantially increasing the value added by all divisional units.

Life and health

In life and health business, the risk modelling takes account of adverse developments with both short- and long-term effects on the risk drivers that influence the value of our business.

In addition to the simple risk of random fluctuations resulting in higher claims expenditure in a particular year, the adverse developments with a short-term impact that we model notably include the risk of above-average claims that could arise on the occurrence of rare but costly events such as pandemics.

However, particularly the products of life primary insurance, and a large part of our health primary insurance business, are characterised by their long-term nature and the distribution of results over the duration of the policies. We show the value of business in force and value sensitivities for such long-term portfolios in the notes to the consolidated financial statements under (37) Risks in life and health insurance business. The adverse development of risk drivers with a long-term impact, such as changes in the forecast mortality and disablement trends in the insured portfolio, would be most likely to cause a fall in value (trend risks). In the notes to the consolidated financial statements (37), we show the effect on the values if they are calculated for individual risk drivers using specific modified assumptions. The risk modelling then attributes probabilities to each modified assumption and produces a complete stochastic profit and loss distribution.

Market risks

Market risks are established using a scenario-based simulation calculation. The scenarios are calibrated on the basis of long statistical series. This risk category can be broken down further into the subcategories “equity risk”, “general interest-rate risk”, “specific interest-rate risk”, “property risk” and “currency risk”. The general interest-rate risk includes implicit volatility risks and inflation risks.

Economic risk capital (ERC) – Market

				31.12.2010				Prev. year	Change
€bn	Group	Reinsurance	Primary insurance	Segment diversification	Group	Reinsurance	Primary insurance	Segment diversification	Group
Equity risks	5.5	3.8	1.8	-0.1	3.8	2.1	1.7	–	1.7
General interest-rate risk	5.6	4.0	6.3	-4.7	4.0	3.1	4.5	-3.6	1.6
Specific interest-rate risk	3.6	1.8	2.6	-0.8	2.2	1.5	1.3	-0.6	1.4
Property risks	2.0	1.1	1.0	-0.1	1.8	1.0	0.8	–	0.2
Currency risks	0.6	0.6	0.2	-0.2	2.3	2.2	0.1	–	-1.7
Subtotal	**17.3**	**11.3**	**11.9**	**-5.9**	**14.1**	**9.9**	**8.4**	**-4.2**	**3.2**
Diversification effect	-7.4	-5.8	-4.0	–	-7.3	-5.9	-3.1	–	-0.1
Total	**9.9**	**5.5**	**7.9**	**-3.5**	**6.8**	**4.0**	**5.3**	**-2.5**	**3.1**

Equity risk
The market value of our investments in equities, including participating interests, was €7.9bn (5.2bn) at 31 December 2010. At this date, on a market-value basis, the ratio of equities to total investments amounted to 4.0% (2.8%) before taking derivatives into account and to 4.4% (2.8%) after allowing for derivatives. This increase compared with the previous year is the main reason for the higher risk capital for equities.

Interest-rate risks
In primary insurance, the increase in interest-rate risks is primarily due to the fall in long-term interest rates and the simultaneous rise in implicit interest-rate volatilities.

In reinsurance, the interest-rate risk on fixed-interest investments in units of **modified duration** (interest-rate sensitivity) is 5.9, whereas the modified duration of liabilities is 3.4. The sensitivity of available financial resources (see next section) to a parallel increase in all interest-rate curves by one basis point (DV01) amounts to approximately –€15m. Were such a parallel shift in the interest-rate curves to occur, the available financial resources would change by the given amount. The increase in the interest-rate risk in reinsurance is mainly attributable to the greater gap between the duration of assets and liabilities.

In primary insurance, the modified duration is 6.6 for fixed-interest investments and 8.3 for liabilities. This exposure to falling interest rates derives mainly from the long-term options and guarantees in life insurance business. These risks were reduced substantially by the extensive interest-rate risk hedging programme first implemented in 2005. The sensitivity of available financial resources (see next section) to a parallel increase in all interest-rate curves by one basis point (DV01) amounts to €19m. The different exposures in reinsurance and primary insurance thus partially cancel each other out at Group level.

Currency risk
Our foreign subsidiaries are obliged to hold equity capital in local currency for regulatory reasons. A currency risk in relation to the euro is no longer included at Group level for the non-fungible portion of this equity capital, thus reducing the currency risk.

Credit risks
Munich Re determines credit risks using a portfolio model which takes into account changes in market value caused by rating migrations and the default of debtors. The model is calibrated over one credit cycle.

The market value of our investments in fixed-interest securities and loans as at 31 December 2010 was €163.9bn, representing 83.4% of the market value of Munich Re's total investments. These securities thus made up the bulk of the portfolio. A detailed presentation of our fixed-interest securities and loans, including short-term investments, on a market-value basis can be found on page 97. Ratings for these investments are provided in the notes to the consolidated financial statements under (5) Loans, (6) Other securities held to maturity, (8) Other securities available for sale and (9) Other securities, at fair value through profit or loss.

Our sophisticated limit system and our well-established administration systems have served us well – even during times of turbulence in the financial markets – and enable us to manage our investments efficiently and successfully.

Our provisions ceded to reinsurers and retrocessionaires were assignable to the following rating categories as at 31 December 2010:

Ceded share of technical provisions according to rating

%	31.12.2010	Prev. year
AAA	3.4	11.0
AA	35.5	29.8
A	54.1	53.1
BBB and lower	1.5	1.2
No rating available	5.5	4.9

The shifts are mainly due to the change in rating of a few reinsurers/retrocessionaires.

Available financial resources

Available financial resources

Increase of €1.2bn in available financial resources

We compare the economic risk capital, which equates to Munich Re's capital requirement, with the available financial resources which can be used to cover losses that exceed expectations. The available financial resources are calculated as the sum of the economic equity and the available hybrid capital. The economic equity is based essentially on Munich Re's IFRS equity, modified by various economically appropriate adjustments.

The valuation reserves include post-tax adjustments to items in the property-casualty segment that are not accounted for at fair value under IFRS, in particular to land and buildings and loans. We perform various valuation adjustments for property-casualty and life and health. In property-casualty, we discount the reserves that under IFRS are not discounted from a strict economic perspective or at all, adjusting them for the resultant tax effects, and add on a risk margin derived in accordance with economic principles. In the case of business for which we show a Market Consistent Embedded Value (MCEV), we regard the embedded value as capital available to cushion risks. This is only partially included in IFRS equity, which is why we make an adjustment. On the other hand, capitalised goodwill and other intangible assets are included in the Group's IFRS equity. As they might not retain their value following a severe loss event, we deduct them when calculating available financial resources, taking tax effects into account. We treat deferred tax assets recognised for loss carry-forwards under IFRS in the same way if they are not covered by an excess of deferred tax liabilities over deferred tax assets at the respective company.

Available financial resources

€bn	31.12.2010	Prev. year	Change
IFRS equity	23.0	22.3	0.7
Valuation reserves	0.9	0.9	–
Value adjustments for property-casualty and life and health	5.1	5.2	–0.1
Goodwill and other intangible assets[1]	–4.1	–4.6	0.5
Tax effects and other[2]	–0.1	–0.2	0.1
Economic equity	**24.8**	**23.6**	**1.2**
Hybrid capital	4.8	4.8	–
Available financial resources	**29.6**	**28.4**	**1.2**

[1] Change in methodology: The figure as at 31 December 2010 takes tax effects into account; the previous year's figures have not been adjusted.
[2] Change in methodology: In the figure as at 31 December 2010, deferred tax assets for loss carry-forwards under IFRS are only deducted if they are not covered by an excess of deferred tax liabilities over deferred tax assets at the respective company; the previous year's figures have not been adjusted.

The **economic capital buffer** is the amount by which the available financial resources exceed the economic risk capital. The economic solvency ratio is the ratio of the available financial resources (less announced but not yet completed capital measures such as the 2010/2011 share buy-back and the 2010 dividend payment) to the economic risk capital. Over the course of time, the situation has developed as follows:

Economic solvency ratio components

		31.12.2010	Prev. year	Change
(A) Economic equity	€bn	24.8	23.6	1.2
(B) Available financial resources	€bn	29.6	28.4	1.2
(C) Available financial resources after dividend and share buy-back	€bn	28.1	26.7	1.4
(D) Economic risk capital (ERC)	€bn	20.7	17.4	3.3
(B) minus (D): Economic capital buffer	€bn	8.9	11.0	–2.1
(C) divided by (D): Economic solvency ratio	%	136	153	

The **economic solvency ratio** of 136% (153%) reflects Munich Re's capital strength. Munich Re's economic risk capital, which produces the solvency ratio described above, corresponds to 1.75 times the capital that is likely to be necessary under Solvency II on the basis of the internal risk model.

In calculating RORAC (see definition on page 58), the factor "additional available economic equity" is also relevant. It is the difference between the economic equity capital and the economic risk capital and amounted to €4.1bn (6.2bn) as at 31 December 2010.

Regulatory solvency requirements

We report on the regulatory solvency requirements on page 106 f.

Selected risk complexes

Overarching accumulation risks

Effects of the financial crisis

An example of overarching accumulations is the impact of the worldwide financial crisis.

On the insurance side, current indications are that Munich Re is potentially exposed mainly via the liability classes directors' and officers' liability (D&O) and professional indemnity (PI). Specifically, there is the prospect of liability arising out of alleged misconduct in the form of inadequate advice, mismanagement or negligence on the part of sales organisations, banks or other financial intermediaries. Even if courts ultimately do not award damages, any defence costs covered under insurance policies could be considerable. Since such lawsuits are typically very prolonged, it will be several years before there is final clarity regarding the extent of the losses. At the turn of the year 2010/2011 (as at 31 December 2010), we had received isolated provisional notifications from our liability reinsurance clients. We have taken these into account through appropriate precautionary allocations to IBNR reserves.

As insurers, we incur risks through financial exposure to other parties on the liabilities side of the balance sheet arising out of our traditional reinsurance activities in trade credit and surety business. At the same time, as a major institutional investor, we must accept certain credit risks when we invest. This is clearly the case for corporate bonds, but there are also risks in government bonds, which were considered safe in the past. We use government bonds to match the term and currency of our underwriting liabilities, especially for insurances of the person.

We have reacted to the increased risk on certain government securities by modifying our internal control system for country risks so that, for example, limits for certain countries were reduced in our counterparty limit system and greater weight given to market indicators in our risk management process. In our internal risk model, we calculate and allocate risk capital even for highly rated government bonds. Of our holdings in government bonds or instruments for which public institutions are liable, 7% (6%) stems from Italian, 3% (3%) from Spanish, 2% (3%) from Irish, 1% (3%) from Greek, and 1% (1%) from Portuguese issuers.

Pandemic

A further example of an overarching accumulation risk is a major pandemic. Like other companies in the insurance industry, Munich Re would be exposed to risks resulting from a marked increase in mortality and morbidity and from disruptions in the capital markets. We counter this risk by analysing our overall exposure in detail (scenario analysis), defining suitable limits, and optimising our risk structure by transferring risk, e.g. through the launch of the Nathan pandemic bond programme.

Climate change

Whilst we are in a position to adequately assess the known risks in our portfolio on the basis of current knowledge, scientific research into climate change is complex and the political and regulatory environment in which we operate is developing dynamically, so that we must remain vigilant with regard to the identification and representation of new and emerging risks. We adopt a multidisciplinary approach, using and combining the pertinent experience and expertise of our scientists, specialist underwriters, lawyers, economists, sociologists and actuaries as appropriate for the risk situation.

Climate – Risk and opportunity

Climate change represents one of the greatest risks of change for the insurance industry. In Munich Re's Corporate Climate Centre, we are developing a holistic strategic approach to analysing and assessing these risks. The findings are made available to all business areas and our asset-liability management function. However, changes in the physical environment and new regulations resulting from climate change also open up many business opportunities. Applying the knowledge we have accumulated over decades, we exploit these opportunities – for example, through new insurance products for renewable energy technologies.

New and complex risks

Our **risk early-warning system** also covers "emerging risks", i.e. those that arise as a result of legislative, socio-political, scientific, technological and similar changes and are liable to have unmeasured or unknown effects on our portfolio. The degree of uncertainty as to extent of damage and occurrence probability is by nature very high.

We identify trends and faint signals in many ways, including systematic trend research, using Munich Re's knowledge management, and regular structured discussions in our "emerging risks think tank". To ensure that emerging risks are understood, a group of experts reports on the issues involved from various perspectives. They derive conceivable scenarios and analyse their possible impact on Munich Re, looking at interdependencies between different risks and other aspects related directly or indirectly to emerging risks. Cooperation with external partners complements our internal early-warning system. One example is our collaboration with the US Rand Institute for Civil Justice on the issue of class actions.

As a consequence of increasing global dependencies and the rapid spread of technological innovations, events with impacts difficult to identify using traditional scenario processes are occurring with greater frequency. One example was the eruption of the Eyjafjallajökull volcano in 2010. The disruption of air traffic across much of Europe led not only to travel restrictions for individuals but also to airfreight delays and hence business interruptions in manufacturing. Such chains of events will take on greater importance in future. At Munich Re, we adopt a system-based approach to analyse dependencies in complex risks, with the aim of making potential loss cascades more transparent and reducing the risk of inappropriate simplifications in our scenario building.

Legal and supervisory risks

As a result of our global activities, we are subject to a large number of supervisory regulations in different countries. These may give rise to legal and regulatory risks. In 2004, New York State Attorney General Eliot Spitzer started an investigation into the use of Placement or Market Service Agreements (PSAs) in the insurance industry. Several other US state regulators subsequently commenced similar probes into this matter, as have regulators in other countries. Munich Re has received requests to provide information in connection with these investigations and has cooperated fully with the authorities. Munich Re entities have also been named together with other insurers and brokers as defendants in a number of PSA-related class actions by US policyholders. Munich Re will continue to defend itself against the accusations in the appropriate manner.

In 2004, the US Securities and Exchange Commission (SEC) and the Office of the New York State Attorney General initiated inquiries into “certain loss mitigation insurance products”. Subsequently, a number of other authorities in the USA and elsewhere made both formal and informal requests for similar information from Munich Re and some of its subsidiaries. Munich Re has fully cooperated with these inquiries.

In November 2009, the Spanish antitrust authority (CNC – Comisión Nacional de la Competencia) imposed fines on several insurers and reinsurers, including Munich Re’s Spain and Portugal branch (Münchener Rückversicherungsgesellschaft, Surcursal España y Portugal), for alleged collusion restricting competition in Spanish decennial liability business (compulsory insurance for guarantee claims in respect of contract works). In December 2009, Munich Re’s Spain and Portugal branch lodged an appeal against the CNC’s decision in the expectation that the next higher instance will arrive at a different assessment of the facts.

After the federal legislative procedure for the US Fairness in Asbestos Injury Resolution Act foundered in February 2006, several US states adopted legislation initiatives (tort reform) which may have a positive effect on the settling of asbestos claims. Following revelations about often questionable asbestos-related disease diagnoses and the resultant lawsuits, a number of investigation committees are at work. Similar questionable practices that have come to light in silicosis lawsuits are also important for US asbestos claims. These developments indicate that the legal situation in the USA is moving in a positive direction. However, it is too early to say whether and to what extent this will have favourable implications for future loss development in the insurance industry, particularly as plaintiff attorneys are trying hard to repel the tort reform initiatives. We are currently still being affected by late-reported claims – in some cases for high amounts – for asbestos-related diseases and similar liability complexes. Though the total number of asbestos claims is declining, the number of severe cases of mesothelioma and other types of cancer has remained relatively constant in recent years.

The ongoing discussions regarding the German healthcare system may result in further changes in the statutory parameters. As far as legal risks are concerned, the greatest threat to private health insurance would be the suggested “citizens’ insurance scheme”. If all citizens were to be compulsorily included in the German statutory health insurance system, this would mean the end of new business for private health insurers in comprehensive health insurance at least. Constitutional hurdles make it unlikely that people who are already insured privately would have to be included. We have been monitoring this risk for many years and have publicly highlighted the disadvantages of such a health insurance scheme. “Citizens’ long term care insurance” involves similar proposals.

Outlook

The future regulatory requirements for risk management have become clearer as a result of the progress made in the European Union's Solvency II project, notably the production of the draft implementing measures by the Solvency II Expert Group (SEG). Nevertheless, there is still considerable uncertainty regarding the future calibration of the standard formula and the requirements from the second and third pillar of Solvency II.

Summary

In accordance with the prescribed processes, Munich Re's Board committees explicitly defined the risk appetite for significant risk categories in the year under review and quantified it by means of specific figures. We determined and documented the risk appetite across the Group hierarchy and communicated it throughout Munich Re. During the whole of 2010, risk exposures were regularly quantified and compared with the risk appetite. We assess Munich Re's risk situation as manageable and under control.

Prospects

// Despite uncertain economic environment, opportunities thanks to financial strength and solution-finding competence
// Reinsurance continues to offer promise for the future
// ERGO drives sales with new brand strategy
// Expected return on investment of below 4%
// Unchanged long-term result target of 15% on risk-adjusted capital (RORAC) after tax over the cycle
// Consolidated result of around €2.4bn envisaged for 2011
// Continuation of share buy-back with half the volume
// Proposed dividend for 2010: €6.25 per share

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

Overview

Despite the still difficult economic situation, there are a wide range of opportunities for us. Growing accumulation hazards and the move towards more stringent regulatory requirements will increase the demand for effective risk relief via reinsurance. With our know-how, our ability to find the right solutions and our financial strength, we are well positioned. In primary insurance, too, we expect stable development, especially in life business. People's need for care and provision is rising and increasingly has to be financed privately. In property-casualty primary insurance, we anticipate growth especially in international business. There will be opportunities and risks for Munich Health from the US healthcare reform and many comparable initiatives in other regions of the world.

Economic environment

Economic development is likely to be somewhat less dynamic in 2011. Although private consumer spending and investment have increased recently, doubts remain as to whether they can fully replace expiring government support measures. We therefore expect slightly weaker growth for the global economy than in the previous year, and this is likely to have a dampening effect on demand for insurance. It may also be assumed that the continued uncertainties regarding the stability of the financial system and public finances will determine the investment environment.

In the emerging economies, particularly China and India, growth should again be much stronger than in the industrial countries, some of which are likely to be adversely impacted by depressed private consumption owing to high unemployment and an elevated level of household debt. On top of this, many countries are planning to cut public expenditure in order to consolidate their budgets. We are proceeding on the assumption that inflation will remain low in most industrial countries and only reach a higher level in a few emerging economies.

Capital markets

Continued growth should lead to a marginal rise in interest rates for German and US government bonds in 2011. Since we anticipate that increases in key interest rates will be only small, the yield curves are likely to remain relatively steep. Currency developments will continue to be volatile, given the debate surrounding public debt. The easy monetary policy pursued in a number of industrial countries paired with moderate positive growth and limited inflation provide an environment favourable to shares.

Insurance industry

In the European Union, state supervision for primary insurers and reinsurers is set to undergo profound changes with the rules planned under Solvency II, which are scheduled to enter into force at the beginning of 2013. In terms of capital, risk management and reporting, these changes will impose enhanced requirements on insurance companies. In its preliminary studies, the European Commission has been examining the impact of Solvency II's quantitative risk capital requirements on the companies concerned. Irrespective of the fine-tuning still to be done, Solvency II will influence insurance supply and demand. New opportunities will emerge for Munich Re in both primary insurance and reinsurance.

Far-reaching changes are also on the horizon for the accounting of insurance contracts and financial instruments in our consolidated financial statements. In July 2010, the International Accounting Standards Board (IASB) – the London body responsible for International Financial Reporting Standards – published an exposure draft for a standard relating to insurance contracts, intended to achieve a consistent international approach in this area. Even if some of the details of the planned changes are questionable, they would be a major step in the right direction. The new standard for financial instruments (IFRS 9) awaits adoption by the European Commission – possibly in a modified form – before we can apply it.

While growth momentum should remain high in many emerging economies, including the insurance sector, most developed markets are expected to see only moderate expansion in premium income. In property-casualty primary insurance, we expect premium development to be subdued. Demand for life insurance cover should remain stable: while the need for private provision is huge, growth in disposable incomes and the readiness to purchase suitable products is at best sluggish. However, other lines such as credit and surety business should benefit from the stable economy and show lower losses.

The solid capitalisation of providers and buyers is having a significant effect on prices, terms and conditions in the international reinsurance markets. A further fall in prices in property-casualty reinsurance was therefore observable in the renewals at the beginning of the year, except in lines and regions where companies had suffered high losses. For the further course of 2011, we anticipate a sideways trend, not least owing to the unbroken series of natural catastrophes.

Risks

Two years after the peak of the crisis, the outlook remains clouded by uncertainty. A repeated slump or even an extended period of stagnation with deflationary consequences cannot be completely ruled out in some countries. A prolonged low-interest-rate environment would significantly impair the situation of life insurance companies. The high levels of debt in many countries created a great deal of uncertainty among investors in 2010 and could destabilise the financial system again to the detriment of the insurance industry. If the economic recovery continues, the substantial interventions of the central banks and related expansion of the money supply may result in higher inflation, with corresponding inflation in claims costs for insurers. Besides this, the industry could be affected by protectionist restrictions and foreign exchange interventions. Potential geopolitical upheavals, for instance in the Middle or Far East, are also still a significant risk for the global economy and thus the insurance industry – a risk that is already becoming reality in the Arab world.

By nature, the insurance industry is also particularly exposed to the consequences of economic and social policy decisions, an example being healthcare policy, with its substantial implications for private health insurance. Moreover, the planned tightening of supervisory regulations in the financial services industry also harbours risks for the insurance sector: especially after the financial crisis, there are concerns that the changes – mainly geared to banking – could be transferred indiscriminately to the insurance industry. Conceivable in this context are exaggerated capital requirements, excessive reporting obligations, and restrictions for individual types of business.

Finally, ruinous competition with a downward trend in insurance prices lasting several years remains an unlikely but not impossible risk scenario. Giving clear priority to profitability over growth and focusing on the efficiency of management systems continues to be critical for the insurance industry's success.

Munich Re's development

Limits to forecasting results

It is not only the obvious fluctuations in the incidence of major losses that make an accurate forecast of IFRS results impossible. Our investment result is difficult to predict as well. We gear the selection of our investments, based on economic criteria, to the characteristics of our technical provisions and liabilities, also using derivative financial instruments to hedge against fluctuations on the interest-rate, equity and currency markets and to fine-tune exposures. The high volatilities in these markets result in substantial changes in the values of derivatives, which under IFRS accounting we generally recognise in profit or loss, i.e. as income or expense in our income statement. However, such recognition in the income statement is not always provided for with regard to the related underlying transactions themselves. Despite our economically well-balanced underwriting and investment portfolio, this inconsistency gives rise to considerable fluctuations in our investment and consolidated result, making a reliable forecast more difficult. Here we can give only rough indications of the possible impact. Firstly, a rising interest-rate level will tend to lead to lower results, and a falling interest rate to higher results, than those forecast in this section. Fluctuations in exchange rates can also have an influence on our result. A stronger euro, for instance, will produce gains, while a weaker euro will burden the result. Furthermore, major share price losses could necessitate write-downs of equities in our expanded share portfolio.

Reinsurance

Reinsurance continues to hold considerable promise for the future, with a wide variety of earnings opportunities in the long term. In 2009, we responded to a shift in demand trends by repositioning ourselves. Even more so than in the past, Munich Re will offer its cedants specialist consulting services and extensive solutions, also for tasks such as balance-sheet management, risk modelling and asset-liability management. Reinsurance is an efficient and flexible option for strengthening an insurer's capital base. Additionally, we devise innovative coverage concepts that go beyond traditional reinsurance.

Life reinsurance offers good growth potential. We are experiencing continuing demand for large-volume capital substitute solutions. Opportunities will also emerge from the privatisation trends in provision for old age, long term care and disability, from the need for asset protection, and from the dynamic expansion of the Asian life insurance markets. For 2011, we anticipate gross premiums written totalling around €9bn. In the case of our underwriting result, we project a figure of around €0.4bn from 2011 onwards.

We have set ourselves the objective of doubling the value added by new business in life reinsurance in the period 2006 to 2011. On the basis of Market Consistent Embedded Value (MCEV) Principles, this objective corresponds to a value added by new business of €330m for 2011. Given the outstanding results of recent years, we are very confident of surpassing this goal. We aim to achieve sustained value added by new business in life reinsurance of €450m a year by 2015.

In **property-casualty reinsurance**, which traditionally moves more in cycles, Munich Re will maintain its clear, profit-oriented underwriting policy and accept risks only at commensurate prices, terms and conditions.

At 1 January 2011, treaty business with a volume of around €7.9bn was up for renewal. The renewal negotiations again took place in a competitive environment. As a result of primary insurers' good capitalisation, demand for reinsurance cover remained largely unchanged. With reinsurers providing more than enough capacity, prices generally fell further. Only in British motor insurance business and in lines of business and regions that experienced losses, e.g. in offshore energy and in Australia, were we able to obtain price increases. US natural catastrophe business remains profitable, although it continued to experience price reductions in view of the sufficient capacity available and relatively benign hurricane season in terms of losses. In Europe, premium rates fell despite high claims costs.

Owing to persistent pressure on prices, we declined various business opportunities, in line with our strict cycle management. Of the total business up for renewal, around 16% (€1.3bn) was not renewed because it did not meet our profitability requirements, a substantial portion of this in Europe. We were able to compensate for part of the reduction in premium through the expansion of existing profitable client relations. In addition, we generated substantial new business volume totalling approximately €1.2bn, particularly in strongly growing markets. On balance, the renewals resulted in a slight increase in premium of some €330m (+4.1%). At +0.1%, the rate level for our portfolio remained at around the same level as in the previous year. Thanks to our strong global presence and ability to offer complex reinsurance solutions swiftly and tailored to our clients' needs, we were able to buck the trend of falling prices. In this market environment, Munich Re's stability and financial strength have paid off. We are therefore very satisfied with the renewals.

For the forthcoming renewals at 1 April 2011 (Japan and Korea) and 1 July 2011 (parts of the US market, Australia and Latin America), a premium volume of around €2.8bn will be up for renewal. We expect that prices here will stabilise, also given the series of natural catastrophes that have occurred.

For 2011, we project gross premiums written of just over €15bn in property-casualty reinsurance. We envisage a combined ratio of around 97% of net earned premiums over the market cycle as a whole. This estimate is based on an average major-loss burden of 6.5% from natural catastrophes. Since we were affected by major loss events at the end of February 2011, i.e. the floods in Brisbane and Cyclone Yasi (also in Australia) and the earthquake in New Zealand, we will only be able to achieve our target if random major losses remain below our expectations in the further course of the year.

The insurance of facilities for generating renewable energy presents us with growing business potential in property-casualty reinsurance. By 2020, for example, we anticipate premium volume in the mid three-digit million euro range for the German insurance market, or more than double the current figure. Munich Re offers its clients suitable products, ranging from traditional coverage for industrial facilities to complex solutions such as performance guarantee covers for technical innovations enabling capital providers to reduce their investment risks.

If exchange rates remain constant, **gross premiums** in reinsurance (excluding Munich Health) should range between €24–25bn in 2011.

Primary insurance

In primary insurance, we expect that premium development in the individual segments will continue to be varied in 2011, with a positive trend overall.

In **life insurance**, our total premium income should be somewhat below the previous year's level, i.e. just under €8bn, while gross premiums written should total around €6bn. In this context, it should be noted that the developments in German and international business will greatly depend on whether the demand for single-premium business remains as strong as in 2010 and whether we can write this business profitably in the respective market environment.

In the **health** insurance segment, we are aiming for an increase in gross premiums written to just under €6bn. We should be able to achieve premium growth in comprehensive health insurance and supplementary health cover. Health primary insurance business written outside Germany is reported in the Munich Health segment.

In **property-casualty insurance**, we expect premium growth to total slightly less than €6bn. In Germany, we project growth of around 1%, i.e. above the market average. The increase is likely to be stronger for international business. The combined ratio for property-casualty business should be at a good level of under 95%.

Total premium income in primary insurance (excluding health primary business written outside Germany by Munich Health) should be in the range of €19–20bn in 2011. We anticipate that gross premiums written will range between €17bn and €18bn.

The **result** for the primary insurance segment is likely to continue developing favourably in 2011 and show growth compared with the previous year. For the ERGO subgroup, we project a figure of between €450m and €550m.

Munich Health

There are many growth avenues in the international healthcare markets, in particular due to advances in medicine and improved life expectancy. We intend to take advantage of these opportunities.

We are thus focusing in all the markets in which we are present on the sustained profitability of the segment and on business models that are attractive in the long term. Political conditions permitting, we intend to apply the successful business model of the joint venture Daman, which we partnered with the government of Abu Dhabi, to neighbouring regions as well. In recent years, we have also posted very satisfying growth in health reinsurance business from large-volume multi-year capital substitute solutions. We constantly subject our portfolio to close scrutiny in order to consolidate and, where necessary, to improve its earnings strength.

Gross premiums written by Munich Health are likely to amount to around €6bn in 2011.

For 2011 and 2012, we are expecting only a relatively small positive result contribution from this young field of business, due to ongoing start-up investments in several units and adverse effects from the recession.

Investments

We are responding to the economic uncertainties by continuing to strongly diversify our portfolio. This enables us to keep our options open in various scenarios and to share in capital market developments. To this end, we propose to moderately increase in our equities and commodities portfolio. We will also continue to prudently expand our credit exposure. By contrast, we will marginally reduce our large portfolio of government bonds.

To guarantee optimum management of the interest rate risk, the structure of our bond portfolio will be geared to the periods of our liabilities in 2011 as well. In 2010, we benefited from an extended duration position we had taken as a form of protection against a possible crisis scenario. Given the current interest-rate level and our expectations for a moderate rise, we have slightly reduced the duration in the first quarter of 2011. We are likely to keep our portfolio of investments in inflation-indexed bonds constant in 2011. Nonetheless, we will continue to look at investments in commodities to hedge against inflation.

In the area of alternative investments, we intend to invest more strongly in renewable energy and new technologies, given appropriate profitability prospects. As at 1 January 2011, we acquired 100% of the voting shares in 11 wind park companies for a provisional purchase price of around €40m.

We would like to maintain our real estate portfolio at the same level in 2011. Our current real estate investments serve as a stabilising element in the portfolio. To diversify even more strongly, we are considering investing in real estate in emerging markets and in projects with a high running yield.

We do not anticipate any rapid and significant increase in capital market interest rates; regular income from our investments is therefore likely to be relatively low – at just under 4% overall – for the financial years 2011 and 2012.

Munich Re (Group)

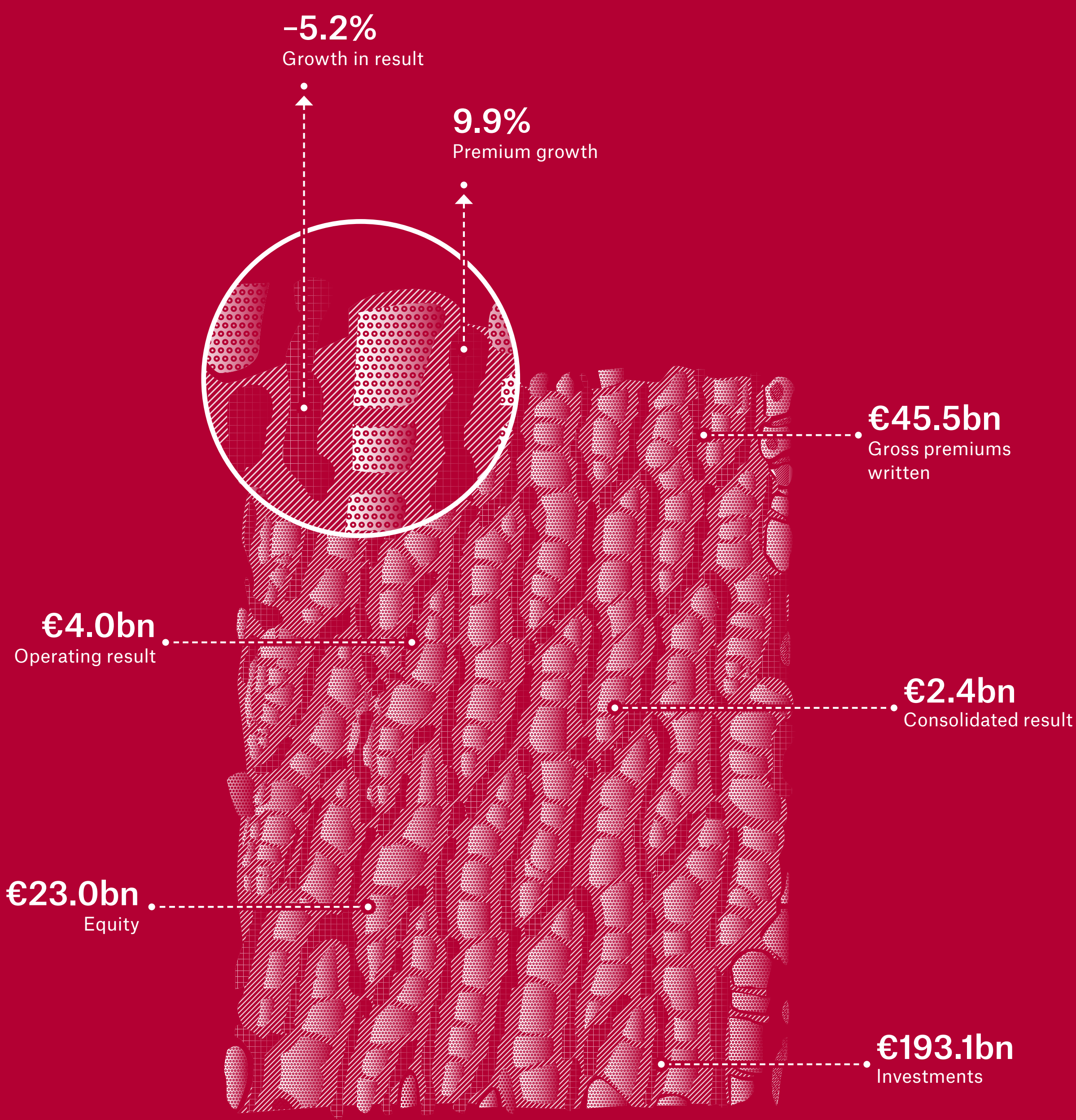
For the Group as a whole, we are proceeding on the assumption that **gross premiums written** for 2011 will be in the range of €46–48bn (total consolidated premium), provided that exchange rates remain stable compared with those at the end of 2010.

We are at present adhering to our long-term objective of a 15% return on our risk-based capital (RORAC) after tax across the cycle of the insurance and interest-rate markets. However, this target will be difficult to achieve with the currently low level of interest rates. As soon as the requirements of Solvency II and the new IFRSs for insurance contracts and financial instruments have been finalised, we will gear our target performance measures to the key indicators from this new framework with its strong economic focus.

For 2011, given the essentially stable prices expected in reinsurance and average loss experience, we expect the underwriting result to be slightly higher. However, we do not anticipate any significant rise in capital market interest rates, so regular income from fixed-interest securities and loans should be somewhat lower. With our significantly increased but historically low equity-backing ratio, write-downs are likely to be correspondingly moderate, but so are the opportunities to realise gains on disposal. From today's standpoint, we are therefore proceeding on the assumption that investment results will be appreciably lower than in 2010, with a total return of under 4% on the portfolio. All in all, then, if other parameters remain unchanged, we aim for a **consolidated result** of around €2.4bn for 2011, i.e. approximately the same level as in 2010. Considering the major-loss burden in the first two months of the year, however, this target can only be achieved if random major losses remain below expectations in the further course of the year. For 2012, we are aiming for a consolidated result of similar magnitude.

After concluding the 2009/2010 buy-back programme as planned, we launched a share buy-back programme for 2010/2011 in May 2010. By the next Annual General Meeting on 20 April 2011, we intend to buy back shares for a maximum total purchase price of €1bn. By 25 February 2011, we had bought back a total of 7.7 million Munich Re shares with a volume of €844m. In the following 12-month period, up to the Annual General Meeting in 2012, a buy-back volume of up to €500m is planned. The full execution of these share buy-back programmes remains subject to developments in the capital markets and the general economic environment.

Our shareholders can look forward to the dividend for 2010, which – subject to approval by the Annual General Meeting – will rise by 50 cents to €6.25 per share.



Cell structure // While the cell membrane surrounds and protects the cell and regulates the passage of various substances into and out of the cell, the cytoskeleton stabilises the external and internal structure. Although its name suggests otherwise, the cytoskeleton is actually a very dynamic protein structure. Amongst other things, it is responsible for intracellular movement and transport. The cell nucleus found within the cell contains the chromosomal DNA and hence the genes.

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Consolidated balance sheet as at 31 December 2010[1]

Assets

	Notes			31.12.2010	Prev. year		Change
		€m	€m	€m	€m	€m	%
A. Intangible assets							
I. Goodwill	(1)		3,453		3,477	-24	-0.7
II. Other intangible assets	(2)		1,633		1,718	-85	-4.9
				5,086	**5,195**	**-109**	**-2.1**
B. Investments							
I. Land and buildings, including buildings on third-party land	(3)		4,247		4,086	161	3.9
Thereof: Investment property held for sale	(17)		–		90	-90	-100.0
II. Investments in affiliated companies and associates	(4)		1,091		1,001	90	9.0
Thereof: Associates accounted for using the equity method			870		796	74	9.3
III. Loans	(5)		48,935		46,622	2,313	5.0
IV. Other securities							
1. Held to maturity	(6)	42			84	-42	-50.0
2. Available for sale	(8)	122,123			115,605	6,518	5.6
3. At fair value through profit or loss	(9)	1,612			1,613	-1	-0.1
			123,777		117,302	6,475	5.5
V. Deposits retained on assumed reinsurance	(10)		6,902		6,798	104	1.5
VI. Other investments	(11)		3,199		2,340	859	36.7
				188,151	**178,149**	**10,002**	**5.6**
C. Investments for the benefit of life insurance policyholders who bear the investment risk				**4,957**	**4,026**	**931**	**23.1**
D. Ceded share of technical provisions	**(12)**			**5,490**	**4,983**	**507**	**10.2**
E. Receivables							
I. Current tax receivables			492		700	-208	-29.7
II. Other receivables	(13)		10,576		10,070	506	5.0
				11,068	**10,770**	**298**	**2.8**
F. Cash at banks, cheques and cash in hand				**2,900**	**3,082**	**-182**	**-5.9**
G. Deferred acquisition costs	**(14)**						
Gross			9,165		8,604	561	6.5
Ceded share			72		76	-4	-5.3
Net				9,093	8,528	565	6.6
H. Deferred tax assets	**(15)**			**5,959**	**5,025**	**934**	**18.6**
I. Other assets	**(16)**			**3,654**	**3,654**	**–**	**–**
Thereof: Owner-occupied property held for sale				–	13	-13	-100.0
Total assets				**236,358**	**223,412**	**12,946**	**5.8**

Equity and liabilities

	Notes		31.12.2010	Prev. year	Change	
		€m	€m	€m	€m	%
A. Equity	**(18)**					
I. Issued capital and capital reserve		7,388		7,388	–	–
II. Retained earnings		10,735		10,667	68	0.6
III. Other reserves		2,238		1,473	765	51.9
IV. Consolidated result attributable to Munich Reinsurance Company equity holders		2,422		2,521	-99	-3.9
V. Non-controlling interests		245		229	16	7.0
			23,028	**22,278**	**750**	**3.4**
B. Subordinated liabilities	**(19)**		**4,847**	**4,790**	**57**	**1.2**
C. Gross technical provisions						
I. Unearned premiums	(20)	7,879		6,946	933	13.4
II. Provision for future policy benefits	(21)	104,413		100,862	3,551	3.5
III. Provision for outstanding claims	(22)	49,501		46,846	2,655	5.7
IV. Other technical provisions	(23)	9,555		10,146	-591	-5.8
			171,348	**164,800**	**6,548**	**4.0**
D. Gross technical provisions for life insurance policies where the investment risk is borne by the policyholders	**(24)**		**5,210**	**4,117**	**1,093**	**26.5**
E. Other accrued liabilities	**(25)**		**3,458**	**3,206**	**252**	**7.9**
F. Liabilities						
I. Bonds and notes issued	(26)	290		276	14	5.1
II. Deposits retained on ceded business	(27)	2,762		2,176	586	26.9
III. Current tax liabilities		3,253		3,134	119	3.8
IV. Other liabilities	(28)	13,103		10,114	2,989	29.6
			19,408	**15,700**	**3,708**	**23.6**
G. Deferred tax liabilities	**(15)**		**9,059**	**8,521**	**538**	**6.3**
Total equity and liabilities			**236,358**	**223,412**	**12,946**	**5.8**

[1] Previous year's figures adjusted owing to recognition of Munich Health as a separate segment (see "Recognition and measurement").

Consolidated income statement for the financial year 2010[1]

Items

	Notes			2010	Prev. year		Change
		€m	€m	€m	€m	€m	%
Gross premiums written		**45,541**			**41,423**	**4,118**	**9.9**
1. Earned premiums	**(29)**						
Gross		44,955			41,227	3,728	9.0
Ceded		1,880			1,701	179	10.5
Net			43,075		39,526	3,549	9.0
2. Income from technical interest	**(30)**		**6,587**		**5,794**	**793**	**13.7**
3. Expenses for claims and benefits	**(31)**						
Gross		37,747			33,163	4,584	13.8
Ceded share		1,164			771	393	51.0
Net			36,583		32,392	4,191	12.9
4. Operating expenses	**(32)**						
Gross		11,545			10,586	959	9.1
Ceded share		431			405	26	6.4
Net			11,114		10,181	933	9.2
5. Technical result (1–4)				**1,965**	**2,747**	**-782**	**-28.5**
6. Investment result	**(33)**						
Investment income		13,666			13,575	91	0.7
Investment expenses		5,024			5,692	-668	-11.7
Total			**8,642**		**7,883**	**759**	**9.6**
Thereof: Income from associates accounted for using the equity method			51		-126	177	–
7. Other operating income	**(34)**		**807**		**688**	**119**	**17.3**
8. Other operating expenses	**(34)**		**849**		**803**	**46**	**5.7**
9. Deduction of income from technical interest			**-6,587**		**-5,794**	**-793**	**-13.7**
10. Non-technical result (6–9)				**2,013**	**1,974**	**39**	**2.0**
11. Operating result				**3,978**	**4,721**	**-743**	**-15.7**
12. Other non-operating result	**(35)**			**-454**	**-472**	**18**	**3.8**
13. Impairment losses of goodwill	**(35)**			**109**	**117**	**-8**	**-6.8**
14. Finance costs	**(35)**			**293**	**304**	**-11**	**-3.6**
15. Taxes on income	**(36)**			**692**	**1,264**	**-572**	**-45.3**
16. Consolidated result				**2,430**	**2,564**	**-134**	**-5.2**
Thereof: Attributable to Munich Reinsurance Company equity holders				2,422	2,521	-99	-3.9
Attributable to non-controlling interests	(18)			8	43	-35	-81.4
	Notes			€	€	€	%
Earnings per share	**(54)**			**13.06**	**12.95**	**0.11**	**0.8**

[1] Previous year's figures adjusted owing to recognition of Munich Health as a separate segment (see "Recognition and measurement").

Statement of recognised income and expense

€m	2010	Prev. year
Consolidated result	**2,430**	**2,564**
Currency translation		
Gains (losses) recognised in equity	645	–51
Included in the income statement	–	–
Unrealised gains and losses on investments		
Gains (losses) recognised in equity	1,370	2,205
Included in the income statement	–1,240	–1,690
Change resulting from valuation at equity		
Gains (losses) recognised in equity	–8	15
Included in the income statement	–	–
Change resulting from cash flow hedges		
Gains (losses) recognised in equity	–3	–2
Included in the income statement	–	–
Actuarial gains and losses on defined benefit plans	–50	–78
Other changes	–20	–28
Income and expense recognised directly in equity	**694**	**371**
Total recognised income and expense	**3,124**	**2,935**
Thereof:		
Attributable to Munich Reinsurance Company equity holders	3,094	2,885
Attributable to non-controlling interests	30	50

Group statement of changes in equity

€m	Issued capital	Capital reserve
Status at 31.12.2008	**588**	**6,800**
Allocation to retained earnings	–	–
Consolidated result	–	–
Income and expense recognised directly in equity	–	–
Currency translation	–	–
Unrealised gains and losses on investments	–	–
Change resulting from valuation at equity	–	–
Change resulting from cash flow hedges	–	–
Actuarial gains and losses on defined benefit plans	–	–
Other changes	–	–
Total recognised income and expense	–	–
Change in shareholdings in subsidiaries	–	–
Change in consolidated group	–	–
Dividend	–	–
Share buy-backs	–	–
Retirement of own shares	–	–
Status at 31.12.2009	**588**	**6,800**
Allocation to retained earnings	–	–
Consolidated result	–	–
Income and expense recognised directly in equity	–	–
Currency translation	–	–
Unrealised gains and losses on investments	–	–
Change resulting from valuation at equity	–	–
Change resulting from cash flow hedges	–	–
Actuarial gains and losses on defined benefit plans	–	–
Other changes	–	–
Total recognised income and expense	–	–
Change in shareholdings in subsidiaries	–	–
Change in consolidated group	–	–
Dividend	–	–
Share buy-backs	–	–
Retirement of own shares	–	–
Status at 31.12.2010	**588**	**6,800**

Equity attributable to Munich Reinsurance Company equity holders						Non-controlling interests	Total equity
Retained earnings		Other reserves			Consolidated result		
Retained earnings before deduction of own shares	Own shares held	Unrealised gains and losses	Reserve from currency translation	Valuation result from cash hedges			
12,024	**–1,181**	**2,227**	**–1,194**	**3**	**1,555**	**285**	**21,107**
482	–	–	–	–	–482	–	–
–	–	–	–	–	2,521	43	2,564
–73	–	490	–51	–2	–	7	371
–	–	–	–51	–	–	–	–51
–	–	477	–	–	–	38	515
2	–	13	–	–	–	–	15
–	–	–	–	–2	–	–	–2
–72	–	–	–	–	–	–6	–78
–3	–	–	–	–	–	–25	–28
–73	–	490	–51	–2	2,521	50	2,935
–198	–	–	–	–	–	–164	–362
12	–	–	–	–	–	61	73
–	–	–	–	–	–1,073	–3	–1,076
–	–399	–	–	–	–	–	–399
–1,000	1,000	–	–	–	–	–	–
11,247	**–580**	**2,717**	**–1,245**	**1**	**2,521**	**229**	**22,278**
1,449	–	–	–	–	–1,449	–	–
–	–	–	–	–	2,422	8	2,430
–93	–	133	635	–3	–	22	694
–	–	–	635	–	–	10	645
–	–	131	–	–	–	–1	130
–10	–	2	–	–	–	–	–8
–	–	–	–	–3	–	–	–3
–52	–	–	–	–	–	2	–50
–31	–	–	–	–	–	11	–20
–93	–	133	635	–3	2,422	30	3,124
–20	–	–	–	–	–	–10	–30
–	–	–	–	–	–	–	–
–	–	–	–	–	–1,072	–4	–1,076
–	–1,268	–	–	–	–	–	–1,268
–1,002	1,002	–	–	–	–	–	–
11,581	**–846**	**2,850**	**–610**	**–2**	**2,422**	**245**	**23,028**

Consolidated cash flow statement for the financial year 2010

€m	2010	Prev. year[1]
Consolidated result	**2,430**	**2,564**
Net change in technical provisions	7,141	5,335
Change in deferred acquisition costs	–564	–70
Change in deposits retained and accounts receivable and payable	1,152	–69
Change in other receivables and liabilities	505	–94
Gains and losses on the disposal of investments	–1,649	–1,612
Change in securities held for trading	–165	866
Change in other balance sheet items	79	620
Other income/expenses without impact on cash flow	–93	1,114
I. Cash flows from operating activities	8,836	8,654
Change from losing control of consolidated subsidiaries	–8	1
Change from obtaining control of consolidated subsidiaries	–3	–562
Change from the acquisition, sale and maturities of other investments	–7,042	–3,806
Change from the acquisition and sale of investments for unit-linked life insurance	–657	–711
Other	14	–185
II. Cash flows from investing activities	–7,696	–5,263
Inflows from increases in capital and from non-controlling interests	–	–
Outflows to ownership interests and non-controlling interests	1,301	752
Dividend payments	1,076	1,076
Change from other financing activities	993	–852
III. Cash flows from financing activities	–1,384	–2,680
Cash flows for the financial year (I + II + III)	**–244**	**711**
Effect of exchange rate changes on cash	62	6
Cash at the beginning of the financial year	3,082	2,365
Cash at the end of the financial year	2,900	3,082
Additional information		
Income tax paid (net)	574	239
Dividends received	308	303
Interest received	7,083	6,954
Interest paid	672	735

[1] Previous year's figures adjusted pursuant to IAS 7 (see "Changes in accounting policies").

Notes to the consolidated financial statements

Application of International Financial Reporting Standards (IFRSs)

Munich Re's consolidated financial statements have been prepared on the basis of Section 315 a para. 1 of the German Commercial Code in conjunction with Article 4 of Regulation (EC) No. 1606/2002 of the European Parliament and of the Council of 19 July 2002 concerning the application of international accounting standards. We have complied with the international accounting standards adopted in accordance with Articles 2, 3 and 6 of the aforementioned Regulation and with the Commercial Code rules designated in Section 315 a para. 1 of the German Commercial Code. The consolidated financial statements thus also meet all the requirements of IFRSs. Our presentation currency is the euro (€). Amounts are rounded to million euros, with figures in brackets referring to the previous year.

Since 2002, the standards adopted by the International Accounting Standards Board (IASB) have been referred to as International Financial Reporting Standards (IFRSs); the standards from previous years continue to bear the name International Accounting Standards (IASs). Insofar as we do not explicitly refer to a particular standard, we use the two terms synonymously. In accordance with the rules of IFRS 4, underwriting items are recognised and measured on the basis of US GAAP (United States Generally Accepted Accounting Principles).

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

In November 2010, the Board of Management and Supervisory Board of Munich Reinsurance Company published an updated declaration of compliance with the German Corporate Governance Code as per Section 161 of the German Stock Companies Act and made this declaration permanently available to shareholders on the internet.

Figures for previous years

The previous-year figures have been calculated on the same basis as the figures for the financial year 2010.

Consolidation

Consolidated companies

In accordance with IAS 27, the consolidated financial statements include Munich Reinsurance Company (the parent) and all the entities in which Munich Reinsurance Company owns, directly or indirectly, more than half of the voting power or over which it has the factual ability to exercise control (subsidiaries).

Special purpose entities, e.g. special funds, are consolidated in Munich Re's financial statements in accordance with SIC 12 if, from an economic point of view, they are controlled by Munich Re.

Number of consolidated subsidiaries[1]

	Germany	Other countries	Total
31 Dec. previous year	77	233	310
Additions	7	8	15
Reductions	4	13	17
31 Dec. financial year	80	228	308

1 In addition, 64 German and 2 non-German special funds were included in the consolidated group.

Business combinations occurring during the reporting period

The following disclosures regarding first-time recognition are provisional, since among other things there may still be changes in the purchase price and in tax items in the balance sheet.

On 1 November 2010, through its subsidiary Sterling Life Insurance Company, Bellingham, Washington, Munich Re acquired certain assets and assumed certain risks of Guardian Healthcare Inc. (Guardian), Greenville, South Carolina. Guardian offers various government-sponsored health plans throughout South Carolina. The purchase price of US$ 4m (€2.9m) in cash was fully financed from Munich Re's own resources. This transaction provides Sterling Life Insurance Company, Bellingham, Washington, with an established network of medical service providers and an extended client base.

On 24 November 2010, through its subsidiary EUROPÄISCHE Reiseversicherung AG (ERV), Munich Re acquired, for a price of €2.5m, a further 75.0% in the subsidiary CJSIC "European Travel Insurance", Moscow, which had hitherto been accounted for using the equity method. Munich Re now holds 99.95% of the subsidiary's shares.

Furthermore, on 25 November 2010, EUROPÄISCHE Reiseversicherung AG, Munich, increased its shares in Geschlossene Aktiengesellschaft Europäische Reiseversicherung, Kiev, which had hitherto also been accounted for using the equity method, by 70.1% for a price of €0.9m. Munich Re now holds 95.22% of the subsidiary's shares.

The aim of the two last-mentioned acquisitions is to expand ERV's travel insurance business in Russia and the Ukraine.

A list of all our shareholdings can be found in the section "List of shareholdings as at 31 December 2010 in accordance with Section 313 para. 2 of the German Commercial Code".

Consolidation principles

The annual financial statements of the consolidated subsidiaries and special purpose entities are subject to uniform accounting policies. The balance sheet date of the consolidated companies is generally 31 December. Some of the special funds have other balance sheet dates. These funds are consolidated on the basis of interim accounts as at 31 December.

Acquisitions are accounted for by the purchase method. In order to determine the equity capital at the time of acquisition, we measure the acquired identifiable assets and liabilities of the subsidiary or special purpose entity at fair value. The consideration transferred in exchange for the acquired shares is netted against the equity capital apportionable to the Group at the time of acquisition. Any residual positive amount is capitalised as goodwill. Profits earned by the subsidiaries or special purpose entities after their first consolidation are included in Group equity. Amounts relating to intra-Group transactions (receivables and liabilities, expenses and income between consolidated companies) are eliminated unless they are determined as not being material.

Associates

Pursuant to IAS 28, associates are generally all entities which are not subsidiaries but on whose financial and operating policies the investors can exercise a significant influence. In the case of shareholdings amounting to between 20% and 50% of the voting power, the entities in question are deemed to be associates unless it can be clearly demonstrated that there is no significant influence.

Number of companies valued at equity

	Germany	Other countries	Total
31 Dec. previous year	20	32	52
Additions	2	–	2
Reductions	–	5	5
31 Dec. financial year	22	27	49

Number of other associates (not valued at equity)

	Germany	Other countries	Total
31 Dec. previous year	45	17	62
Additions	2	3	5
Reductions	2	4	6
31 Dec. financial year	45	16	61

Information on the measurement of investments in associates can be found in the notes on assets, under B – Investments.

Recognition and measurement

Use of judgements and estimates in recognition and measurement
In the course of preparing the consolidated financial statements, we have to use our judgement in applying accounting policies and to make estimates and assumptions that affect the year-end items shown in the consolidated balance sheet, the consolidated income statement and the disclosures on contingent assets and liabilities.

Particularly in insurance and reinsurance, the use of estimates for measuring technical provisions is of substantial significance, given that usually there are no market prices available and the development of future cash flows from insurance contracts cannot be conclusively predicted. But judgements and estimates play a significant role in the case of many other items as well.

Our internal processes are geared to determining amounts as accurately as possible, taking into account all the relevant information. The basis for determining amounts is management's best knowledge regarding the items concerned at the reporting date. Nevertheless, it is in the nature of these items that estimates may have to be adjusted in the course of time to take account of new knowledge.

Owing to the uncertainties involved in estimates, the discretionary judgements to be made always include a subjective component. This may result in comparable items being measured differently by Munich Re and another company, especially as the range of realistic assumptions can be relatively great in individual cases. However, this does not mean that the measurement is not appropriate – merely that it reflects differing knowledge and assessments of future developments.

Discretionary judgements and estimates are of significance for the following items in particular and are described in more detail in the respective explanatory notes:

// Goodwill and other intangible assets
// Fair values and impairments of financial instruments
// Deferred acquisition costs
// Technical provisions
// Pension provisions
// Deferred tax
// Contingent liabilities

Changes in accounting policies
Application of the recognition, measurement and disclosure methods follows the principle of consistency.

In the financial year 2010, the following new or amended IFRSs had to be applied for the first time:

The change to **IFRS 2 (rev. 06/2009), Share-based Payment**, clarifies the recognition of cash-settled share-based payment transactions. The new rules mainly concern the question of how individual subsidiaries in a group recognise (cash-settled) share-based payment agreements in their own financial statements. Under these agreements, the subsidiary receives goods or services from employees or suppliers which the parent or another group company pays for. The new rules have had no implications for Munich Re.

The revision of **IFRS 3 (rev. 01/2008), Business Combinations, and IAS 27 (rev. 01/2008), Consolidated and Separate Financial Statements**, mainly involves changes in the balance sheet recognition of non-controlling interests, successive share purchases, acquisition-related costs and contingent consideration. In the financial year 2010, the new rules chiefly affected Munich Re with regard to the following factors: acquisition-related costs, which may no longer be capitalised; remeasurement (with recognition in profit or loss) of previously held equity interest in the case of a business combination achieved in stages; and the knock-on change to IAS 7, Statement of Cash Flows, which requires that changes in shares in subsidiaries not involving a loss of control should be classified as cash flows from financing activities. The relevant items of the consolidated cash flow statement for the previous year have been adjusted.

The change in **IAS 39 (rev. 07/2008), Financial Instruments: Recognition and Measurement, Eligible Hedged Items**, provides guidance on designating a portion of cash flows or a risk as a hedged item and the extent to which inflation risks may be designated hedged items. The new rules have no impact for Munich Re.

The changes published as part of the IASB's Annual Improvement Process in April 2009 are also to be applied for the first time for financial years beginning on or after 1 January 2010. Involving a total of ten standards and two interpretations, they are of subordinate importance for Munich Re. From the Annual Improvement Process published in May 2008, changes to IFRS 5, Non-current Assets held for Sale and Discontinued Operations, are to be applied for the first time for financial years beginning on or after 1 July 2009. These changes are not material for Munich Re either.

There is no significant impact on our financial statements from the mandatory first-time application, on the basis of European Commission Regulation (EC) No. 1606/2002, of the following interpretations: IFRIC 12, Service Concession Arrangements; IFRIC 15, Agreements for the Construction of Real Estate; IFRIC 16, Hedges of a Net Investment in a Foreign Operation; or IFRIC 18, Transfers of Assets from Customers. The same applies to the IASB-mandated first-time application of IFRIC 17, Distributions of Non-cash Assets to Owners.

In December 2010, the IASB published guidelines on the preparation of management commentaries. This publication is not an IFRS but a non-mandatory conceptual framework for preparing reports that supplement and explain the IFRS financial statements. The guidelines may be applied voluntarily as from December 2010. The regulations for preparing a management report under the German Commercial Code are comparable to those of this document. As Munich Re is obliged to prepare a management report on the basis of Section 315a para. 1 of the German Commercial Code, its management reporting is already comparable to that required by the guidelines.

In September 2010, the IASB also concluded the first phase of its project to revise the conceptual framework for preparing and presenting financial statements, publishing the new Chapter 1 "Objective of General Purpose Financial Reporting" and Chapter 3 "Qualitative Characteristics of Useful Financial Information" within the existing conceptual framework. The objective of the overall project is to create a sound foundation for future IFRSs that are principles-based and internally consistent . With their publication, the revised chapters thus constitute the valid basis for reporting in accordance with IFRS.

As from the 2010 financial year, the business field of Munich Health, which covers our health reinsurance business worldwide and our health primary insurance outside Germany, is being shown for the first time as a separate segment **in accordance with IFRS 8, Operating Segments**. Munich Health's business was previously disclosed for the most part in the segments "life and health reinsurance" and "health primary insurance". Minus the business written by Munich Health, the segment "life and health reinsurance" has become simply "life reinsurance". The health primary insurance segment continues to include our German health insurance business and our travel insurance business. In addition, we have further refined the method of distributing the investment results between our segments. The figures for the previous year have been adjusted accordingly.

Also as from the financial year 2010, we are presenting disposal groups only if other assets or liabilities besides the non-current asset held for sale will actually be transferred to the respective acquirer. Assets or liabilities which are associated with the transferred asset but which will not be transferred are consequently not allocated to a disposal group. This concerns, for example, certain deferred tax items and provisions for deferred premium refunds.

Standards or changes in standards not yet entered into foce

The changes to **IAS 32 (rev. 10/2009), Financial Instruments: Presentation**, are to be applied for the first time for financial years beginning on or after 1 February 2010. The amendment provides for certain subscription rights (as well as options or warrants) denominated in a foreign currency (i.e. a currency other than the entity's functional currency) to be classified as equity and not as a liability by the issuer to whose equity instruments these rights apply.

The interpretation **IFRIC 19, Extinguishing Financial Liabilities with Equity Instruments**, is to be applied for financial years beginning on or after 1 July 2010. The interpretation contains guidelines on how financial liabilities are to be accounted for in accordance with IAS 39 if the creditor accepts the entity's shares or other equity instruments to settle these liabilities fully or partially.

Application of the following amended standards is mandatory for financial years beginning on or after 1 January 2011:

The amendment to **IAS 24 (rev. 11/2009), Related Party Disclosures**, simplifies the disclosure requirements for state-controlled entities. Certain related parties that result from the participation of the state in private companies are exempted from some of the disclosure requirements of IAS 24 specified in the amended standard. In addition, the overall definition of related parties has been revised. These changes are of subordinate importance for Munich Re.

The amendments published as part of the IASB's Annual Improvement Process in May 2010 concern 11 IFRSs and the interpretation IFRIC 13. With the exception of the change to IAS 34, Interim Financial Reporting, these are not significant for Munich Re. Some of the amendments are to be applied for financial years beginning on or after 1 July 2010.

The change to IAS 34 extends disclosure requirements in the notes to the financial statements. Of particular relevance is that significant transfers between levels of the fair value hierarchy for financial instruments will in future have to be published in interim financial statement as well. Munich Re has put in place a process to ensure that such transfers are made transparent and can be disclosed in interim reports where necessary.

The amended interpretation IFRIC 14 (rev. 11/2009), IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction, applies when an entity is subject to minimum funding requirements and makes an early payment of contributions to cover those requirements. The amendment permits the entity to treat the benefit of such an early payment as an asset. This change has no practical significance for Munich Re.

Application of the following standards is mandatory after 1 January 2011. They have not yet been taken over into EU accounting legislation.

IFRS 9 (11/2009 and rev. 10/2010), Financial Instruments, is intended to replace the current rules of IAS 39 on the recognition and measurement of financial instruments. Owing to its complexity, the overall project has been subdivided into three phases. The new rules in IFRS 9 so far adopted from the first phase of the project mainly concern the measurement of financial instruments. According to these rules, for financial assets there will generally only be a distinction in future between measurement at amortised cost or measurement at fair value with value changes being recognised in profit or loss. The distinction is to be made on the basis of the reporting entity's business model and the contractual cash flows of the assets. In addition, for equity instruments there will be the option of measurement at fair value without recognition in the income statement, although then it will not be permissible for value changes not recognised in profit or loss to be subsequently transferred to profit or loss. There also remains the possibility of voluntary measurement at fair value (fair value option). For financial liabilities, there are no changes in the measurement rules except that if the fair value option is applied, value changes attributable to a change in the entity's credit risk must be recognised without impact on profit or loss in future. The two other phases are concerned with rules for recognising impairments and for hedge accounting. These rules are still under discussion and are to be integrated into IFRS 9 after conclusion of the whole project.

The amendments to IFRS 7 (rev.10/2010), Financial Instruments: Disclosures, Improving Disclosures about Financial Instruments, contain more extensive disclosure requirements regarding the transfer of financial assets, with a view to making more transparent the influence of such transactions on the entity's risk exposure and hence its financial situation.

The amendments to IAS 12 (rev. 12/2010), Taxes on Income, Deferred Tax: Recovery of Underlying Assets, addresses the issue that the measurement of deferred taxes depends on whether the carrying amount of an asset is expected to be recovered through use or sale. In practice, this is often difficult to assess. The amendment provides a solution through the introduction of a refutable presumption that recovery of the carrying amount will normally be through sale.

Assets

A // Intangible assets

Goodwill resulting from the first-time consolidation of subsidiaries is tested for impairment at least annually, in accordance with IAS 36. We additonally carry out ad-hoc impairment tests if there are indications of impairment. For impairment testing, the goodwill is allocated to the cash-generating units or groups of cash-generating units expected to derive benefit from the synergies of the business combination. To ascertain whether there is any impairment, the carrying amount (including allocated goodwill) of a cash-generating unit or a group of cash-generating units is compared with that unit's or group's recoverable amount. The recoverable amount is the greater of the fair value less costs to sell and the value in use (present value of future cash flows expected to be derived from a cash-generating unit or group of cash-generating units). If this recoverable amount is lower than the carrying amount, a write-down is made on the goodwill.

The **other intangible assets** mainly comprise acquired insurance portfolios and purchased and self-developed software. Acquired insurance portfolios are recognised at their present value on acquisition (PVFP – present value of future profits). This is determined as the present value of expected profits from the portfolio acquired, without consideration of new business and tax effects. The items in question are amortised in accordance with the realisation of the profits from the insurance portfolios underlying the PVFP calculation. The software is carried at cost less straight-line amortisation. The useful life assumed is generally three to five years, and in exceptional cases up to ten years. The other intangible assets are tested for impairment at each balance sheet date and write-downs made if required. Write-downs of acquired insurance portfolios are recognised under operating expenses. Write-downs of software and other intangible assets are distributed in the consolidated income statement between investment expenses, expenses for claims and benefits and operating expenses. If it is not possible to allocate the expenses to these functional areas, they are shown under "other non-operating expenses". Write-ups of software and other intangible assets are allocated to "other non-operating income".

B // Investments

Land and buildings shown under investments comprise property used by third parties and are carried at cost. Maintenance expenses are recognised as an expense. Structural measures equivalent to 5% or more of the historical cost of a building are generally assessed with regard to whether they have to be capitalised. Buildings are depreciated on a straight-line basis in accordance with the component approach over 40 to 55 years, depending on the weighted useful life for their specific building class. If the recoverable amount of land and buildings falls below their carrying amount, the carrying amount is written down to the recoverable amount. Impairment losses are recognised as investment expense in the consolidated income statement, and reversals of impairment losses as investment income. Land and buildings classified as "held for sale" are recognised at the lower of carrying amount or fair value less sales costs.

Investments in affiliated companies that we do not consolidate because they are not material are carried at fair value insofar as this can be reliably measured. If the investments are quoted on a stock exchange, we use the share prices at the balance sheet date; for other investments, the fair value is measured using the discounted earnings or net asset value method. Changes in the fair value are recognised in "other reserves" under unrealised gains and losses.

Investments in associates are valued by the equity method at the Group's proportionate share of their net assets. The associate's earnings attributable to the Group are included in the investment result. As a rule, the equity and annual result from the most recent individual or consolidated financial statements of the associate are used; in the case of the financial statements of significant associates, appropriate adjustments are made to conform them to Munich Re's accounting policies, in accordance with IAS 28.27; exceptional transactions of material importance for a true and fair picture of the associate's financial position are recognised in the same financial year. Investments in associates that are not material for assessing the Group's financial position are accounted for at fair value insofar as this can be reliably measured. To determine the fair value, we use the share prices at the balance sheet date if the investments are quoted on a stock exchange; for other investments, the fair value is measured using the discounted earnings or net asset value method.

Loans are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are measured at cost in accordance with the effective interest method. Write-downs for impairments are made in cases where the repayment of a loan can no longer be expected.

Fixed-interest securities held to maturity are measured at amortised cost in accordance with the effective interest method.

Fixed-interest or non-fixed-interest securities available for sale that are not held for trading or recognised under loans are accounted for at fair value. If no quoted prices in an active market are available, fair values are based on recognised valuation methods in line with the present value principle. Unrealised gains or losses are calculated taking into account interest accrued and, after deduction of deferred taxes and the amounts apportionable to policyholders by the life and health insurers on realisation (provision for deferred premium refunds), are recognised directly in equity under "other reserves".

Securities at fair value through profit or loss comprise securities held for trading and securities designated as at fair value through profit or loss. Securities held for trading are all fixed-interest and non-fixed-interest securities that we have acquired for trading purposes to earn short-term profits from price changes and differences; in addition, they include all derivative financial instruments with positive fair values which we have acquired for hedging purposes but which do not meet the requirements of IAS 39 for hedge accounting, and the positive fair values of the derivative components of variable annuities. Securities designated as at fair value through profit or loss comprise structured securities. This designation may only be made at the time of acquisition; reallocation to this category in later periods is not possible.

Securities at fair value through profit or loss are accounted for at fair value at the balance sheet date. If no quoted prices in an active market are available, fair values (particularly with derivatives) are based on recognised valuation methods. Munich Re uses a range of valuation models for this purpose, details of which may be obtained from the following table:

Valuation models

Derivatives	Pricing method	Parameters	Pricing model
Equity and index risks			
Stock options traded on the stock exchange	Quoted price	–	–
OTC stock options	Theoretical price	Listing of underlying shares Effective volatilities Money-market interest rate Dividend yield	Black-Scholes (European) Cox, Ross and Rubinstein (American) Monte Carlo simulation
Equity forwards	Theoretical price	Money-market interest rate Share price Dividend yield	Present-value method
Equity/index futures	Quoted price	–	–
Total return swaps (hedge fund certificates)	Theoretical price	Market values of the funds Interest-rate curve	Present-value method
Interest-rate risks			
Interest-rate swaps	Theoretical price	Swap curve Money-market interest-rate curve	Present-value method
Swaptions/interest-rate guarantee	Theoretical price	At-the-money volatility matrix and skew Swap curve Money-market interest-rate curve	Black-76
Interest-rate currency swaps	Theoretical price	Swap curve Money-market interest-rate curve Currency spot rates	Present-value method
Interest-rate futures	Quoted price	–	–
Inflation swaps	Theoretical price	Zero coupon inflation swap rates Interest-rate curve	Present-value method
Bond futures	Quoted price	–	–
Quoted options on bond futures	Quoted price	–	–
Currency risks			
Currency options	Theoretical price	Volatility Currency spot rates Money-market interest-rate curve	Garman-Kohlhagen
Currency forwards	Theoretical price	Currency spot rates Money-market interest-rate curve	Present-value method
Other transactions			
Insurance derivatives (excluding variable annuities)	Theoretical price	Market values of the cat bonds Interest-rate curve	Present-value method
Insurance derivates (variable annuities)	Theoretical price	Biometric and lapse rates Volatilities Interest-rate curve Currency spot rates	Present-value method
Credit default swaps	Theoretical price	Credit spreads Recovery rates Interest-rate curve	Present-value method ISDA CDS Standard Model
Commodity swaps	Quoted price	–	–
Commodity options	Theoretical price	Listing of underlying shares Effective volatilities Money-market interest rate	Black-Scholes (European) Cox, Ross and Rubinstein (American)

All unrealised gains or losses from such valuation are included in the investment result.

Deposits retained on assumed reinsurance are receivables from our cedants for cash deposits that have been retained under the terms of reinsurance agreements; they are accounted for at face value.

Other investments comprise deposits with banks and tangible assets in renewable energies. Deposits with banks are measured at cost in accordance with the effective interest method. Tangible assets in renewable energies are generally accounted for at amortised cost.

Repurchase agreements and securities lending

Under repurchase agreements we, as the lender, acquire securities with the obligation to sell them back to the borrower at a later date. As the risks and rewards from the securities remain with the borrower, they are not posted as such in our accounts but are shown as a receivable from the borrower under "other investments, deposits with banks". Interest income from these transactions is recognised in the investment result.

Securities that we lend by way of securities lending continue to be recognised in our balance sheet, as the main risks and rewards remain with Munich Re; securities that we have borrowed are accounted for by the lender. Fees from securities lending are shown in the investment result.

Recognition of financial instruments

Financial assets in our direct portfolio are generally accounted for at the settlement date. Investments held in special funds are accounted for at the trade date.

Determining fair values

IAS 39 defines the fair value of a financial instrument as the amount for which a financial asset could be exchanged, or a financial liability settled, between knowledgeable, willing parties in an arm's length transaction.

All financial instruments recognised at fair value are allocated to one of the valuation hierarchy levels of IFRS 7. This valuation hierarchy provides for three levels. The initial basis for the allocation is the economic investment class. Only if this does not result in an appropriate allocation do we deviate from such an approach in individual cases.

The allocation reflects which of the fair values derive from transactions in the market and where valuation is based on models because market transactions are lacking.

In the case of Level 1, valuation is based on unadjusted quoted prices in active markets for identical financial assets which Munich Re can refer to at the balance sheet date. A market is deemed active if transactions take place with sufficient frequency and in sufficient quantity for price information to be available on an ongoing basis. Since a quoted price in an active market is the most reliable indicator of fair value, this should always be used if available. The financial instruments we have allocated to this level mainly comprise equities, investment funds and fixed-interest securities (bearer bonds) for which either a stock market price is available or prices are provided by a price quoter on the basis of actual market transactions. We have also allocated derivatives traded on the stock market to Level 1.

Assets allocated to Level 2 are valued using models based on observable market data. For this, we use inputs directly or indirectly observable in the market, other than quoted prices. If the financial instrument concerned has a fixed contract period, the inputs used for valuation must be observable for the whole of this period. The financial instruments we have allocated to this level mainly comprise borrowers' note loans, pfandbriefs, subordinated securities and derivatives not traded on the stock market.

For assets allocated to Level 3, we use valuation techniques not based on inputs observable in the market. This is only permissible insofar as no observable market data are available. The inputs used reflect Munich Re's assumptions regarding the factors which market players would consider in their pricing. We use the best available information for this, including internal company data. The financial instruments allocated to this level of the fair value hierarchy largely comprise investments in private equity, certain credit structures, and investments in affiliated companies and associates accounted for at fair value.

Owing to their leverage effect, changes in individual inputs may significantly affect the fair value shown for instruments measured under Level 3. If we make such adjustments in measuring fair value in the individual case, we explain the resultant effects.

Net investment result

The net investment result comprises regular income, income from write-ups, gains and losses on the disposal of investments, other income, write-downs of investments, management expenses, interest charges and other expenses. Regular income and expenses from investments not measured at fair value through profit or loss are calculated in accordance with the effective interest method, i.e. any premiums or discounts are deducted from or added to the acquisition costs, with impact on profit or loss, until maturity.

Impairment

Regularly, at each balance sheet date, we assess whether there is any substantial objective evidence of impairment in a financial asset or group of financial assets. In the case of all fixed-interest securities held to maturity or available for sale, as well as all non-fixed-interest securities, impairments in value – in contrast to temporary diminutions – are recognised as an expense in the income statement. IAS 39.59 contains a list of factors providing substantial objective evidence of impairment of such financial assets. In addition, IAS 39.61 states that for equity investments, a significant or prolonged decline in the fair value of the investment below its acquisition cost is objective evidence of impairment. These rules are given more concrete form by means of internal guidelines. For equities quoted on the stock exchange, we assume a significant decline in fair value if the market value at the review date is at least 20% below the average purchase price or has been lower than this amount for at least six months. In the case of fixed-interest securities and loans, the main basis for establishing impairment is an indication of substantial financial difficulty on the part of the issuer, the current market situation or media reports on the issuer.

We determine acquisition cost on the basis of the average purchase price. In the case of an impairment, a write-down is made to the fair value at the balance sheet date, i.e. generally the publicly quoted market price. If there is a further fall in the fair value of equity investments that have already been written down once, a further write-down recognised in the income statement is made again immediately, even if the impairment is only temporary. Such impairments recognised in profit or loss may not be reversed through profit or loss.

In impairment tests of our financial assets (with the exception of equity investments), we generally first assess whether objective evidence of impairment exists for items that are individually significant. If this is not the case, and also in the case of individually insignificant items, the impairment test is carried out collectively on the basis of groups of similar financial assets. Assets that are individually assessed for impairment are not included in the collective assessment. The amount of the probable loss is measured as the difference between the amortised cost of the asset or group of assets and the present value of estimated future cash flows. The impairment thus determined is recognised as an expense. We generally deduct impairments directly from the items concerned on the assets side, without using a value adjustment account. If, in a subsequent period, the reasons for the impairment cease to apply, the impairment is reversed, with impact on the income statement. The resultant carrying amount may not exceed the original amortised cost.

C // Investments for the benefit of life insurance policyholders who bear the investment risk

These are investments for policyholders under unit-linked life insurances. They are measured at fair value. Unrealised gains or losses from changes in fair value are included in the investment result. These are matched by corresponding changes in the technical provisions (equity and liabilities item D), which are included in the technical result. The change in technical provisions also includes changes from additional premium components. Recognising these investments at fair value, with impact on profit or loss, avoids valuation mismatches that would otherwise occur due to different measurement of the corresponding provisions.

D // Ceded share of technical provisions

The share of technical provisions for business ceded by us is determined from the respective technical provisions in accordance with the terms of the reinsurance agreements, cf. the notes on equity and liabilities item C. Appropriate allowance is made for credit risk.

E // Receivables

Current tax receivables and other receivables are accounted for at nominal value. Adjustments of value are made if there is objective evidence of impairment, cf. assets item B – Impairment.

Current tax receivables comprise current taxes on income of the individual companies, based on their respective national taxation. Other tax receivables are shown under “other receivables”.

F // Cash at banks, cheques and cash in hand

Cash and cheques are accounted for at face value.

G // Deferred acquisition costs

Deferred acquisition costs comprise commissions and other variable costs directly connected with acquisition or renewal of insurance contracts. In life business and long-term health primary insurance, acquisition costs are capitalised and amortised over the duration of the contracts. In accordance with FASB Accounting Standards Codification Subtopic 944-30, this is done either proportionally to the premium income (formerly FAS 60) or proportionally to the respective contracts' expected gross profit margins calculated for the relevant year of the contract term (formerly FAS 97, 120). The allocation of individual contracts to the US GAAP standards concerned is shown in the notes to equity and liabilities item C. In determining the amount of amortisation, we take into account an actuarial interest rate and changes resulting from the disposal or withdrawal of contracts from the portfolio. In property-casualty business, short-term health primary insurance and health reinsurance, the deferred acquisition costs are amortised on a straight-line basis over the average term of the policies, from one to five years. Deferred acquisition costs are regularly tested for impairment using a liability adequacy test as per IFRS 4; cf. notes on equity and liabilities item C.

H // Deferred tax assets

Under IAS 12, deferred tax assets must be recognised in cases where asset items have to be valued lower, or liability items higher, in the consolidated balance sheet than in the tax accounts of the Group company concerned and these differences will be eliminated at a later date with a corresponding effect on taxable income (temporary differences). Also included are tax assets deriving from tax loss carry-forwards. We take into account the tax rates of the countries concerned and the consolidated company's respective tax situation; in some cases, for purposes of simplification, we use uniform tax rates for individual circumstances or subsidiaries. Changes in tax rates and tax legislation that have already been adopted by the government at the balance sheet date are taken into account. Deferred tax assets are recognised if a realisation is probable.

I // Other assets

Other assets are generally carried at amortised cost. The owner-occupied property recognised here is accounted for as outlined under the notes on asset item B – Land and buildings. Impairment losses and impairment losses reversed in the Group's owner-occupied property are distributed between the underwriting functional areas.

Equity and liabilities

A // Equity

The item **issued capital and capital reserve** contains the amounts that the equity holders of the parent have paid in on shares. The capital reserve is reduced by the externally generated costs directly connected with equity capital measures, after taking into account tax effects.

Under **retained earnings**, we show the profits which consolidated companies have earned and retained since becoming part of Munich Re, and income and expenses resulting from changes in the consolidated group. In addition, the adjustment amount resulting from changes in accounting policies for earlier periods not included in the consolidated financial statements is recognised in the opening balance of the retained earnings for the earliest prior period reported.

Own shares held by Munich Re at the balance sheet date have been deducted directly from retained earnings.

Other reserves contain unrealised gains and losses resulting from the recognition of other securities available for sale at fair value and from investments in non-consolidated affiliated companies and in associates that we do not value at equity. These reserves also include unrealised gains and losses from the valuation of associates at equity, differences resulting from the currency translation of foreign subsidiaries' figures, and the valuation result from the hedging of cash flows. Write-ups of equity investments available for sale are also recognised in this equity item.

Non-controlling interests are accounted for in the balance sheet as part of equity. These are the shares of third parties in the equity of subsidiaries that are not wholly owned directly or indirectly by the parent. Direct minority interests in special funds are recognised under "other liabilities". The portion of the result attributable to non-controlling interests is shown in the consolidated result.

B // Subordinated liabilities

Subordinated liabilities are liabilities which, in the event of liquidation or insolvency, are only satisfied after the claims of other creditors. They are measured at amortised cost in accordance with the effective interest method.

C // Gross technical provisions

The technical provisions are shown as gross figures in the balance sheet, i.e. before deduction of the ceded share; cf. the explanatory remarks on assets item D. The ceded share is calculated and accounted for on the basis of the individual reinsurance agreements. Acquisition costs for insurance contracts are capitalised and amortised over the terms of the contracts; cf. notes on assets item G. The measurement of technical provisions is based on FASB Accounting Standards Codification Subtopic 944-40 (formerly standards FAS 60, FAS 97 and FAS 120). Credit insurance contracts are accounted for in accordance with the rules of IFRS 4.

Unearned premiums are accrued premiums already written for future risk periods. For primary insurance, these premiums are calculated separately for each insurance policy pro rata temporis; for reinsurance, nominal percentages are used in some cases where the data for a calculation pro rata temporis is not available. The posting of unearned premiums is restricted to short-term underwriting business, i.e. property-casualty business (except long-term accident cover) and parts of health business.

The **provision for future policy benefits** in long-term underwriting business is posted for the actuarially calculated value of obligations arising from policyholders' guaranteed entitlements. As well as life insurance, this concerns portions of health and personal accident insurance, insofar as the business is conducted like life insurance. Measurement is usually based on the prospective method, by determining the difference between the present values of future benefits and future premiums. The actuarial assumptions used for their calculation include, in particular, assumptions relating to mortality, disablement and morbidity, as well as assumptions regarding interest-rate development, lapses and costs. These are estimated on a realistic basis at the time the insurance contracts are concluded and they include adequate provision for adverse deviation to make allowance for the risks of change, error and random fluctuations.

In reinsurance, measurement is carried out partly individually for each risk and partly collectively for reinsured portfolios, using biometric actuarial assumptions based on the tables of the national actuarial associations. These are adjusted for the respective reinsured portfolio, in line with the probabilities observed for the occurrence of an insured event. Discount rates are chosen that reflect the best estimate of expected investment income, less a safety margin. For the major part of the portfolio, these assumptions are fixed at the beginning of the contract and not changed over its duration.

In primary insurance, measurement is generally carried out individually for each risk. For German life primary insurance, biometric actuarial assumptions based on the tables of the German Association of Actuaries are used. We also largely use the tables of the national actuarial associations for the rest of the primary insurance business. The actuarial interest rate employed for discounting is limited by the respective maximum actuarial interest rate prescribed by the supervisory authorities.

The actuarial assumptions are adjusted if this is shown to be necessary by a liability adequacy test in accordance with IFRS 4.

The measurement of the provision for future policy benefits in accordance with FASB Accounting Standards Codification Subtopic 944-40 depends on the type of contract:

For life primary insurance without performance-related participation in surplus, health primary insurance and the bulk of reinsurance contracts (formerly FAS 60), the provision for future policy benefits is calculated from the present value of the estimated future policy benefits (including claims adjustment expenses) less the present value of the future net level premiums. Net level premium is that part of the gross premium that is needed to finance future policy benefits. Life primary insurance contracts with limited premium payment are generally valued in the same way.

For life primary insurance contracts on the universal life model, unit-linked life insurance and life reinsurance for assumed policies of this type (formerly FAS 97), an account is kept to which net level premiums and interest earnings are credited and from which risk premiums and administration expenses are debited, not all credits and debits being contractually fixed at the time the contracts are concluded. The provision for future policy benefits for life primary insurance where policyholders bear the investment risk themselves (unit-linked life insurance) is shown separately under equity and liabilities item D.

In the case of life primary insurance contracts with performance-related participation in surplus (formerly FAS 120), the provision for future policy benefits comprises the net level premium reserve and liabilities for terminal dividends. The net level premium reserve is calculated from the present value of guaranteed policy benefits (including acquired bonuses but excluding claims adjustment expenses) less the present value of future net level premiums. The net level premium is the net premium less the portion of the premium envisaged for covering claims adjustment expenses. The actuarial assumptions are generally the same as those used for premium calculation. The provision for terminal dividends is built up proportionally with a fixed share of the expected gross profit margins. The same method is used for this as for determining the amortisation of the deferred acquisition costs.

The **provision for outstanding claims** is for payment obligations arising from insurance contracts in primary insurance and reinsurance where the size of the claim or the timing of the payment is still uncertain. Part of the provision is for known claims for which individually calculated provisions are posted. Another part is for expenses for claims whose occurrence is not yet known (e.g. because they have not been reported yet or have not yet manifested themselves). A third class of provisions covers claims which are known but whose extent has turned out to be greater than originally foreseen. All these provisions include expenses for internal and external loss adjustment expenses. The provision for outstanding claims is based on estimates: the actual payments may be higher or lower. The amounts posted are the realistically estimated future amounts to be paid; they are calculated on the basis of past experience and assumptions about future developments (e.g. social, economic or technological factors). Future payment obligations are generally not discounted; exceptions are some provisions for occupational disability pensions and annuities in workers' compensation and other lines of property-casualty business, which we discount. For determining the provision for outstanding claims, Munich Re uses a range of actuarial projection methods, including the chain ladder and the Bornhuetter-Ferguson method. In applying the statistical methods, we regard large exposures separately. The standard actuarial methods we use are applied both to the run-off triangles for the payments and to the run-off triangles for the reported claims, so that we obtain a range of estimates for the ultimate loss. Within this range, a realistic estimated value for the ultimate loss is determined.

Other technical provisions mainly include the provision for premium refunds in primary insurance and the provision for profit commission in reinsurance. Provisions for premium refunds are posted in life and health primary insurance for obligations involving policyholder bonuses and rebates that have not yet been irrevocably allocated to individual contracts at the balance sheet date. Where these provisions are posted on the basis of national regulations, a retrospective approach is usually taken based on supervisory or individual contract regulations. The provision for premium refunds based on national regulations relates only to German primary insurance business. The provision for premium refunds also incorporates the provision for premium loadings and the provision for future premium reductions in German health primary insurance. For life insurance companies and pension funds subject to supervision by the German Federal Financial Supervisory Authority, the supervisory rules in accordance with the German Insurance Control Act and with the Statutory Order on Minimum Allocation have to be observed.

Besides this, there are provisions for deferred premium refunds, which are posted for the amounts apportionable to policyholders from the valuation differences between IFRS and local GAAP on the basis of the expected future participation quotas. For unrealised gains and losses on investments available for sale, which are recognised directly in equity (see assets item B), the resultant provision for deferred premium refunds is also posted without impact on profit or loss; otherwise, changes in the provision for deferred premium refunds are recognised in the income statement.

All technical provisions are regularly subjected to a **liability adequacy test in accordance with IFRS 4**. If current experience shows that the provisions posted on the basis of the original assumptions – less the related deferred acquisition costs and the present value of the related premiums – are inadequate to cover the expected future benefits, we adjust the relevant technical provisions with recognition in profit or loss and disclose this under impairment losses/unscheduled changes in the notes to the consolidated balance sheet; see (14) Deferred acquisition costs and (21) Provision for future policy benefits. The appropriateness of unearned premiums and of the provision for outstanding claims is assessed in relation to the realistically estimated future amount to be paid. The appropriateness of the provision for future policy benefits is assessed on the basis of realistic estimates of the actuarial assumptions, the proportional investment result and, for contracts with participation in surplus, the future profit sharing.

D // Gross technical provisions for life insurance policies where the investment risk is borne by the policyholders

This item encompasses the provision for future policy benefits in life primary insurance where policyholders bear the investment risk themselves (unit-linked life insurance). The value of the provision for future policy benefits essentially corresponds to the market value of the relevant investments shown under assets item C. Besides this, in accordance with FASB Accounting Standards Codification Subtopic 944-40 (formerly FAS 97), they may include additional premium components; cf. the notes on assets item C. Changes in this provision are fully recognised in the technical result. Insofar as these changes derive from unrealised gains and losses from alterations in the fair values of the related investments, they are matched by opposite changes of the same amount in the investment result. Recognising these provisions at fair value, with impact on profit or loss, avoids valuation mismatches that would otherwise occur due to different measurement of the corresponding investments.

E // Other accrued liabilities

This item includes **provisions for post-employment benefits**. Munich Re companies generally give commitments to their staff in the form of defined contribution plans or defined benefit plans. The type and amount of the pension obligations are determined by the conditions of the respective pension plan. In general, they are based on the staff member's length of service and salary. Under defined contribution plans, the companies pay fixed contributions to an insurer or a pension fund. This fully covers the companies' obligations. Under defined benefit plans, the staff member is promised a particular level of retirement benefit either by the companies or by a pension fund. The companies' contributions needed to finance this are not fixed in advance. If pension obligations are covered by assets held by a legally separate entity (e.g. a fund or a contractual trust agreement in the form of a two-way trust) – assets that may only be used to cover the pension commitments given and are not accessible to creditors – the pension obligations are shown less the amount of these plan assets. If the fair value of the assets exceeds the related outsourced pension commitments, this reimbursement right is recognised under "other receivables".

Pension obligations are recognised in accordance with IAS 19, using the projected unit credit method and based on actuarial studies. The calculation includes not only the pension entitlements and current pensions known on the balance sheet date but also their expected future development.

The interest rate at which the pension obligations are discounted is based on the yields for long-term high-quality bonds (e.g. commercial or government bonds). Actuarial gains or losses from pension obligations and plan assets result from the deviation of actual risk experience from estimated risk experience. They are recognised directly in equity, without impact on profit or loss.

The **other provisions** included in this item are established in the amount of the probable requirement. Such amounts are not discounted if the interest-rate effect is insignificant.

F // Liabilities

This item comprises bonds and notes issued, deposits retained on ceded business, current tax liabilities, and other liabilities. Financial liabilities are generally recognised at amortised cost. Derivatives (derivative financial instruments and derivative components of variable annuities) are recognised at fair value. Details of how the fair value is determined are provided under assets item B.

Current tax liabilities comprise current taxes on income of the individual companies, based on their respective national taxation. Other tax liabilities are shown under "other liabilities".

Tax liabilities for current taxes are posted – without discounting – in accordance with the probable tax payments for the year under review or previous years.

Deferred tax obligations are shown under equity and liabilities item G.

Direct minority interests in special funds and in partnerships are measured at fair value.

G // Deferred tax liabilities

Under IAS 12, deferred tax liabilities must be recognised if asset items have to be valued higher, or liabilities items lower, in the consolidated balance sheet than in the tax accounts of the reporting company and these differences will be eliminated at a later date with a corresponding impact on taxable income (temporary differences); cf. notes on assets item H.

Foreign currency translation

Munich Re's presentation currency is the euro (€). The balance sheets of foreign subsidiaries whose national currency is not the euro are translated in accordance with the functional currency principle using the year-end exchange rates, and their income statements using quarterly average exchange rates. Any exchange differences arising in the process are recognised in equity ("other reserves"). Foreign currency transactions are essentially translated into the Group companies' respective national currencies in accordance with IAS 21. In addition, we apply the principle of currency matching. This means that Group companies which write a significant portion of their business in foreign currency generally safeguard themselves against exchange losses by attempting to match assets and liabilities in the same currency. Where exchange gains or losses occur nevertheless in the translation of foreign-currency transactions into the national currencies of the consolidated companies, they are accounted for under "other non-operating income" and "other non-operating expenses" respectively. The following table shows the exchange rates of the most important currencies for our business:

Currency translation rates

	Balance sheet		Income statement				Income statement			
Rate for €1	31.12.2010	Prev. year	Q4 2010	Q3 2010	Q2 2010	Q1 2010	Q4 2009	Q3 2009	Q2 2009	Q1 2009
Australian dollar	1.30875	1.59530	1.37376	1.42952	1.44180	1.53014	1.62479	1.71675	1.79266	1.96394
Canadian dollar	1.33300	1.50410	1.37457	1.34359	1.30782	1.43929	1.55808	1.56978	1.58953	1.62405
Pound sterling	0.85685	0.88845	0.85925	0.83357	0.85292	0.88760	0.90434	0.87197	0.87939	0.90966
Rand	8.87535	10.56510	9.36757	9.45681	9.60159	10.38680	11.06000	11.15800	11.52100	12.96380
Swiss franc	1.25045	1.48315	1.32172	1.33251	1.40842	1.46288	1.50833	1.51947	1.51389	1.49659
US dollar	1.34155	1.43475	1.35754	1.29286	1.27292	1.38356	1.47672	1.43018	1.36218	1.30438
Yen	108.8060	133.5680	112.0370	110.8440	117.2940	125.5380	132.6730	133.7980	132.6520	122.1650

Segment reporting

In accordance with the "management approach", the segmentation of our business operations is based on the way in which Munich Re is managed internally.

We have consequently identified seven segments to be reported:

// Life reinsurance (global life reinsurance business)
// Property-casualty reinsurance (global property-casualty reinsurance business)
// Life primary insurance (global life primary insurance business)
// Health primary insurance (German primary health insurance business and global travel insurance business)
// Property-casualty primary insurance (global property-casualty primary insurance business)
// Munich Health (global health reinsurance business worldwide and health primary insurance business outside Germany)
// Asset management (management of assets for the Group and for external investors)

Segment assets

	Reinsurance					
	Life		Property-casualty		Life	
€m	31.12. 2010	Prev. year	31.12. 2010	Prev. year	31.12. 2010	Prev. year
A. Intangible assets	**168**	**182**	**1,969**	**1,955**	**1,162**	**1,206**
B. Investments						
I. Land and buildings, including buildings on third-party land	267	211	1,178	1,095	1,760	1,776
Thereof: Investment property held for sale	–	8	–	39	–	43
II. Investments in affiliated companies and associates	1,274	1,086	5,418	5,442	406	356
Thereof: Associates accounted for using the equity method	58	46	295	270	179	176
III. Loans	339	357	1,436	1,760	32,708	31,334
IV. Other securities						
1. Held to maturity	–	–	–	–	42	83
2. Available for sale	12,879	10,820	50,529	46,543	37,695	38,370
3. At fair value through profit or loss	331	87	603	751	617	730
	13,210	10,907	51,132	47,294	38,354	39,183
V. Deposits retained on assumed reinsurance	6,121	6,201	1,500	1,351	137	119
VI. Other investments	457	160	1,333	977	624	633
	21,668	**18,922**	**61,997**	**57,919**	**73,989**	**73,401**
C. Investments for the benefit of life insurance policyholders who bear the investment risk	**–**	**–**	**–**	**–**	**4,953**	**4,024**
D. Ceded share of technical provisions	**987**	**397**	**2,396**	**2,603**	**2,936**	**2,833**
E. Other segment assets	**5,631**	**4,788**	**10,183**	**10,033**	**9,085**	**9,123**
Thereof: Other segment assets relating to disposal groups	–	3	–	9	–	–
Total segment assets	**28,454**	**24,289**	**76,545**	**72,510**	**92,125**	**90,587**

Certain primary insurers whose business requires special solution-finding competence are coupled to reinsurance as the risk carrier. We therefore transact their business from within reinsurance and consequently allocate them to the reinsurance segment.

At Munich Re entities, different performance indicators and measures are used, depending on the type and duration of the business. Besides this, IFRS result contributions are a central feature of planning and strategy in all segments. Therefore the uniform assessment basis used for the measure of segment result is the operating result adjusted to eliminate non-operating components (e.g. foreign currency gains and losses, income and expenses from the sale of intangible assets). In line with our internal management approach, the operating result is split into a technical result and a non-technical result, with an interest component allocated to the underwriting business in the form of income from technical interest. This interest income derives from investment of the premium income and the entitlement of policyholders to portions of the non-technical result (cf. information on income from technical interest, page 228 f.).

	Primary insurance				Munich Health		Asset management		Consolidation		Total	
	Health		Property-casualty									
	31.12.2010	Prev. year	31.12.2010	Prev. year	31.12.2010	Prev. year	31.12.2010	Prev. year	31.12.2010	Prev. year	31.12.2010	Prev. year
	691	**696**	**955**	**1,008**	**124**	**138**	**21**	**13**	**–4**	**–3**	**5,086**	**5,195**
	623	635	340	309	16	15	63	46	–	–1	4,247	4,086
	–	–	–	–	–	–	–	–	–	–	–	90
	317	321	4,280	4,025	53	34	59	66	–10,716	–10,329	1,091	1,001
	107	106	153	130	51	32	42	51	–15	–15	870	796
	15,856	14,765	2,482	2,347	25	25	–	–	–3,911	–3,966	48,935	46,622
	–	–	–	1	–	–	–	–	–	–	42	84
	12,428	12,077	5,857	5,870	2,621	1,821	114	105	–	–1	122,123	115,605
	37	33	12	5	12	7	–	–	–	–	1,612	1,613
	12,465	12,110	5,869	5,876	2,633	1,828	114	105	–	–1	123,777	117,302
	1	5	20	20	1,251	1,232	–	–	–2,128	–2,130	6,902	6,798
	87	69	552	509	129	14	780	265	–763	–287	3,199	2,340
	29,349	**27,905**	**13,543**	**13,086**	**4,107**	**3,148**	**1,016**	**482**	**–17,518**	**–16,714**	**188,151**	**178,149**
	3	**1**	**–**	**–**	**1**	**1**	**–**	**–**	**–**	**–**	**4,957**	**4,026**
	1,062	**1,076**	**894**	**853**	**30**	**31**	**–**	**–**	**–2,815**	**–2,810**	**5,490**	**4,983**
	3,464	**3,277**	**4,445**	**4,056**	**1,919**	**1,522**	**58**	**89**	**–2,111**	**–1,829**	**32,674**	**31,059**
	–	–	–	–	–	1	–	–	–	–	–	13
	34,569	**32,955**	**19,837**	**19,003**	**6,181**	**4,840**	**1,095**	**584**	**–22,448**	**–21,356**	**236,358**	**223,412**

Segment equity and liabilities

	Reinsurance					
	Life		Property-casualty		Life	
€m	31.12. 2010	Prev. year	31.12. 2010	Prev. year	31.12. 2010	Prev. year
A. Subordinated liabilities	**1,344**	**1,421**	**2,885**	**2,782**	**105**	**104**
B. Gross technical provisions						
I. Unearned premiums	52	113	5,669	4,955	1	1
II. Provision for future policy benefits	11,605	10,636	317	300	69,606	68,629
III. Provision for outstanding claims	4,509	3,830	37,161	35,756	1,510	1,475
IV. Other technical provisions	498	678	138	135	2,167	2,802
	16,664	**15,257**	**43,285**	**41,146**	**73,284**	**72,907**
C. Gross technical provisions for life insurance policies where the investment risk is borne by the policyholder	**-**	**-**	**-**	**-**	**5,206**	**4,115**
D. Other accrued liabilities	**174**	**136**	**623**	**630**	**565**	**486**
E. Other segment liabilities	**5,904**	**4,118**	**11,296**	**8,909**	**9,300**	**9,381**
Total segment liabilities	**24,086**	**20,932**	**58,089**	**53,467**	**88,460**	**86,993**

	Primary insurance				Munich Health		Asset management		Consolidation		Total	
	Health		Property-casualty									
	31.12. 2010	Prev. year	31.12. 2010	Prev. year	31.12. 2010	Prev. year	31.12. 2010	Prev. year	31.12. 2010	Prev. year	31.12. 2010	Prev. year
	23	**24**	**366**	**371**	**185**	**147**	**–**	**–**	**-61**	**-59**	**4,847**	**4,790**
	97	89	1,691	1,494	444	370	–	–	-75	-76	7,879	6,946
	22,855	21,365	443	394	1,591	1,500	–	–	-2,004	-1,962	104,413	100,862
	939	943	4,915	4,657	1,075	798	–	–	-608	-613	49,501	46,846
	6,508	6,307	182	151	215	234	–	–	-153	-161	9,555	10,146
	30,399	**28,704**	**7,231**	**6,696**	**3,325**	**2,902**	**–**	**–**	**-2,840**	**-2,812**	**171,348**	**164,800**
	3	**1**	**–**	**–**	**1**	**1**	**–**	**–**	**–**	**–**	**5,210**	**4,117**
	316	**283**	**1,776**	**1,610**	**102**	**87**	**47**	**49**	**-145**	**-75**	**3,458**	**3,206**
	2,080	**2,227**	**6,037**	**5,992**	**1,559**	**1,190**	**909**	**399**	**-8,618**	**-7,995**	**28,467**	**24,221**
	32,821	**31,239**	**15,410**	**14,669**	**5,172**	**4,327**	**956**	**448**	**-11,664**	**-10,941**	**213,330**	**201,134**
									Equity		**23,028**	**22,278**
									Total equity and liabilities		**236,358**	**223,412**

Segment income statement

	Reinsurance					
	Life		Property-casualty		Life	
€m	2010	Prev. year	2010	Prev. year	2010	Prev. year
Gross premiums written	**7,901**	**6,796**	**15,701**	**14,987**	**6,484**	**6,294**
Thereof:						
From insurance transactions with other segments	135	365	324	312	–	–
From insurance transactions with external third parties	7,766	6,431	15,377	14,675	6,484	6,294
1. Earned premiums						
Gross	7,975	6,813	15,286	14,947	6,484	6,294
Ceded	416	322	1,093	979	282	549
Net	7,559	6,491	14,193	13,968	6,202	5,745
2. Income from technical interest	556	656	1,371	1,058	3,052	2,874
3. Expenses for claims and benefits						
Gross	5,977	4,934	10,669	9,677	8,333	7,631
Ceded share	174	117	765	434	163	170
Net	5,803	4,817	9,904	9,243	8,170	7,461
4. Operating expenses						
Gross	2,391	2,168	4,652	4,348	1,148	1,363
Ceded share	158	120	215	223	58	298
Net	2,233	2,048	4,437	4,125	1,090	1,065
Thereof:						
Amortisation and impairment losses of acquired insurance portfolios	13	12	–	–	28	57
5. Technical result (1–4)	**79**	**282**	**1,223**	**1,658**	**–6**	**93**
6. Investment result						
Investment income	1,799	1,695	4,696	5,163	4,712	5,023
Investment expenses	926	613	2,133	2,449	1,227	1,937
Total	873	1,082	2,563	2,714	3,485	3,086
Thereof:						
Interest and similar income	727	837	1,724	1,777	3,019	2,992
Interest charges and similar expenses	41	20	69	116	26	46
Write-downs of investments	539	294	755	809	658	1,052
Write-ups of investments	470	269	558	682	660	332
Income from associates accounted for using the equity method	7	–3	35	–12	7	–40
7. Other operating income	84	58	321	280	462	532
Thereof:						
Interest and similar income	27	8	66	36	7	10
Write-ups of other operating assets	1	–	3	1	1	4
8. Other operating expenses	46	48	227	213	534	619
Thereof:						
Interest charges and similar expenses	6	10	9	20	19	20
Write-downs of other operating assets	3	3	28	11	30	38
9. Deduction of income from technical interest	–556	–656	–1,371	–1,058	–3,052	–2,874
10. Non-technical result (6–9)	**355**	**436**	**1,286**	**1,723**	**361**	**125**
11. Operating result	**434**	**718**	**2,509**	**3,381**	**355**	**218**
12. Other non-operating result, finance costs and impairment losses of goodwill	–86	–79	–269	–311	–102	–164
13. Taxes on income	55	174	434	959	81	27
14. Consolidated result	**293**	**465**	**1,806**	**2,111**	**172**	**27**
Thereof:						
Attributable to Munich Reinsurance Company equity holders	294	465	1,809	2,111	172	14
Attributable to non-controlling interests	–1	–	–3	–	–	13

	Primary insurance				Munich Health		Asset management		Consolidation		Total	
	Health		Property-casualty									
	2010	Prev. year	2010	Prev. year	2010	Prev. year	2010	Prev. year	2010	Prev. year	2010	Prev. year
	5,499	**5,171**	**5,498**	**5,131**	**5,140**	**3,974**	**–**	**–**	**-682**	**-930**	**45,541**	**41,423**
	6	9	39	47	178	197	–	–	-682	-930	–	–
	5,493	5,162	5,459	5,084	4,962	3,777	–	–	–	–	45,541	41,423
	5,492	5,172	5,329	5,054	5,075	3,881	–	–	-686	-934	44,955	41,227
	231	244	516	486	28	55	–	–	-686	-934	1,880	1,701
	5,261	4,928	4,813	4,568	5,047	3,826	–	–	–	–	43,075	39,526
	1,431	1,172	174	150	88	83	–	–	-85	-199	6,587	5,794
	5,805	5,256	3,485	3,141	4,020	3,166	–	–	-542	-642	37,747	33,163
	131	171	355	285	22	37	–	–	-446	-443	1,164	771
	5,674	5,085	3,130	2,856	3,998	3,129	–	–	-96	-199	36,583	32,392
	680	711	1,726	1,613	1,074	736	–	–	-126	-353	11,545	10,586
	80	57	105	111	6	10	–	–	-191	-414	431	405
	600	654	1,621	1,502	1,068	726	–	–	65	61	11,114	10,181
	5	5	2	–	–	–	–	–	–	–	48	74
	418	**361**	**236**	**360**	**69**	**54**	**–**	**–**	**-54**	**-61**	**1,965**	**2,747**
	1,702	1,456	1,159	802	202	180	12	24	-616	-768	13,666	13,575
	385	398	386	331	60	29	10	15	-103	-80	5,024	5,692
	1,317	1,058	773	471	142	151	2	9	-513	-688	8,642	7,883
	1,194	1,106	353	354	127	153	5	7	-158	-320	6,991	6,906
	9	15	13	9	2	2	–	–	-5	-4	155	204
	85	125	153	169	20	9	10	13	–	–	2,220	2,471
	71	31	38	28	20	7	–	–	–	–	1,817	1,349
	6	–	-3	-58	9	-3	-10	-10	–	–	51	-126
	154	97	1,070	550	102	88	265	251	-1,651	-1,168	807	688
	8	5	6	5	15	6	5	4	-9	-11	125	63
	2	–	–	–	–	–	–	–	–	–	7	5
	222	128	1,227	757	94	77	192	208	-1,693	-1,247	849	803
	34	18	108	109	6	9	10	13	-56	-77	136	122
	9	7	25	49	9	9	1	–	–	–	105	117
	-1,431	-1,172	-174	-150	-88	-83	–	–	85	199	-6,587	-5,794
	-182	**-145**	**442**	**114**	**62**	**79**	**75**	**52**	**-386**	**-410**	**2,013**	**1,974**
	236	**216**	**678**	**474**	**131**	**133**	**75**	**52**	**-440**	**-471**	**3,978**	**4,721**
	-62	-81	-310	-188	-29	-102	-10	-14	12	46	-856	-893
	9	52	49	29	39	4	28	19	-3	–	692	1,264
	165	**83**	**319**	**257**	**63**	**27**	**37**	**19**	**-425**	**-425**	**2,430**	**2,564**
	165	78	312	243	60	28	37	13	-427	-431	2,422	2,521
	–	5	7	14	3	-1	–	6	2	6	8	43

Non-current assets by country[1]

€m	31.12.2010	Prev. year
Germany	7,651	7,759
USA	2,024	1,987
Austria	472	471
UK	296	185
Singapore	251	219
Sweden	247	195
Netherlands	177	182
France	161	162
Spain	136	235
Poland	126	102
Portugal	110	118
Switzerland	96	71
Italy	63	80
Greece	58	56
Others	299	400
Total	**12,167**	**12,222**

[1] The non-current assets mainly comprise intangible assets (especially goodwill) and our owner-occupied and investment property.

Gross premiums written[1]

	Reinsurance		Primary insurance		Munich Health		Total	
€m	2010	Prev. year	2010	Prev. year	2010	Prev. year	2010	Prev. year
Europe								
Germany	1,431	1,397	13,266	12,876	67	203	14,764	14,476
UK	3,843	3,710	151	129	465	322	4,459	4,161
Italy	377	406	509	481	54	57	940	944
Spain	504	581	66	68	601	511	1,171	1,160
Poland	12	12	923	684	–	–	935	696
Others	2,109	2,444	2,349	2,176	470	417	4,928	5,037
	8,276	8,550	17,264	16,414	1,657	1,510	27,197	26,474
North America								
USA	6,757	6,363	–	–	1,011	861	7,768	7,224
Canada	2,598	2,017	–	–	1,695	1,071	4,293	3,088
	9,355	8,380	–	–	2,706	1,932	12,061	10,312
Asia and Australasia								
Australia	1,088	764	–	–	–	–	1,088	764
China	885	491	–	–	49	29	934	520
Japan	664	485	–	–	2	1	666	486
Taiwan	398	234	–	–	136	–	534	234
Others	633	543	172	126	183	77	988	746
	3,668	2,517	172	126	370	107	4,210	2,750
Africa, Near and Middle East								
South Africa	371	331	–	–	–	–	371	331
United Arab Emirates	29	35	–	–	147	143	176	178
Others	297	321	–	–	72	67	369	388
	697	687	–	–	219	210	916	897
Latin America	1,147	972	–	–	10	18	1,157	990
Total	**23,143**	**21,106**	**17,436**	**16,540**	**4,962**	**3,777**	**45,541**	**41,423**

[1] After elimination of intra-Group reinsurance across segments. The premiums are allocated according to the location of the risks insured. The presentation in the management report differs from this; cf. note on page 71.

Notes to the consolidated balance sheet – Assets
1// Goodwill

Development of goodwill

€m	Reinsurance		Primary insurance		Munich Health	Total 2010	Total Prev. year
Goodwill from the acquisition of	Munich Re America	Other	ERGO Insurance Group	Other	Other		
Gross carrying amount at 31.12. previous year	962	417	1,754	546	112	3,791	3,744
Accumulated impairment losses at 31.12. previous year	–	22	–	252	40	314	197
Carrying amount at 31.12. previous year	962	395	1,754	294	72	3,477	3,547
Currency translation differences	66	26	–	6	1	99	–40
Additions	–	–	–	2	–	2	87
Reclassifications	–	–16	–	–	–	–16	–
Impairment losses	–	–	–	109	–	109	117
Carrying amount at 31.12. financial year	1,028	405	1,754	193	73	3,453	3,477
Accumulated impairment losses at 31.12. financial year	–	22	–	361	40	423	314
Gross carrying amount at 31.12. financial year	1,028	427	1,754	554	113	3,876	3,791

The additions result from the acquisition of additional shares in the subsidiaries CJSIC "European Travel Insurance", Moscow, and Geschlossene Aktiengesellschaft Europäische Reiseversicherung, Kiev, both previously accounted for using the equity method. We describe these acquisitions in detail in our notes on the consolidated companies.

Allocation of goodwill to cash-generating units

For impairment testing, the goodwill is allocated to the cash-generating units or groups of cash-generating units that derive benefit from the synergies of the business combination. At the same time, the unit or group of units to which the goodwill is allocated represents the lowest level at which goodwill is monitored for internal management purposes. In reinsurance, we have allocated the goodwill to divisions or groups of divisions, while in primary insurance it has been allocated to legal entities or groups of legal entities. In the case of Munich Health, goodwill is allocated to the segment bearing that name. Details of our divisions are provided on page 49 in the management report.

Our goodwill has been fully allocated to the following cash-generating units or groups of cash-generating units:

Allocation of goodwill to cash-generating units

€m	Reinsurance property-casualty segment	ERGO	Various cash-generating units
Goodwill at 31 December 2010	**1,417**	**1,754**	**282**

The goodwill from the acquisition of Munich Re America has been allocated to the cash-generating unit "reinsurance property-casualty segment." The carrying amount shown includes other goodwill that is impairment-tested on the basis of cash-generating units at the level of divisions or groups of divisions within the segment, with the goodwill allocated to each unit not being significant in comparison with the total carrying amount of goodwill. As a rule, the recoverable amounts of these cash-generating units are based on the same key assumptions as those given for the reinsurance property-casualty segment in the following table. The goodwill from the acquisition of shares in the ERGO Insurance Group has been allocated to the cash generating unit "ERGO".

Goodwill allocated across multiple cash-generating units or groups of cash-generating units is not significant in comparison with the total carrying amount of goodwill in any instance. In cases where the recoverable amounts of these cash-generating units or groups of cash-generating units are based on the same key assumptions, the aggregate carrying amount of the goodwill allocated is not significant in comparison with the total carrying amount of goodwill either. We regard as "significant" within the meaning of IAS 36.134 and IAS 36.135 amounts of 10% or more of total Group goodwill.

Assumptions for determining the recoverable amount in impairment testing

Impairment tests for the cash-generating units allocated a significant portion of the goodwill were performed on the basis of the following assumptions:

Cash-generating unit or group of cash-generating units	Reinsurance property-casualty segment	ERGO
Method for calculating the recoverable amount	Value in use	Value in use
Key assumptions regarding cash flow planning (at the time of the planning)	In the detailed planning phase, we expect a more or less stable premium income with a reduction in the loss ratios. Our general assumption was that there will be moderate upward movement on the equity markets and a stable interest-rate level.	For the detailed planning, growth in results is expected on average. Our general assumption was that there will be moderate upward movement on the equity markets and a stable interest-rate level.
Growth rates used for extrapolating beyond the cash flow planning based on financial plans/forecasts	0–1.5% 1.5% as maximum growth factor as per Circular 2108/2003 of the German Insurance Association	
Discount rates	8.6%	8.3%

The calculation of the value in use is based on cash flow forecasts derived from the latest corporate planning approved by management. Prepared in an interactive process involving the operational units, the controlling units responsible and the Board of Management, the corporate plans are reviewed and updated at least every quarter. The planning period is generally three years and takes into account the current market environment. After the detailed planning phase, we estimate the growth achievable long term by extrapolating the adjusted cash flows of the last plan year.

The discount rates have been determined in the form of the weighted average cost of capital, with the proportionate cost of capital derived per period using the Capital Asset Pricing Model (CAPM). Calculations are based on cash flows after consideration of normalised taxes. In the above table, for disclosure purposes, a corresponding pre-tax interest rate is given in each case; a reconciliation to Munich Re's cost of capital is not possible. Sensitivity analyses were performed for the discount rates and the growth rates. No impairments were identified.

Amount of impairment losses recognised in profit of loss during the period

In the financial year 2010, our impairment testing of goodwill identified an impairment of €109m . This has been recognised in the item "impairment losses of goodwill" in the income statement and is attributable to the following:

Owing to the financial development of our local property-casualty insurance business in Turkey, which is currently marked by a difficult competitive situation, falling investment earnings and more stringent supervisory regulations, we performed an impairment test in the second quarter for the goodwill from the acquisition of our shareholding in ERGO Sigorta A.S., Istanbul. This led to the goodwill of €109m, recognised in primary insurance property-casualty segment, being completely written off. The level at which the impairment test took place was the group of all cash-generating units of our primary insurance activities in Turkey. The recoverable amount of this group of cash-generating units was determined using the discounted earnings method. The discount rates were derived on the basis of local capital market data.

2 // Other intangible assets

Development of other intangible assets

€m	Software	Acquired insurance portfolios	Other	2010	Prev. year
Gross carrying amount at 31 Dec. previous year	969	1,340	1,387	3,696	3,367
Accumulated amortisation and accumulated impairment losses at 31 Dec. previous year	620	690	668	1,978	1,566
Carrying amount at 31 Dec. previous year	349	650	719	1,718	1,801
Currency translation differences	4	11	32	47	-10
Change in consolidated group	–	–	3	3	118
Additions	127	10	21	158	183
Disposals	6	–	1	7	13
Reclassifications	–	–	16	16	–
Impairment losses reversed	–	–	–	–	–
Depreciation and impairment losses					
Depreciation	83	56	103	242	296
Impairment losses	7	11	42	60	65
Carrying amount at 31 Dec. financial year	384	604	645	1,633	1,718
Accumulated amortisation and accumulated impairment losses at 31 Dec. financial year	719	774	740	2,233	1,978
Gross carrying amount at 31 Dec. financial year	1,103	1,378	1,385	3,866	3,696

The software comprises €177m for self-developed software and €207m for purchased software. As regards the additions and depreciation, €57m and €29m respectively are attributable to self-developed software and €70m and €54m respectively to purchased software. The disposals and impairment losses concern purchased software only.

The figures shown under acquired insurance portfolios include amortised carrying amounts of €502m resulting from the assumption of life reinsurance business of CNA Financial Corporation and Bank Austria Creditanstalt Versicherung AG and the acquisition of additional shares in ERGO Versicherungsgruppe AG in 2001 and 2002. The remaining other intangible assets contain €6m for land rights and €380m for distribution networks and client bases of the American Modern Insurance Group, Bank Austria Creditanstalt Versicherung AG, the HSB Group and MSP Underwriting.

The change in consolidated group comprises additions resulting from the acquisition of parts of the business operations of Guardian Healthcare Inc.

The impairment losses are distributed between the different Group segments as follows: in reinsurance €19m (27m) is apportionable to life and €28m (12m) to property-casualty; in primary insurance €5m (2m) is apportionable to property-casualty; and €8m (24m) is apportionable to Munich Health.

The impairment losses derive in particular from impairment tests performed as a result of sales considerations.

Assets pledged as security and other restrictions on title amount to €5m (1m). Commitments to acquire other intangible assets total €3m (4m). Costs of €21m (32m) for research and development incurred in connection with software projects were not capitalised but recognised as expenses.

3 // Land and buildings, including buildings on third-party land

Development of investments in land and buildings, including buildings on third-party land

€m	2010	Prev. year
Gross carrying amount at 31 Dec. previous year	4,949	4,735
Accumulated depreciation and accumulated impairment losses at 31 Dec. previous year	863	778
Carrying amount at 31 Dec. previous year	4,086	3,957
Currency translation differences	78	8
Change in consolidated group	7	175
Additions	258	149
Disposals	131	24
Impairment losses reversed	19	3
Depreciation and impairment losses		
Depreciation	83	79
Impairment losses	37	48
Reclassification	50	–55
Carrying amount at 31 Dec. financial year	4,247	4,086
Accumulated depreciation and accumulated impairment losses at 31 Dec. financial year	895	863
Gross carrying amount at 31 Dec. financial year	5,142	4,949

The impairment losses and the impairment losses reversed are essentially due to adjustments in market value. The impairment losses are distributed between the different Group segments as follows: in reinsurance €2m (5m) is apportionable to life and €4m (9m) to property casualty; in primary insurance €23m (31m) is apportionable to life and €8m (3m) to health.

Property pledged as security and other restrictions on title amount to €996m (711m). Expenditures recognised in the carrying amount for assets in the course of construction total €113m (250m) at the balance sheet date, and contractual commitments to acquire property amount to €29m (60m). The fair value of investment property at the balance sheet date amounted to €5,672m (5,533m). The valuation was performed for each site at 31 December 2010, calculations being carried out mainly by valuers within the Group but in individual cases by external valuers. Determining the sustainability of cash inflows and outflows, taking into account the market conditions at the respective property location, is material for the valuation. The fair value is determined individually per item by discounting the future cash flow to the valuation date. Depending on the type of property, discount rates of 3.50% to 5.50% are used for residential buildings, 4.25% to 8.00% for office buildings, and 4.00% to 8.25% for retail.

4 // Investments in affiliated companies and associates

Breakdown of investments in affiliated companies and associates

€m	31.12.2010	Prev. year
Affiliated companies		
accounted for at fair value	203	178
Associates		
accounted for using the equity method	870	796
accounted for at fair value	18	27
Total	**1,091**	**1,001**

The fair value of investments in associates accounted for using the equity method amounted to €1,181m (982m) at the balance sheet date. In the financial year, shares of losses of associates amounting to €15m (14m) were not recognised in the balance sheet. Altogether, the losses not recognised in the balance sheet totalled €16m (17m).

The aggregated assets of all associates amount to €9,519m (8,702m), liabilities to €6,444m (6,236m), results for the year to €47m (–201m), and revenues to €1,520m (2,638m). For associates not accounted for using the equity method, assets amount to €411m (282m), liabilities to €355m (241m), results for the year to –€6m (1m), and revenue to €177m (150m).

A list of all our shareholdings can be found in the section “List of shareholdings as at 31 December 2010 in accordance with Section 313 para. 2 of the German Commercial Code”.

5 // Loans

Breakdown of loans

€m	31.12.2010	Prev. year
Mortgage loans	4,496	4,598
Loans and advance payments on insurance policies	612	613
Other loans	43,827	41,411
Total	**48,935**	**46,622**

The other loans mainly comprise government bonds, pfandbriefs and borrowers' note loans of banks.

The fair value of the loans, based on recognised valuation methods in line with the present value principle and taking observable market parameters into account, totalled €50,488m (47,909m) at the reporting date.

Contractual period to maturity

€m	Carrying amounts	
	31.12.2010	Prev. year
Up to one year	1,881	1,201
Over one year and up to two years	1,536	1,849
Over two years and up to three years	1,455	1,696
Over three years and up to four years	2,146	1,723
Over four years and up to five years	3,257	2,276
Over five years and up to ten years	13,228	14,529
Over ten years	25,432	23,348
Total	**48,935**	**46,622**

Rating of "other loans" according to carrying amounts

€m	31.12.2010	Prev. year
AAA	22,211	20,390
AA	16,280	15,401
A	4,441	4,452
BBB or lower	503	711
No rating	392	457
Total	**43,827**	**41,411**

The rating categories are based on those of the leading international rating agencies. In deviation from the purely economic view, the carrying amount of the loans represents the maximum exposure to credit risk at the balance sheet date, in accordance with IFRS 7. Virtually no credit risk exists in respect of the mortgage loans or the loans and advance payments on insurance policies.

6 // Other securities held to maturity

Breakdown of other securities held to maturity

	Carrying amounts		Fair values	
€m	31.12.2010	Prev. year	31.12.2010	Prev. year
Government bonds	–	1	–	1
Debt securities of banks	42	83	43	85
Total	**42**	**84**	**43**	**86**

The fair values are based on recognised valuation methods in line with the present value principle and taking observable market parameters into account.

Contractual period to maturity

	Carrying amounts		Fair values	
€m	31.12.2010	Prev. year	31.12.2010	Prev. year
Up to one year	29	38	29	38
Over one year and up to two years	6	30	7	31
Over two years and up to three years	3	7	3	7
Over three years and up to four years	4	3	4	4
Over four years and up to five years	–	6	–	6
Over five years and up to ten years	–	–	–	–
Total	**42**	**84**	**43**	**86**

Rating according to carrying amounts

€m	31.12.2010	Prev. year
AAA	–	10
AA	2	–
A	39	69
BBB or lower	–	1
No rating	1	4
Total	**42**	**84**

The rating categories are based on those of the leading international rating agencies. In deviation from the purely economic view, the carrying amount of the securities represents the maximum exposure to credit risk at the balance sheet date, in accordance with IFRS 7.

7 // Hierarchy for the fair value measurement of investments

At 31 December 2010, around 77% of the investments measured at fair value are allocated to Level 1 of the fair value hierarchy, 21% to Level 2 and 2% to Level 3.

Allocation of investments[1] measured at fair value to levels of the fair value hierarchy

				31.12.2010
€m	Level 1	Level 2	Level 3	Total
Other securities available for sale				
Fixed-interest	86,082	25,194	1,078	112,354
Non-fixed-interest	8,351	869	549	9,769
Investments in affiliated companies measured at fair value	–	9	194	203
Investments in associates measured at fair value	–	–	18	18
Other securities at fair value through profit or loss				
Held for trading	489	1,062	17	1,568
Designated as at fair value through profit or loss	–	242	–	242
Investments for the benefit of life insurance policyholders who bear the investment risk	4,957	–	–	4,957
Total	**99,879**	**27,376**	**1,856**	**129,111**

[1] Including hedging derivatives.

Allocation of investments[1] measured at fair value to levels of the fair value hierarchy

€m	Level 1	Level 2	Level 3	31.12.2009 Total
Other securities available for sale				
Fixed-interest	83,148	23,940	2,478	109,566
Non-fixed-interest	4,816	1,097	331	6,244
Other securities at fair value through profit or loss				
Held for trading	644	722	12	1,378
Designated as at fair value through profit or loss	–	392	–	392
Investments for the benefit of life insurance policyholders who bear the investment risk	4,026	–	–	4,026
Total	**92,634**	**26,151**	**2,821**	**121,606**

[1] Including affiliated companies and associates recognised at fair value and hedging derivatives.

Information on the criteria for allocation to the individual levels of the fair value hierarchy can be found in the notes on assets, under B – Investments, Determining fair values.

In the financial year 2010, we reallocated a portion of the asset-backed securities/mortgage-backed securities in our portfolio from Level 3 to Level 2. Owing to the recovery of the markets, we were able to use observable market data again for valuing the relevant products. At the same time, we reallocated some participations, the derivative portion of certain catastrophe bonds and weather derivatives from Level 2 to Level 3, since observable inputs for valuing them were not available on the market.

The only investments held for trading that are allocated to Level 3 are hedge funds and hedge fund certificates, and the derivative components of catastrophe bonds.

The following table presents the reconciliation from the beginning balances to the ending balances for investments allocated to Level 3.

Reconciliation for investments allocated to Level 3 at 31 December 2010

	Other securities available for sale		Investments in affiliated companies measured at fair value
€m	Fixed-interest	Non-fixed-interest	
Carrying amount at 31 Dec. previous year	2,478	331	–
Gains and losses	225	–65	3
Gains (losses) recognised in the income statement	35	–72	–4
Gains (losses) recognised in equity	190	7	7
Acquisitions	2,909	201	2
Disposals	2,237	80	–
Transfer to/out of Level 3	–2,297	162	189
Changes in the market value of derivatives	–	–	–
Carrying amount at 31 Dec. financial year	**1,078**	**549**	**194**
Gains (losses) recognised in the income statement that are attributable to investments shown at the end of the financial year		–57	–3

	Investments in associates measured at fair value	Other securities, at fair value through profit or loss		Total
€m		Held for trading	Designated as at fair value through profit or loss	
Carrying amount at 31 Dec. previous year	–	12	–	2,821
Gains and losses	–	2	–	165
Gains (losses) recognised in the income statement	–	2	–	–39
Gains (losses) recognised in equity	–	–	–	204
Acquisitions	–	1	–	3,113
Disposals	–	8	–	2,325
Transfer to/out of Level 3	18	12	–	–1,916
Changes in the market value of derivatives	–	–2	–	–2
Carrying amount at 31 Dec. financial year	**18**	**17**	**–**	**1,856**
Gains (losses) recognised in the income statement that are attributable to investments shown at the end of the financial year	–		2	–58

As investments in affiliated companies and associates measured at fair value were still allocated to Level 2 in the previous year, these items do not contain any figures for 31 December of the previous year. The reclassification to Level 3 is reflected in the transfers related to these holdings. Extensive transfers from fixed-interest securities available for sale and, in particular, the resultant substantial reduction in investments allocated to Level 3 as a whole are due to the reclassification of certain asset-backed securities/mortgage-backed securities to Level 2.

Reconciliation for investments allocated to Level 3 at 31 December 2009

	Other securities available for sale		Other securities at fair value through profit or loss		Total
€m	Fixed-interest	Non-fixed-interest	Held for trading	Designated as at fair value through profit or loss	
Carrying amount at 31 Dec. 2008	2,575	358	–	–	2,933
Gains and losses	128	–31	16	–	113
Gains (losses) recognised in the income statement	–261	–32	16	–	–277
Gains (losses) recognised in equity	389	1	–	–	390
Acquisitions	2,141	166	–	–	2,307
Disposals	2,366	165	–	–	2,531
Transfer to/out of Level 3	–	3	–4	–	–1
Carrying amount at 31 Dec. 2009	**2,478**	**331**	**12**	**–**	**2,821**
Gains (losses) recognised in the income statement that are attributable to investments shown at the end of the financial year		–9		16	7

8 // Other securities available for sale

Breakdown of other securities available for sale

	Carrying amounts		Unrealised gains/losses		Amortised cost	
€m	31.12.2010	Prev. year	31.12.2010	Prev. year	31.12.2010	Prev. year
Fixed-interest securities						
Government bonds						
Germany	7,590	7,501	288	224	7,302	7,277
Rest of EU	26,605	23,782	–826	469	27,431	23,313
USA	11,190	9,481	339	50	10,851	9,431
Other	9,245	7,862	553	295	8,692	7,567
Corporate debt securities	47,142	50,018	1,410	1,876	45,732	48,142
Other	10,582	10,922	437	428	10,145	10,494
	112,354	**109,566**	**2,201**	**3,342**	**110,153**	**106,224**
Non-fixed-interest securities						
Shares	6,027	3,471	1,488	1,253	4,539	2,218
Investment funds						
Equity funds	505	557	85	82	420	475
Bond funds	1,959	731	18	41	1,941	690
Real estate funds	545	547	10	7	535	540
Other	733	733	33	25	700	708
	9,769	**6,039**	**1,634**	**1,408**	**8,135**	**4,631**
Total	**122,123**	**115,605**	**3,835**	**4,750**	**118,288**	**110,855**

Over half the corporate debt securities are pfandbriefs or issues by development banks and comparable institutions. The remaining portfolio is composed of securities issued by companies outside the banking sector (with each individual risk making up less than 1%), bonds issued by banks and state central savings banks (with state guarantees), and asset-backed securities/mortgage-backed securities that largely have implicit state guarantees or an above-average rating.

Assets pledged as security and other restrictions on title amount to €9,422m (12,037m). Some €1,936m (923m) of the securities shown are loaned to third parties. These securities are not derecognised, as the main resultant risks and rewards remain with Munich Re. In connection with this securities lending, we have received cash collateral of €764m, which we have invested in a money-market fund. Of the €3,835m (4,750m) in unrealised gains and losses, €2,636m (2,516m) has been recognised in equity (other reserves), after deduction of provisions for deferred premium refunds, deferred taxes, non-controlling interests and consolidation effects.

To support Hypo Real Estate (HRE), the German federal government adopted a rescue package in October 2008, backed by the Deutsche Bundesbank and also the German financial services industry. Munich Re participated in this rescue package and also in its follow-up financing at the end of 2009. For the further remediation of HRE, non-strategic business units and risk positions were transferred to the wind-down entity FMS Wertmanagement in October 2010. The follow-up financing from 2009, which had expired, was replaced in December by a new bond issued by FMS Wertmanagement, with a total volume of €16bn. Its term is again one year. There is no legally enforceable government guarantee for this bond, but the German Financial Market Stabilisation Fund (SoFFin) is obligated by law and statute to compensate FMS Wertmanagement for losses. Munich Reinsurance Company has taken up €49.4m of this bond, and ERGO a further €26m. The bond is recognised under corporate debt instruments.

Disposal proceeds in the financial year

€m	2010	Prev. year
Fixed-interest securities	53,063	70,920
Non-fixed-interest securities		
Quoted	10,036	5,942
Unquoted	2,192	824
Total	**65,291**	**77,686**

Realised gains and losses

€m	2010	Prev. year
Gains on disposal	2,253	2,878
Fixed-interest securities	1,434	1,391
Non-fixed-interest securities	819	1,487
Losses on disposal	552	1,156
Fixed-interest securities	367	612
Non-fixed-interest securities	185	544
Total	**1,701**	**1,722**

Contractual period to maturity of fixed-interest securities

	Carrying amounts		Amortised cost	
€m	31.12.2010	Prev. year	31.12.2010	Prev. year
Up to one year	9,297	9,026	9,221	8,919
Over one year and up to two years	8,510	9,576	8,306	9,344
Over two years and up to three years	9,690	10,056	9,398	9,708
Over three years and up to four years	10,007	9,554	9,693	9,162
Over four years and up to five years	9,670	10,772	9,509	10,394
Over five years and up to ten years	35,809	34,847	35,377	33,546
Over ten years	29,371	25,735	28,649	25,151
Total	**112,354**	**109,566**	**110,153**	**106,224**

Rating of fixed-interest securities according to fair values

€m	31.12.2010	Prev. year
AAA	65,705	66,086
AA	20,497	17,987
A	13,752	14,381
BBB	9,830	9,596
Lower	2,290	1,089
No rating	280	427
Total	**112,354**	**109,566**

The rating categories are based on those of the leading international rating agencies. In deviation from the purely economic view, the carrying amount of the securities represents the maximum exposure to credit risk at the balance sheet date, in accordance with IFRS 7.

9 // Other securities at fair value through profit or loss

Securities at fair value through profit or loss comprise securities of €1,371m (1,221m) held for trading and securities of €241m (392m) designated as at fair value through profit or loss.

The securities held for trading are made up of fixed-interest securities totalling €475m (600m), non-fixed-interest securities totalling €29m (25m) and derivatives held for trading amounting to €867m (596m). The securities designated as at fair value through profit or loss comprise €233m (372m) assignable to fixed-interest securities and €8m (20m) to non-fixed interest securities.

Rating of fixed-interest securities according to fair values

€m	31.12.2010	Prev. year
AAA	326	417
AA	212	307
A	137	196
BBB	15	34
Lower	4	4
No rating	14	14
Total	**708**	**972**

The rating categories are based on those of the leading international rating agencies. In deviation from the purely economic view, the carrying amount of the securities represents the maximum exposure to credit risk at the balance sheet date, in accordance with IFRS 7.

Derivative financial instruments are used by Munich Re to hedge against interest-rate, currency, and other market-price risks. This is done at the Group companies within the framework of individual supervisory regulations and additional internal company directives. The risk of default is practically non-existent in the case of products traded on the stock exchange. Over-the-counter products, on the other hand, harbour a theoretical risk in the amount of the replacement costs. Therefore, Munich Re selects only top-quality counterparties for such transactions.

Disclosure of derivatives by balance sheet item

€m			31.12.2010	Prev. year
Fair value	Qualifying for hedge accounting	Balance sheet item		
Positive	No	Investments, other securities held for trading	867	596
	Yes	Other assets	197	157
Negative	No Yes	Liabilities, other liabilities	–627	–593
Total			**437**	**160**

The following table shows the fair values and the related notional amounts of all our open positions, broken down according to risk types. Positive and negative fair values have been netted. At 31 December 2010, the open positions amounted to €437m (160m), or 0.2% (0.1%) of the balance sheet total.

Open positions

Periods to maturity in years	< 1	1-2	2-3	3-4	4-5	> 5	31.12. 2010	Prev. year
€m								
Interest-rate risks								
Traded on the stock exchange								
Fair values	-52	–	–	–	–	–	-52	31
Notional amounts	9,026	–	–	–	–	–	9,026	13,693
Over-the-counter								
Fair values	36	53	15	131	15	313	563	433
Notional amounts	1,620	2,049	1,233	2,585	1,031	9,356	17,874	18,667
Total interest-rate risks								
Fair values	-16	53	15	131	15	313	511	464
Notional amounts	10,646	2,049	1,233	2,585	1,031	9,356	26,900	32,360
Currency risks								
Traded on the stock exchange								
Fair values	3	–	–	–	–	–	3	1
Notional amounts	151	–	–	–	–	–	151	71
Over-the-counter								
Fair values	-11	-4	1	25	27	–	38	-159
Notional amounts	15,228	388	5	162	172	244	16,199	11,296
Total currency risks								
Fair values	-8	-4	1	25	27	–	41	-158
Notional amounts	15,379	388	5	162	172	244	16,350	11,367
Equity and index risks								
Traded on the stock exchange								
Fair values	34	–	–	–	–	–	34	-19
Notional amounts	4,255	–	–	–	–	–	4,255	1,358
Over-the-counter								
Fair values	-37	2	–	-7	52	3	13	10
Notional amounts	297	50	11	349	385	81	1,173	1,683
Total equity and index risks								
Fair values	-3	2	–	-7	52	3	47	-9
Notional amounts	4,552	50	11	349	385	81	5,428	3,041
Credit risks								
Over-the-counter								
Fair values	–	-1	-6	-1	-11	-5	-24	-47
Notional amounts	276	37	89	160	1,840	20	2,422	2,745
Weather risks								
Over-the-counter								
Fair values	-16	4	2	–	–	–	-10	13
Notional amounts	732	527	49	103	–	–	1,411	1,277
Commodity risks								
Over-the-counter								
Fair values	17	–	–	–	–	–	17	12
Notional amounts	764	–	–	–	–	–	764	244
Other risks								
Over-the-counter								
Fair values	–	-1	2	–	–	-146	-145	-115
Notional amounts	–	22	84	–	–	10,886	10,992	6,128
Total of all risks								
Fair values	**-26**	**53**	**14**	**148**	**83**	**165**	**437**	**160**
Notional amounts	**32,349**	**3,073**	**1,471**	**3,359**	**3,428**	**20,587**	**64,267**	**57,162**

The derivative components from securitisations of mortality and morbidity risks and of variable annuities are shown under “other risks”.

Interest-rate risks in life insurance have been hedged using swaptions. These options to receive a fixed interest rate are shown in the category “interest-rate risks/over-the-counter”. At the reporting date, the fair values of the swaptions totalled €185m (175m), and the underlying notional amounts €7,467m (10,867m). The investment result from derivatives includes earnings of €76m (–374m) from fluctuations in value of these options.

Although the derivatives used by Munich Re essentially serve to hedge against risks, only an amount of €197m (152m) meets the requirements of IAS 39 for hedge accounting.

IAS 39 distinguishes between fair value hedges and cash flow hedges.

Fair value hedges In the case of fair value hedges, the change in the fair value of the hedging instrument and the change in the fair value of the hedged instrument are generally recognised in profit or loss under the items “investment income” and “investment expenses” in the income statement. With Munich Reinsurance Company’s hedged subordinated bond, this information is shown under finance costs. Munich Re uses hedging relationships in the form of fair value hedges to selectively and efficiently mitigate interest-rate and other market-price risks. The main types of transaction employed for hedging are swaps and forwards. The fair value of the derivatives used for this amounted to €168m (130m) at the balance sheet date. In 2010, the following changes in value were recognised in the consolidated income statement: €37m for the hedging instruments and –€36m for the relevant underlyings.

Cash flow hedges play a role in countering fluctuations that may be caused, for example, by variable interest payments. Munich Re uses cash flow hedges chiefly to hedge against interest-rate risks, with interest-rate swaps the main instruments employed. Changes in the fair value of the hedging instrument are recognised directly in equity for this purpose. Only when the actual cash inflow or outflow takes place, as a result of the hedged circumstance, is the relevant equity item reversed with recognition in profit or loss.

The change in fair value assignable to the ineffective portion of the hedging was negligible at the reporting date.

At the balance sheet date, there is an equity item of –€2m (1m) from cash flow hedges. The net fair value of the derivatives falling into this category amounted to €29m (22m) at the balance sheet date.

Periods to maturity and amount of the hedged cash flows at the balance sheet date

€m	< 1 year	1–2 years	2–3 years	3–4 years	4–5 years	> 5 years	31.12.2010	Prev. year
Notional amounts of hedged transactions	45	–	–	25	–	225	295	288

10 // Deposits retained on assumed reinsurance

Deposits retained on assumed reinsurance serve directly as collateral for technical provisions covering business assumed from cedants in reinsurance. They do not trigger any cash flows and may not be used by the cedant independently. The credit risk is therefore limited. The amount of and changes in deposits retained on assumed reinsurance in the balance sheet year generally derive from the values for the changes in the related technical provisions for the reinsured business. Deposits retained on assumed reinsurance business thus do not have a fixed maturity date, their release generally being dependent on the run-off of the corresponding provisions.

11 // Other investments

Other investments comprise deposits with banks totalling €3,153m (2,340m) and our tangible assets in renewable energies amounting to €46m.

Deposits with banks include receivables of €64m (–) from repurchase agreements that have been booked by us as the lender to borrowers for securities lent under repurchase agreements.

As the deposits with banks mainly have a period to maturity of less than one year, the fair values largely correspond to the carrying amounts. In deviation from the purely economic view, the carrying amount of these other investments represents the maximum exposure to credit risk at the balance sheet date, in accordance with IFRS 7.

Development of tangible assets in renewable energies

€m	2010	Prev. year
Gross carrying amount at 31 Dec. previous year	–	–
Accumulated depreciation and accumulated impairment losses at 31 Dec. previous year	–	–
Carrying amount at 31 Dec. previous year	–	–
Additions	20	–
Disposals	1	–
Impairment losses reversed	–	–
Depreciation and impairment losses		
Depreciation	3	–
Impairment losses	–	–
Reclassification	30	–
Carrying amount at 31 Dec. financial year	46	–
Accumulated depreciation and accumulated impairment losses at 31 Dec. financial year	9	–
Gross carrying amount at 31 Dec. financial year	55	–

The fair value of tangible assets in renewable energies at the balance sheet date amounts to €46m.

12 // Ceded share of technical provisions

Ceded share of technical provisions

	Reinsurance			
	Life		Property-casualty	
€m[1]	31.12.2010	Prev. year	31.12.2010	Prev. year
Unearned premiums	–	1	309	272
Provision for future policy benefits	684	147	–	–
Provision for outstanding claims	288	200	2,080	2,326
Other technical provisions	15	50	4	5
Total	**987**	**398**	**2,393**	**2,603**

→	Primary insurance					
	Life		Health		Property-casualty	
€m[1]	31.12.2010	Prev. year	31.12.2010	Prev. year	31.12.2010	Prev. year
Unearned premiums	–	–	2	1	68	61
Provision for future policy benefits	1,742	1,682	2	2	–	–
Provision for outstanding claims	19	15	4	4	230	191
Other technical provisions	–	–	–	–	20	8
Total	**1,761**	**1,697**	**8**	**7**	**318**	**260**

→	Munich Health		Total	
€m[1]	31.12.2010	Prev. year	31.12.2010	Prev. year
Unearned premiums	7	–	386	335
Provision for future policy benefits	7	7	2,435	1,838
Provision for outstanding claims	9	11	2,630	2,747
Other technical provisions	–	–	39	63
Total	**23**	**18**	**5,490**	**4,983**

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

Details of the ceded share of technical provisions are shown in (20) Unearned premiums, (21) Provisions for future policy benefits, (22) Provision for outstanding claims, (23) Other technical provisions and (39) Credit risks from ceded reinsurance business.

13 // Other receivables

Breakdown of other receivables

€m	31.12.2010	Prev. year
Amounts receivable on primary insurance business	1,411	1,425
Accounts receivable on reinsurance business	4,514	4,310
Interest and rent	2,852	2,913
Miscellaneous receivables	1,799	1,422
Total	**10,576**	**10,070**

€632m (622m) of the amounts receivable on primary insurance business is apportionable to receivables from insurance agents. The miscellaneous receivables contain receivables of €305m (400m) resulting from reinsurance contracts without significant risk transfer, which do not fall within the scope of IFRS 4. In deviation from the purely economic view, the carrying amount of the receivables represents the maximum exposure to credit risk at the balance sheet date, in accordance with IFRS 7.

Contractual period to maturity

	Carrying amounts	
€m	31.12.2010	Prev. year
Up to one year	10,112	9,629
Over one year and up to two years	29	191
Over two years and up to three years	33	13
Over three years and up to four years	26	142
Over four years and up to five years	211	25
Over five years and up to ten years	116	43
Over ten years	49	27
Total	**10,576**	**10,070**

As the other receivables mainly have a period to maturity of less than one year, the fair values largely correspond to the carrying amounts.

As at 31 December 2010, our accounts receivable on ceded business were split between the following ratings (based on those of Standard & Poor's):

Rating of accounts receivable

€m	31.12.2010	Prev. year
AAA	59	35
AA	181	142
A	200	254
BBB and lower	13	16
No external rating	174	186

€379m (224m) of all our receivables on underwriting business at the balance sheet date was outstanding for more than 90 days. The average defaults of the last three years amount to €141m (198m).

14 // Deferred acquisition costs

Deferred acquisition costs

	Reinsurance			
	Life		Property-casualty	
€m[1]	31.12.2010	Prev. year	31.12.2010	Prev. year
Gross	1,848	1,659	1,322	1,166
Ceded share	-13	-14	51	69
Net	**1,861**	**1,673**	**1,271**	**1,097**

→	Primary insurance					
	Life		Health		Property-casualty	
€m[1]	31.12.2010	Prev. year	31.12.2010	Prev. year	31.12.2010	Prev. year
Gross	3,623	3,642	1,583	1,513	663	553
Ceded share	11	12	–	–	5	7
Net	**3,612**	**3,630**	**1,583**	**1,513**	**658**	**546**

→	Munich Health		Total	
€m[1]	31.12.2010	Prev. year	31.12.2010	Prev. year
Gross	126	71	9,165	8,604
Ceded share	18	2	72	76
Net	**108**	**69**	**9,093**	**8,528**

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

Development of gross deferred acquisition costs

	Reinsurance			
	Life		Property-casualty	
€m[1]	31.12.2010	Prev. year	31.12.2010	Prev. year
Status at 31 Dec. previous year	1,659	1,531	1,166	1,044
Currency translation differences	116	76	72	7
Change in consolidated group/Other	–	–	–	63
New deferred acquisition costs	442	309	1,431	1,065
Changes				
Amortisation	-312	-242	-1,364	-996
Impairment losses	-57	-15	17	-17
Status at 31 Dec. financial year	**1,848**	**1,659**	**1,322**	**1,166**

→

	Primary insurance					
	Life		Health		Property-casualty	
€m[1]	31.12.2010	Prev. year	31.12.2010	Prev. year	31.12.2010	Prev. year
Status at 31 Dec. previous year	3,642	3,886	1,513	1,478	553	501
Currency translation differences	1	1	–	–	6	2
Change in consolidated group/Other	–	–	–	–	–	–
New deferred acquisition costs	300	386	190	183	354	287
Changes						
Amortisation	-219	-360	-120	-146	-250	-237
Impairment losses	-101	-271	–	-2	–	–
Status at 31 Dec. financial year	**3,623**	**3,642**	**1,583**	**1,513**	**663**	**553**

→

	Munich Health		Total	
€m[1]	31.12.2010	Prev. year	31.12.2010	Prev. year
Status at 31 Dec. previous year	71	66	8,604	8,506
Currency translation differences	3	2	198	88
Change in consolidated group/Other	-2	–	-2	63
New deferred acquisition costs	89	48	2,806	2,278
Changes				
Amortisation	-35	-45	-2,300	-2,026
Impairment losses	–	–	-141	-305
Status at 31 Dec. financial year	**126**	**71**	**9,165**	**8,604**

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

The scheduled changes include accrued interest as well as amortisation. The unscheduled changes comprise write-ups and write-downs stemming from changes in the assumptions underlying the calculations, which require an adjustment in the measurement.

15 // Deferred tax

The deferred tax assets and liabilities recognised in the consolidated balance sheet concern the following balance sheet items:

Deferred tax

	31.12.2010		Prev. year	
€m	**Assets**	**Liabilities**	**Assets**	**Liabilities**
Assets				
A. Intangible assets	177	345	125	339
B. Investments	2,381	3,603	2,006	3,228
C. Investments for the benefit of life insurance policyholders who bear the investment risk	–	2	–	1
E. Receivables	173	46	71	107
I. Other assets	605	757	489	636
Total assets	**3,336**	**4,753**	**2,691**	**4,311**
Equity and liabilities				
C. Net technical provisions	1,694	3,821	1,454	3,891
E. Other accrued liabilities	468	434	441	214
F. Liabilities	328	51	229	105
Total equity and liabilities	**2,490**	**4,306**	**2,124**	**4,210**
Off balance sheet				
Loss carry-forwards and tax credits	133	–	210	–
Total	**5,959**	**9,059**	**5,025**	**8,521**

The deferred taxes for technical provisions include the deferred taxes for deferred acquisition costs and €2,437m (2,531m) for claims equalisation provisions, which are not posted under IFRS.

Of the reduction of €396m (–372m) in net deferred tax liabilities, €373m (–87m) was recognised in earnings and €23m (–285m) without impact on profit or loss, of which –€20m (7m) was due to currency translation.

No deferred taxes were posted for temporary differences of €41m (44m) in connection with investments in subsidiaries and associates, also referred to as outside basis differences.

Deferred tax assets are recognised for unused loss carry-forwards to the extent that, on the basis of tax result planning, it is sufficiently probable that they will be utilised. We have broken down the existing deferred tax assets relating to loss carry-forwards and the loss carry-forwards themselves.

Development of deferred tax assets for loss carry-forwards and tax credits

€m	Prev. year	Changes due to subsequent tax adjustments	Subsequent additions and reductions due to changes in valuation allowances	Additions due to new losses	Set off against income	Other changes	31.12.2010
Deferred tax assets for							
Corporation tax loss carry-forwards	157	–3	221	38	–322	3	94
Trade tax loss carry-forwards	35	15	–	3	–40	–3	10
Loss carry-forwards from capital losses	–	–	25	–	–25	–	–
Tax credits	18	–	–	9	–	2	29
Total	**210**	**12**	**246**	**50**	**–387**	**2**	**133**

Tax loss carry-forwards and tax credits

			31.12.2010			Prev. year
€m	For which deferred tax assets are recognised	For which deferred tax assets are not recognised	Total	For which deferred tax assets are recognised	For which deferred tax assets are not recognised	Total
Corporation tax loss carry-forwards						
Expiring in up to three years	11	37	48	15	3	18
Expiring in over three years and up to ten years	160	102	262	13	115	128
Expiring in over ten years	16	2,305	2,321	18	2,987	3,005
Not expiring	208	323	531	794	493	1,287
	395	**2,767**	**3,162**	**840**	**3,598**	**4,438**
Trade tax loss carry-forwards						
Not expiring	61	202	263	208	200	408
	61	**202**	**263**	**208**	**200**	**408**
Loss carry-forwards from capital losses						
Expiring in up to three years	–	–	–	–	–	–
Expiring in over three years and up to ten years	–	183	183	–	358	358
Expiring in over ten years	–	–	–	–	–	–
Not expiring	–	–	–	–	–	–
	–	**183**	**183**	**–**	**358**	**358**
Tax credits						
Expiring in up to three years	–	–	–	–	–	–
Expiring in over three years and up to ten years	–	–	–	–	–	–
Expiring in over ten years	–	–	–	–	–	–
Not expiring	29	–	29	18	–	18
	29	**–**	**29**	**18**	**–**	**18**

16 // Other assets

These mainly comprise owner-occupied property totalling €2,411m (2,472m), of which €20m (21m) is attributable to finance leases, property, plant, equipment and inventories of €332m (371m), and other deferred items of €137m (107m).

Development of owner-occupied property

€m	2010	Prev. year
Gross carrying amount at 31 Dec. previous year	3,364	3,107
Accumulated depreciation and accumulated impairment losses at 31 Dec. previous year	892	794
Carrying amount at 31 Dec. previous year	2,472	2,313
Currency translation differences	26	–1
Change in consolidated group	–12	3
Additions	156	162
Disposals	25	15
Impairment losses reversed	2	15
Depreciation and impairment losses		
Depreciation	55	62
Impairment losses	27	3
Reclassification	–126	60
Carrying amount at 31 Dec. financial year	2,411	2,472
Accumulated amortisation and accumulated impairment losses at 31 Dec. financial year	942	892
Gross carrying amount at 31 Dec. financial year	3,353	3,364

The impairment losses and the impairment losses reversed are mainly due to adjustments in market value. The impairment losses are distributed between the different Group segments as follows: in reinsurance, €3m (–) is apportionable to life and €6m (1m) to property-casualty; in primary insurance, the impairment losses amount to €14m (1m) in life, €2m (1m) in health, €1m (–) and in property-casualty; and €1m (–) for Munich Health.

The fair value of the property amounts to €2,681m (2,746m). The expenditures recognised in the carrying amount for assets in the course of construction total €144m (95m) for property and €14m (28m) for plant and equipment. Commitments to acquire property total €28m (14m) and commitments to acquire plant and equipment €24m (18m).

17 // Non-current assets and disposal groups held for sale

In the fourth quarter of 2009, with economic effect from 1 January 2010, we sold one of our owner-occupied office properties with a carrying amount of €13m. At the same time, we acquired an office property for own use at a price of €41m.

Also in the fourth quarter of 2009, with economic effect from 1 April 2010, we sold seven residential investment properties with a total carrying amount of €68m.

Besides this, in the fourth quarter of 2009, we decided to sell an investment office property with a carrying amount of €22m. A contract regarding the sale of this property, with economic effect from 1 July 2010, was signed in April 2010.

On 12 April 2010, we sold part of our stake in Helvetia Holding AG, St. Gall. The market value of the shares sold was €119m, the gain on disposal €90m. This transaction reduced our shareholding in the company from around 8.2% to below 3%.

In the third quarter of 2010, we sold four residential investment properties with a total carrying amount of €12m.

How the non-current assets held for sale are allocated between the segments is disclosed in the segment reporting.

Notes to the consolidated balance sheet – Equity and liabilities

18 // Equity

The total share capital of €587,725,396.48 at 31 December 2010 is divided into 188,468,471 registered no-par-value shares, each fully paid up and entitled to one vote. By resolution of the Annual General Meeting on 22 April 2009, Munich Reinsurance Company was authorised to buy back shares amounting to a maximum of 10% of the share capital up to 21 October 2010. This authorisation was cancelled by the Annual General Meeting on 28 April 2010 and replaced by a new one, authorising the Board of Management to buy back shares amounting to a maximum of 10% of the share capital up to 27 April 2015. Since the German Act Implementing the Shareholders' Rights Directive came into force on 1 September 2009, the authorisation may now be granted – as with authorisations for capital increases – for a period of up to five years. In the year under review, the number of shares in circulation developed as follows:

Development of shares in circulation

Number of shares	2010	Prev. year
Status at 31 Dec. previous year	191,910,177	195,655,351
Additions		
Issue of employee shares	–	–
Disposal of remaining portfolio of employee shares	255	–
Disposals from hedging stock appreciation rights under long-term incentive plans	299,485	80,542
Reductions		
Acquisition of shares for retirement (share buy-back programme) including exercise of put options	11,797,271	3,793,050
Acquisition of shares to issue to employees	–	–
Acquisition of shares to hedge stock appreciation rights under long-term incentive plans	34,063	32,666
Status at 31 Dec. financial year	**180,378,583**	**191,910,177**

On 31 December 2010, a total of 8,089,888 Munich Reinsurance Company shares with a calculated nominal value of around €25.2m were held by Group companies. This represents 4.3% of the share capital.

On 1 October 2009, Munich Reinsurance Company's Board of Management decided on a share buy-back programme, thus availing itself of the authorisation granted by the Annual General Meeting on 22 April 2009, in accordance with Section 71 para. 1 item 8 of the German Stock Companies Act. From 2 October 2009 to 21 April 2010, a total of 8,933,153 Munich Re shares were acquired via the stock exchange. These own shares were retired on 28 April 2010 in a simplified process, without reducing the share capital, by adjusting the proportion of the Company's share capital represented by each of the remaining no-par-value shares.

On 7 May 2010, Munich Reinsurance Company's Board of Management decided on a further share buy-back programme, thus availing itself of the authorisation granted by the Annual General Meeting on 28 April 2010, in accordance with Section 71 para. 1 item 8 of the German Stock Companies Act. The share buy-back is restricted to a total purchase price (excluding incidental expenses) of €1bn up to the 2011 Annual General Meeting. From 25 May 2010 to 31 December 2010, a total of 6,089,668 shares were purchased at an average price of €106.68. Altogether, 11,797,271 shares were acquired in 2010 at an average price of €110.16.

In 2010, no employee share programmes were set up for the employees of Munich Reinsurance Company or of dependent Group companies or enterprises in which the Company has a majority shareholding. All the 255 shares left over from Munich Reinsurance Company's 2008 employee share programme were sold in the financial year 2010 at an average price of €112.63 each, so that the Company has none remaining in its portfolio.

One subsidiary holds 1,609,067 shares to hedge stock appreciation rights granted to the Board of Management and top Munich Reinsurance Company executives since 1999. In 2010, no shares were acquired for hedging these programmes, but a total of 222,728 shares were sold at an average price of €116.15.

In the financial year 2010, companies of the ERGO Insurance Group acquired 63 shares at an average price of €116.71 each and sold 70,099 shares at a price of €120.07 each to cover future commitments from the long-term incentive plans launched since 2002. Together with the remaining Munich Re shares acquired to hedge the stock appreciation rights granted in prior years, the ERGO Insurance Group had a total portfolio of 224,057 shares at 31 December 2010.

MEAG MUNICH ERGO AssetManagement GmbH acquired 34,000 shares at €104.13 each in the financial year 2010 to safeguard obligations from its long-term incentive plan and sold 6,658 shares at an average price of €112.04, leaving it with a portfolio of 167,096 Munich Re shares.

The acquisition costs of all Munich Re shares in the possession of Group companies at the end of the financial year totalled €845,729,551.24.

In the year under review, a total of €1,076m was distributed to Munich Reinsurance Company's equity holders for the financial year 2009 in the form of a dividend of €5.75 per dividend-bearing share.

Composition of the capital authorised for capital increases

€m	31.12.2010
Authorised Capital Increase 2006 (until 18 April 2011)	5
Authorised Capital Increase 2009 (until 21 April 2014)	280
Total	**285**

Composition of contingent capital

€m	31.12.2010
Contingent Capital Increase 2005 (until 27 April 2015)	117
Total	**117**

Composition of equity

€m	31.12.2010	Prev. year
Issued capital	588	588
Capital reserve	6,800	6,800
Retained earnings	10,735	10,667
Other reserves	2,238	1,473
Consolidated result attributable to Munich Reinsurance Company equity holders	2,422	2,521
Non-controlling interests	245	229
Total equity	**23,028**	**22,278**

Retained earnings contain equalisation reserves of €5,795m (5,866m).

The "other reserves" include –€610m (–1,245m) from currency translation and –€2m (1m) resulting from valuation of cash flow hedges. In addition, "other reserves" contain unrealised gains and losses distributed between the different items as follows:

Unrealised gains and losses

€m	31.12.2009	Prev. year
Non-consolidated affiliated companies and associates not accounted for using the equity method	161	147
Associates accounted for using the equity method	68	66
Other securities available for sale		
Fixed-interest	2,201	3,342
Non-fixed-interest	1,634	1,408
Less		
Provision for deferred premium refunds recognised in equity	598	1,632
Deferred taxes recognised in equity	605	623
Non-controlling interests	11	12
Consolidation and currency translation effects	–	-21
Total	**2,850**	**2,717**

Tax effects in the income and expenses recognised directly in equity

			2010			Prev. year
€m	Before tax	Tax	After tax	Before tax	Tax	After tax
Currency translation	645	–	645	-51	–	-51
Unrealised gains and losses on investments	112	-18	130	824	309	515
Change resulting from valuation at equity	-8	–	-8	15	–	15
Change resulting from cash flow hedges	-5	-2	-3	-2	–	-2
Actuarial gains and losses on defined benefit plans	-73	-23	-50	-86	-8	-78
Other changes	-20	–	-20	-37	-9	-28
Income and expense recognised directly in equity	**651**	**-43**	**694**	**663**	**292**	**371**

Non-controlling interests

€m	31.12.2010	Prev. year
Unrealised gains and losses	11	12
Consolidated result	9	8
Other equity	225	209
Total	**245**	**229**

These are mainly non-controlling interests in individual companies of the primary insurance group. We disclose direct minority interests in special funds under "other liabilities". In the financial year 2010, we acquired a further 0.3% of the shares in ERGO Versicherungsgruppe AG, Düsseldorf, for €27m. This reduced the non-controlling interests and the retained earnings by €10m and €17m respectively.

Information on capital management and minimum capital requirements is provided in the sections on those items under "Financial position" in the management report.

19 // Subordinated liabilities

Breakdown of subordinated liabilities

€m	Identification number	A.M. Best	Fitch	Moody's	S&P	31.12.2010	Prev. year
Munich Reinsurance Company, Munich, 6.75% until 2013, thereafter floating, €2,900m, Bonds 2003/2023	WKN: 843278 ISIN: XS0166965797 Reuters: DE016696579= Bloomberg: MUNRE	a+	A	A2 (hyb)	A	2,884	2,883
Munich Reinsurance Company, Munich, 7.625% until 2018, thereafter floating, £300m, Bonds 2003/2028	WKN: 843449 ISIN: XS0167260529 Reuters: DE016726052= Bloomberg: MUNRE	a+	A	A2 (hyb)	A	348	335
Munich Reinsurance Company, Munich, 5.767% until 2017, thereafter floating, €1,349m, Bonds 2007/perpetual	WKN: A0N4EX ISIN: XS0304987042 Reuters: DE030498704= Bloomberg: MUNRE	a	A	A3 (hyb)	A	1,513	1,475
Bank Austria Creditanstalt Versicherung AG, Vienna, 4.95%, €50m, Registered bonds 2004/2014		–	–	–	–	49	49
Bank Austria Creditanstalt Versicherung AG, Vienna, 6% until 2010, thereafter floating, €12m[1], Registered bonds 2001/perpetual		–	–	–	–	9	9
Bank Austria Creditanstalt Versicherung AG, Vienna, secondary market yield on federal government bonds (Austria) +70 BP, €13m[2], Registered bonds 1998/perpetual		–	–	–	–	10	9
HSB Group Inc., Delaware, LIBOR +91 BP, US$ 76m, Bonds 1997/2027		–	–	–	–	34	30
Total						**4,847**	**4,790**

1 ERGO International AG holds bonds with a nominal value of €3m; the volume outstanding has been reduced accordingly.
2 ERGO AG holds bonds with a nominal value of €3m; the volume outstanding has been reduced accordingly.

In the case of Munich Reinsurance Company's bonds, annual outflows of liquidity occur for the interest payments of €196m, €23m and €78m respectively until the first possible call dates in 2013, 2018 and 2017. Thereafter, the liquidity outflows will vary, depending on the respective interest rate level. In the case of the Bank Austria Creditanstalt Versicherung AG registered bonds from 2004, the annual outflow of liquidity is €2m. For its registered bonds from 2001, the annual outflow for the first ten years amounts to €1m. Thereafter the payments for these bonds and the registered bonds from 1998 will, like those for the HSB Group bonds, be variable, depending on the respective interest-rate levels.

The fair value of the subordinated bond issued by Munich Reinsurance Company in June 2007 is hedged in respect of the risk-free interest rate by means of an interest-rate swap. The hedged changes in value of the subordinated bond and of the interest-rate swap are shown in the finance costs with impact on profit or loss in each case.

The fair value of the subordinated liabilities at the balance sheet date amounted to €4,777m (4,781m). For Munich Reinsurance Company's bonds, we take the stock market prices as fair values. For the other subordinated liabilities, we determine the fair values using net present value methods with observable market data.

20 // Unearned premiums

Unearned premiums

	Reinsurance			
	Life		Property-casualty	
€m[1]	31.12.2010	Prev. year	31.12.2010	Prev. year
Gross	52	113	5,600	4,883
Ceded share	–	1	309	272
Net	**52**	**112**	**5,291**	**4,611**

→	Primary insurance					
	Life		Health		Property-casualty	
€m[1]	31.12.2010	Prev. year	31.12.2010	Prev. year	31.12.2010	Prev. year
Gross	1	1	96	88	1,687	1,491
Ceded share	–	–	2	1	68	61
Net	**1**	**1**	**94**	**87**	**1,619**	**1,430**

→	Munich Health		Total	
€m[1]	31.12.2010	Prev. year	31.12.2010	Prev. year
Gross	443	370	7,879	6,946
Ceded share	7	–	386	335
Net	**436**	**370**	**7,493**	**6,611**

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

Development of gross unearned premiums

	Reinsurance			
	Life		Property-casualty	
€m[1]	31.12.2010	Prev. year	31.12.2010	Prev. year
Status at 31 Dec. previous year	113	139	4,883	4,517
Currency translation effects	12	–8	299	12
Change in consolidated group	–	–	–	310
Gross premiums written	7,766	6,431	15,377	14,675
Earned premiums	7,839	6,449	14,959	14,631
Status at 31 Dec. financial year	**52**	**113**	**5,600**	**4,883**

→	Primary insurance					
	Life		Health		Property-casualty	
€m[1]	31.12.2010	Prev. year	31.12.2010	Prev. year	31.12.2010	Prev. year
Status at 31 Dec. previous year	1	–	88	90	1,491	1,407
Currency translation effects	–	–	1	–1	28	9
Change in consolidated group	–	–	–	–	–	–
Gross premiums written	6,484	6,294	5,493	5,162	5,459	5,084
Earned premiums	6,484	6,293	5,486	5,163	5,291	5,009
Status at 31 Dec. financial year	**1**	**1**	**96**	**88**	**1,687**	**1,491**

→	Munich Health		Total	
€m[1]	31.12.2010	Prev. year	31.12.2010	Prev. year
Status at 31 Dec. previous year	370	268	6,946	6,421
Currency translation effects	23	7	363	19
Change in consolidated group	–16	–	–16	310
Gross premiums written	4,962	3,777	45,541	41,423
Earned premiums	4,896	3,682	44,955	41,227
Status at 31 Dec. financial year	**443**	**370**	**7,879**	**6,946**

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

21 // Provision for future policy benefits

Provision for future policy benefits

	Reinsurance			
	Life		Property-casualty	
€m[1]	31.12.2010	Prev. year	31.12.2010	Prev. year
Gross	10,521	9,590	317	300
Ceded share	684	147	–	–
Net	**9,837**	**9,443**	**317**	**300**

→	Primary insurance					
	Life		Health		Property-casualty	
€m[1]	31.12.2010	Prev. year	31.12.2010	Prev. year	31.12.2010	Prev. year
Gross	69,555	68,583	22,855	21,362	407	358
Ceded share	1,742	1,682	2	2	–	–
Net	**67,813**	**66,901**	**22,853**	**21,360**	**407**	**358**

→	Munich Health		Total	
€m[1]	31.12.2010	Prev. year	31.12.2010	Prev. year
Gross	758	669	104,413	100,862
Ceded share	7	7	2,435	1,838
Net	**751**	**662**	**101,978**	**99,024**

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

Gross provision for future policy benefits according to type of insurance cover

€m	31.12.2010	Prev. year
Life	**80,076**	**78.173**
Reinsurance	10,521	9,590
Primary insurance	69,555	68,583
Term life insurance	2,654	2,589
Other life insurance	39,118	39,795
Annuity insurance	26,697	25,133
Disability insurance	1,073	1,057
Contracts with combination of more than one risk	13	9
Health	**23,613**	**22,031**
Munich Health	758	669
Primary insurance	22,855	21,362
Property-casualty	**724**	**658**
Reinsurance	317	300
Primary insurance	407	358
Total	**104,413**	**100,862**

The provision for future policy benefits in life reinsurance largely involves contracts where the mortality or morbidity risk predominates. In reinsurance, annuity contracts have a significantly lower weight than in primary insurance.

Essentially the same actuarial assumptions have been used as in the previous year for measuring the provisions for future policy benefits for business in force. For US long term care business, the assumptions for claims incidence, benefit duration and life expectancy have been adjusted upwards on the basis of recent findings from current biometric analyses. For German life and health primary insurance, to which around

88% of the provisions for future policy benefits are apportionable, biometric actuarial assumptions based on the tables of the German Association of Actuaries are used.

Further information on the underwriting risks and discount rates can be found under (37) Risks from life and health insurance business and (38) Risks from property-casualty insurance business.

Development of gross provision for future policy benefits

€m	2010	Prev. year
Status at 31 Dec. previous year	100,862	98,205
Currency translation differences	144	117
Change in consolidated group/Other	955	576
Changes		
Scheduled	2,169	1,959
Unscheduled	283	5
Status at 31 Dec. financial year	**104,413**	**100,862**

The change under "Other" contains €334m in savings premiums for capitalisation products and €150m for portfolio entries and withdrawals. Scheduled changes in the provision for future policy benefits contain the changes deriving from prospective calculation as a result of premium payments, benefit cases and the unwinding of discount in the year under review. Unscheduled changes stem from alterations in the assumptions underlying the calculations, which required an adjustment in the measurement. They mainly involve the strengthening of reserves for US long term care business.

22 // Provision for outstanding claims

Provision for outstanding claims

	Reinsurance			
	Life		Property-casualty	
€m[1]	31.12.2010	Prev. year	31.12.2010	Prev. year
Gross	4,477	3,797	36,632	35,182
Ceded share	288	200	2,080	2,326
Net	**4,189**	**3,597**	**34,552**	**32,856**

→	Primary insurance					
	Life		Health		Property-casualty	
€m[1]	31.12.2010	Prev. year	31.12.2010	Prev. year	31.12.2010	Prev. year
Gross	1,509	1,475	938	943	4,908	4,651
Ceded share	19	15	4	4	230	191
Net	**1,490**	**1,460**	**934**	**939**	**4,678**	**4,460**

→	Munich Health		Total	
€m[1]	31.12.2010	Prev. year	31.12.2010	Prev. year
Gross	1,037	798	49,501	46,846
Ceded share	9	11	2,630	2,747
Net	**1,028**	**787**	**46,871**	**44,099**

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

Gross provision by type

	Reinsurance			
	Life		Property-casualty	
€m[1]	31.12.2010	Prev. year	31.12.2010	Prev. year
Annuity claims provision	2,568	2,232	242	236
Case reserve	819	656	17,647	17,348
IBNR reserve	1,090	909	18,743	17,598
Total	**4,477**	**3,797**	**36,632**	**35,182**

→	Primary insurance					
	Life		Health		Property-casualty	
€m[1]	31.12.2010	Prev. year	31.12.2010	Prev. year	31.12.2010	Prev. year
Annuity claims provision	1,045	994	1	2	346	325
Case reserve	290	316	893	904	3,526	3,400
IBNR reserve	174	165	44	37	1,036	926
Total	**1,509**	**1,475**	**938**	**943**	**4,908**	**4,651**

→	Munich Health		Total	
€m[1]	31.12.2010	Prev. year	31.12.2010	Prev. year
Annuity claims provision	28	28	4,230	3,817
Case reserve	501	386	23,676	23,010
IBNR reserve	508	384	21,595	20,019
Total	**1,037**	**798**	**49,501**	**46,846**

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

The provision for annuity claims involves periodic payments for disability cases and is usually due long term. A major part of this provision is established in the life reinsurance and life primary insurance segments for future annuity payments; a smaller part refers to provisions for annuities in personal accident, liability and workers' compensation insurance. The biometric actuarial assumptions are selected using appropriate actuarial principles. Provisions for annuity claims are calculated as the present value of the expected future payments. The discount rates used are shown under (37) Risks from life and health insurance business and (38) Risks from property-casualty insurance business.

The case reserve reflects the amount which is expected to be needed to settle claims which are known and have already been reported at the balance sheet date. The major part of this provision is measured at face value. The IBNR reserve is calculated using actuarial methods on the basis of historical claims development data and taking into account foreseeable future trends.

Expected payments from the provisions for outstanding claims (property-casualty only)

	Reinsurance		Primary insurance	
%[1]	31.12.2010	Prev. year	31.12.2010	Prev. year
Up to one year	30.2	30.1	40.4	40.4
Over one year and up to five years	46.5	46.6	37.3	36.7
Over five years and up to ten years	14.3	14.3	13.0	14.3
Over ten years and up to fifteen years	4.2	4.4	5.2	4.5
Over fifteen years	4.8	4.6	4.1	4.1

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

It should be borne in mind that the expected timing of payments from the provisions for outstanding claims involves considerable uncertainty.

Development of the claims reserve in the property-casualty segment

			2010			Prev. year
€m[1]	Gross	Ceded share	Net	Gross	Ceded share	Net
Status at 31 Dec. previous year	39,833	2,517	37,316	39,188	2,838	36,350
Currency translation differences	1,802	53	1,749	237	–87	324
Change in consolidated group	–	–	–	359	137	222
Claims expenses						
For the year under review	14,242	782	13,460	12,467	571	11,896
For previous years	–597	94	–691	–538	–60	–478
Total	**13,645**	**876**	**12,769**	**11,929**	**511**	**11,418**
Unwinding of discount	86	5	81	87	7	80
Less payments						
For the year under review	5,213	262	4,951	4,378	267	4,111
For previous years	8,613	879	7,734	7,589	622	6,967
Total	**13,826**	**1,141**	**12,685**	**11,967**	**889**	**11,078**
Status at 31 Dec. financial year	**41,540**	**2,310**	**39,230**	**39,833**	**2,517**	**37,316**

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

The claims expenses for the year under review show both payments made for the year under review and expenses for posting the claims reserve in that year. The provisions set up for claims from previous years are regularly updated using best estimates based on exposure and claims information and past claims experience. The respective change is shown under claims expenses for previous years.

Most sectors experienced comparatively low claims-reporting activity in the year under review. Exceptions were the latent claims complexes of asbestos and environmental liability, for which reserves were strengthened.

Net run-off results in property-casualty business The values in the following run-off triangles cover more than 99% of our Group's portfolio of property-casualty business.

Claims payments for the individual accident years (per calendar year, net)

€m											Accident year
Calendar year	**≤ 2000**	**2001**	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**Total**
2000	9,380											
2001	5,891	3,426										
2002	3,755	3,102	3,893									
2003	2,242	1,586	2,906	4,066								
2004	2,300	873	1,245	2,173	3,848							
2005	1,427	612	671	906	2,890	3,503						
2006	1,126	464	372	416	916	3,579	3,389					
2007	1,030	453	258	404	406	1,615	2,468	4,199				
2008	1,154	364	308	312	414	523	1,336	2,808	4,252			
2009	933	171	329	231	238	479	542	1,224	3,185	4,406		
2010	608	225	160	248	243	250	423	824	1,599	3,148	4,921	12,649

Claims reserves for the individual accident years at the respective reporting dates (net)

€m												Accident year
Date	**≤ 2000**	**2001**	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**Total**
31.12.2000	19,787											
31.12.2001	15,115	7,951										
31.12.2002	13,275	6,028	9,447									
31.12.2003	11,766	5,006	5,947	8,227								
31.12.2004	10,077	4,053	4,962	5,652	7,666							
31.12.2005	10,758	3,654	3,057	3,995	4,823	9,001						
31.12.2006	10,040	3,266	2,601	3,463	3,894	5,409	7,422					
31.12.2007	9,835	2,730	2,333	2,738	3,342	3,836	4,806	7,702				
31.12.2008	9,011	2,427	2,027	2,267	2,538	3,030	3,349	5,155	8,652			
31.12.2009	8,240	2,073	1,700	1,968	1,988	2,531	2,669	3,807	5,735	8,468		
31.12.2010	8,121	1,822	1,518	1,706	1,477	1,851	1,989	2,963	4,112	5,282	8,454	39,295

Ultimate loss for the individual accident years at the respective reporting dates (net)

€m												Accident year
Date	**≤ 2000**	**2001**	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**Total**
31.12.2000	29,167											
31.12.2001	30,386	11,377										
31.12.2002	32,301	12,556	13,340									
31.12.2003	33,034	13,120	12,746	12,293								
31.12.2004	33,645	13,040	13,006	11,891	11,514							
31.12.2005	35,753	13,253	11,772	11,140	11,561	12,504						
31.12.2006	36,161	13,329	11,688	11,024	11,548	12,491	10,811					
31.12.2007	36,986	13,246	11,678	10,703	11,402	12,533	10,663	11,901				
31.12.2008	37,316	13,307	11,680	10,544	11,012	12,250	10,542	12,162	12,904			
31.12.2009	37,478	13,124	11,682	10,476	10,700	12,230	10,404	12,038	13,172	12,874		
31.12.2010	37,967	13,098	11,660	10,462	10,432	11,800	10,147	12,018	13,148	12,836	13,375	156,943
Net run-off result	–8,800	–1,721	1,680	1,831	1,082	704	664	–117	–244	38	n/a	–4,883
Change 2009 to 2010	–489	26	22	14	268	430	257	20	24	38	n/a	610

The ultimate loss of an accident year comprises all payments made for that accident year up to the reporting date, plus the claims reserve at the reporting date. Given complete information regarding all losses incurred up to the balance sheet date, the ultimate loss status for each accident-year period would remain the same. In practice, however, it may be assumed that the ultimate loss status (based on estimates) is exposed to fluctuations that reflect the growth in knowledge about the claims cases. Changes in the consolidated group, especially new acquisitions or the composition of segments to be reported, can also have an influence on the ultimate loss status.

The run-off triangles are prepared on a currency-adjusted basis. To this end, all figures are translated from the respective local currency into the Group currency (euro), consistently using the exchange rates applicable at the end of the year under review (i.e. at 31 December 2010). This ensures that neutral net run-off results in the original currency (i.e. where the ultimate loss originally estimated for an accident year and current loss estimate are identical) do not lead to currency-related run-off effects when expressed in the Group currency.

23 // Other technical provisions

Breakdown of other technical provisions

	Reinsurance		Primary insurance		Munich Health		Total	
€m[1]	31.12.2010	Prev. year	31.12.2010	Prev. year	31.12.2010	Prev. year	31.12.2010	Prev. year
Provision for premium refunds based on national regulations	–	–	5,213	4,803	–	77	5,213	4,880
Provision for deferred premium refunds	–	–	3,556	4,341	1	2	3,557	4,343
Thereof resulting from unrealised gains and losses on investments (recognised directly in equity)	–	–	617	1,646	1	4	618	1,650
Thereof resulting from other revaluations (recognised in profit or loss)	–	–	2,939	2,695	–	–2	2,939	2,693
Provision for profit commission	604	766	–	–	36	31	640	797
Other	4	13	132	104	9	9	145	126
Total (gross)	**608**	**779**	**8,901**	**9,248**	**46**	**119**	**9,555**	**10,146**

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

Of the provision for premium refunds based on national regulations, €63m (61m) is apportionable to property-casualty insurance. The provision for deferred premium refunds is established solely for life and health insurance.

The ceded share of “other technical provisions” amounts to €39m (63m), of which – (€1m) is apportionable to the ceded share of the provision for premium refunds based on national regulations.

Development of provision for premium refunds based on national regulations

€m	2010	Prev. year
Status at 31 Dec. previous year	4,880	4,442
Change in consolidated group	–	–
Allocations/Withdrawals	333	438
Status at 31 Dec. financial year	**5,213**	**4,880**

Development of provision for deferred premium refunds

€m	2010	Prev. year
Status at 31 Dec. previous year	4,343	4,029
Change in consolidated group	–	–
Change resulting from unrealised gains and losses on investments (recognised directly in equity)	–1,032	903
Change resulting from other revaluations (recognised in profit or loss)	246	–589
Status at 31 Dec. financial year	**3,557**	**4,343**

The above change resulting from unrealised gains and losses on investments reflects the proportional allocation to expected future policyholders' bonuses of the change in fair values that occurred in the past year. Changes in the provision for deferred premium refunds are only recognised in the income statement to the extent that they result from valuation differences recognised in profit or loss. To determine the portion of the valuation differences allocable to the provision for deferred premium refunds, rates of between 50% and 92.5% after tax were used.

24 // Gross technical provisions for life insurance policies where the investment risk is borne by the policyholders

Development of gross provision

€m	2010	Prev. year
Status at 31 Dec. previous year	4,117	2,970
Change in consolidated group and other influences	294	46
Savings premiums	883	945
Unrealised gains/losses on fund assets	275	461
Withdrawal for expenses and risk	–44	–50
Withdrawal for benefits	–315	–255
Status at 31 Dec. financial year	**5,210**	**4,117**

These provisions are valued retrospectively. The withdrawal for underwriting risks from the premiums and provision for future policy benefits is made on the basis of prudent assumptions regarding expected mortality and morbidity. Here, as with the provision for future policy benefits for non-unit-linked life insurance, the underlying calculation is based on best estimates with appropriate provisions for adverse deviation.

The provisions are directly covered by the investments for the benefit of life insurance policyholders who bear the investment risk. Small differences in relation to these investments arise as a result of including unearned revenue liability in these provisions.

25 // Other accrued liabilities

Breakdown of other accrued liabilities

€m	31.12.2010	Prev. year
Provisions for post-employment benefits	1,562	1,424
Other provisions	1,896	1,782
Total	**3,458**	**3,206**

Provisions for post-employment benefits Munich Re companies generally give pension commitments to their employees in the form of defined contribution plans or defined benefit plans. The type and amount of the pension obligations are determined by the conditions of the respective pension plan.

Expenses for defined contribution plans in the year under review totalled €59m (57m).

In the case of defined benefit plans, the amount of the defined benefits is largely dependent on salary and length of service. These benefits may be partially or fully financed through plan assets.

Change in the present value of obligations under defined benefit plans

€m	2010	Prev. year
Status at 31 Dec. previous year	2,618	2,319
Currency translation differences	59	6
Change in consolidated group	–	90
Current service cost	101	90
Interest cost	131	123
Actuarial gains/losses	131	150
Paid pension benefits	–94	–92
Plan curtailments	–2	–45
Past service cost	5	–25
Other	3	2
Status at 31 Dec. financial year	**2,952**	**2,618**

Defined benefit obligations include medical-care benefits. The present value of defined benefit obligations for these items amounted to €145m (129m) at the balance sheet date.

In 2003, Munich Reinsurance Company established a contractual trust agreement in the form of a two-way trust for its unfunded company pension obligations. To finance these obligations, it is necessary for the trust assets to correspond to the present value of pension obligations. In the process, however, account has to be taken of the difference between the actuarial interest rate relevant for measuring the obligations and the return attainable on the investments. Therefore, the present value of the pension obligations was calculated using an actuarial interest rate equivalent to the expected investment return, which increased the present value of defined benefit obligations at 31 December 2010 by €112m (81m).

Change in the plan assets for defined benefit plans

€m	2010	Prev. year
Status at 31 Dec. previous year	1,229	989
Currency translation differences	43	17
Change in consolidated group	–	41
Expected return	66	55
Actuarial gains/losses	49	22
Capital transfer to plan assets	85	133
Paid pension benefits	–26	–31
Other	3	3
Status at 31 Dec. financial year	**1,449**	**1,229**

Change in the reimbursement rights for defined benefit plans

€m	2010	Prev. year
Status at 31 Dec. previous year	117	103
Expected return	5	4
Actuarial gains/losses	1	3
Capital transfer	8	8
Paid pension benefits	–2	–1
Other	–3	–
Status at 31 Dec. financial year	**126**	**117**

The reimbursement rights derive from insurance concluded to cover the benefit obligations.

Funded status of defined benefit plans

€m	2010	Prev. year
Unfunded obligations		
Present value	1,432	1,307
Past service cost not yet recognised	13	13
Net balance sheet liability	1,445	1,320
Wholly/partly funded obligations		
Present value	1,520	1,311
Plan assets	–1,449	–1,229
Other receivables	43	19
Other	3	3
Net balance sheet liability	117	104
Total net balance sheet liability	**1,562**	**1,424**

Change in the provision for defined benefit plans

€m	2010	Prev. year
Status at 31 Dec. previous year	1,424	1,335
Currency translation differences	19	–9
Change in consolidated group	–	56
Expenses	167	98
Payments	–66	–60
Capital transfer to plan assets	–85	–133
Transfer to other receivables	22	6
Actuarial gains/losses recognised in equity	78	125
Other	3	6
Status at 31 Dec. financial year	**1,562**	**1,424**

Breakdown of expenses booked in the business year

€m	2010	Prev. year
Current service cost	101	90
Interest cost	131	123
Less		
Expected return on plan assets	-66	-55
Expected return on reimbursements	-5	-4
Past service cost	4	-11
Effects of plan curtailments	–	-45
Other	2	–
Total	**167**	**98**

The actual return on plan assets amounts to €115m (77m), and the actual return on reimbursements to €6m (7m).

The expenses are shown mainly under "operating expenses" and "expenses for claims and benefits" in the consolidated income statement.

Included in the recognised income and expenses are actuarial losses amounting to €93m (121m) in the financial year and €601m (508m) cumulative, taking currency fluctuations into account.

Breakdown of plan assets to cover pension obligations

%	31.12.2010	Prev. year
Non-fixed-interest securities	23.9	23.6
Fixed-interest securities and loans	73.6	73.7
Real estate	0.2	0.1
Other	2.3	2.6
Total	**100.0**	**100.0**

The fair value of the plan assets does not include any own shares.

The consolidated companies used the following actuarial assumptions (weighted average values) for calculating their pension obligations:

Actuarial assumptions

%	2010	Prev. year
Discount rate	4.6	5.0
Expected rate of return on fund assets	5.2	5.5
Expected rate of return on reimbursements	4.6	4.4
Future increases in entitlement/salary	3.2	3.2
Future pension increases	1.6	1.6
Medical cost trend rate	4.4	5.0

The expected rate of return on plan assets is determined on the basis of anticipated long-term capital yields.

For the financial year 2011, capital transfers of €49m (59m) to plan assets are expected.

A change in the medical cost trend rate by one percentage point would have the following effects on the present value of defined benefit obligations and pension expenses:

Effects of change in the medical cost trend rate

€m	Increase by one percentage point	Reduction by one percentage point
Present value of defined benefit obligations	19	–15
Pension expenses	2	–1

Other figures for the current financial year and previous years

€m	2010	2009	2008	2007	2006
Present value of defined benefit obligations (excluding medical-care benefits)	2,807	2,489	2,178	2,053	2,123
Plan assets	–1,449	–1,229	–989	–965	–971
Not covered by plan assets	1,358	1,260	1,189	1,088	1,152
Experience adjustments arising on the plan liabilities	-3	–44	7	–24	101
Experience adjustments arising on the plan assets	52	20	–100	–7	–

Other provisions

€m	Prev. year	Additions	Withdrawals	Reversal	Other changes	31.12.2010
Earned commission	182	247	252	2	–	175
Early retirement benefits/semi-retirement	198	10	25	3	–15	165
Outstanding invoices	149	146	138	19	–	138
Bonuses	115	73	51	6	3	134
Anniversary benefits	67	4	1	3	1	68
Holiday and overtime pay	54	47	40	3	–	58
Miscellaneous	1,017	795	577	108	31	1,158
Total	**1,782**	**1,322**	**1,084**	**144**	**20**	**1,896**

The miscellaneous other provisions comprise a large number of different items, inter alia €73m (55m) for medium- and long-term incentive plans, €89m (82m) for salary obligations, €43m (46m) for other remuneration for desk and field staff, €258m (273m) for restructuring, €28m (27m) for competitions for sales staff, €29m (27m) for litigation risks, and €5m (5m) for insurance tax on outstanding premiums. The provisions for restructuring mainly concern the ERGO Group's "Continuous improvement of our competitive position" project.

The provisions for early-retirement benefits/semi-retirement, anniversary benefits and medium- and long-term incentive plans are mainly long term, whereas the provisions for earned commission, outstanding invoices, bonuses, holiday and overtime pay, and miscellaneous are essentially short term.

26 // Bonds and notes issued

Breakdown of bonds and notes issued

€m	Identification number	A.M. Best	Fitch	Moody's	S&P	31.12.2010	Prev. year
Munich Re America Corporation, Princeton, 7.45%, US$ 390m[1], Senior Notes 1996/2026[2]	CUSIP-Nr.: 029163AD4 ISIN, Reuters: – Bloomberg: AMER RE CORP MUNRE	bbb+	A+	A2	A–	290	276
Total						**290**	**276**

1 The issuer bought back notes with a nominal value of US$ 5m in the first quarter of 2010 and notes with a nominal value of US$ 2m in the third quarter of 2010.
2 Outflows of liquidity occur annually in the amount of the interest payments of US$ 30m until the notes mature.

We calculate the fair value of the notes issued by Munich Re America Corporation using recognised valuation methods with observable market data. The fair value at the reporting date amounts to €317m (285m).

27 // Deposits retained on ceded business

Deposits retained on ceded business are collateral for technical provisions covering business ceded to reinsurers and retrocessionaires, and do not trigger any cash flows. As a rule, the changes in deposits retained on ceded business derive from the changes in the relevant technical provisions covering ceded business. Deposits retained on ceded business thus do not have a fixed maturity date, their release generally being dependent on run-off of the corresponding provisions.

28 // Other liabilities

Breakdown of other liabilities

€m	31.12.2010	Prev. year
Amounts payable on primary insurance business	3,848	3,763
Accounts payable on reinsurance business	3,634	2,532
Amounts due to banks	1,843	873
Miscellaneous liabilities	3,778	2,946
Total	**13,103**	**10,114**

The accounts payable on primary insurance business mainly contain liabilities towards policyholders resulting from accumulated participation in surplus, premium deposits and insurance contracts without significant risk transfer.

The miscellaneous liabilities contain liabilities of €150m (157m) resulting from reinsurance contracts without significant risk transfer and €627m (593m) from derivative financial instruments and derivative components of variable annuities with a negative fair value. The miscellaneous liabilities also include €17m (12m) for social security and €200m (202m) for interest and rent.

The following table provides information on the remaining contractual maturities of the items shown under "other liabilities". Since the amounts payable on primary insurance business are directly linked to the underlying insurance business, we analyse the liquidity risk arising from these together with the corresponding insurance contracts. This currently also applies to the derivatives embedded in variable annuity business. For further information on this, see (37) Risks from life and health insurance business and (38) Risks from property-casualty insurance business. The derivatives listed below are recognised at market value.

Remaining terms of the other liabilities according to carrying amounts
(excluding amounts payable on primary insurance business and excluding liabilities from derivative components embedded in variable annuities)

	Carrying amounts	
€m	31.12.2010	Prev. year
Up to one year	8,120	5,132
Over one year and up to two years	418	73
Over two years and up to three years	61	237
Over three years and up to four years	63	40
Over four years and up to five years	51	79
Over five years and up to ten years	306	297
Over ten years	236	314
Total	**9,255**	**6,172**

The major portion of the liabilities up to one year involve interest-free items, where the carrying amounts and the undiscounted cash flows are identical. €1,341m (378m) of the amounts owed to banks and €250m (273m) of the liabilities from derivatives are due within one year. Any deviations in the liabilities with remaining terms of over one year from the undiscounted cash flows are not material for the presentation and significance of the financial liabilities for our financial position and performance.

The following table shows the allocation of the other liabilities measured at fair value to levels of the fair value hierarchy.

Allocation of other liabilities measured at fair value to levels of the fair value hierarchy

				31.12.2010
€m	Level 1	Level 2	Level 3	Total
Other liabilities				
Derivatives	71	537	19	627

Allocation of other liabilities measured at fair value to levels of the fair value hierarchy

				31.12.2009
€m	Level 1	Level 2	Level 3	Total
Other liabilities				
Derivatives	52	541	–	593

In the other liabilities, only derivatives with a negative market value are currently recognised at fair value. Of these, only hedge fund certificates were allocated to Level 3 of the fair value hierarchy in the previous year. Based on our current review of allocation to hierarchy levels, the derivative components of the catastrophe bonds and weather derivatives have now also been allocated to Level 3.

At the beginning of 2010, we had none of the investments allocated to Level 3 in our portfolio. Reclassifications to Level 3 involved a volume of €9m. As a result of negative price developments since the reclassification, the portfolio of derivatives allocated to Level 3 increased by a further €12m. Price increases of €2m in hedge fund certificates worked in the other direction. At year-end 2010, we consequently allocated derivatives with a volume of €19m to Level 3.

Notes to the consolidated income statement

29 // Premiums

Premiums[1]

	Reinsurance			
	Life		Property-casualty	
€m	2010	Prev. year	2010	Prev. year
Total gross premiums	7,766	6,431	15,377	14,675
Gross premiums written	7,766	6,431	15,377	14,675
Change in unearned premiums – Gross	–73	–18	418	44
Ceded earned premiums	**7,839**	**6,449**	**14,959**	**14,631**
Ceded premiums written	416	321	1,100	958
Change in unearned premiums – Ceded share	–	–	9	–22
Ceded earned premiums	**416**	**321**	**1,091**	**980**
Net earned premiums	**7,423**	**6,128**	**13,868**	**13,651**

→

	Primary insurance					
	Life		Health		Property-casualty	
€m	2010	Prev. year	2010	Prev. year	2010	Prev. year
Total gross premiums	8,158	7,874	5,493	5,162	5,459	5,084
Gross premiums written	6,484	6,294	5,493	5,162	5,459	5,084
Change in unearned premiums – Gross	–	1	7	–1	168	75
Ceded earned premiums	**6,484**	**6,293**	**5,486**	**5,163**	**5,291**	**5,009**
Ceded premiums written	139	176	19	13	197	170
Change in unearned premiums – Ceded share	–	–	–	–	5	–13
Ceded earned premiums	**139**	**176**	**19**	**13**	**192**	**183**
Net earned premiums	**6,345**	**6,117**	**5,467**	**5,150**	**5,099**	**4,826**

→

	Munich Health		Total	
€m	2010	Prev. year	2010	Prev. year
Total gross premiums	4,962	3,777	47,215	43,003
Gross premiums written	4,962	3,777	45,541	41,423
Change in unearned premiums – Gross	66	95	586	196
Ceded earned premiums	**4,896**	**3,682**	**44,955**	**41,227**
Ceded premiums written	26	28	1,897	1,666
Change in unearned premiums – Ceded share	3	–	17	–35
Ceded earned premiums	**23**	**28**	**1,880**	**1,701**
Net earned premiums	**4,873**	**3,654**	**43,075**	**39,526**

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

The total gross premiums include not only the gross premiums written but also savings premiums from unit-linked life insurances and capitalisation products. Premiums from long-term insurance business, especially in the life primary insurance segment, are recognised in full as earned premiums and income when they become due. Under gross premiums written, only those parts of the premium from unit-linked life business are included that are used to cover the risks and associated costs.

Of the gross premiums written from short-term insurance business, the portions attributable to periods after the balance sheet date are posted as unearned premiums; cf. (20) Unearned premiums. Unearned premiums are reversed in accordance with the reduction in risk, over the duration of the contracts.

30 // Income from technical interest

Income from technical interest[1]

	Reinsurance			
	Life		Property-casualty	
€m	2010	Prev. year	2010	Prev. year
Income from technical interest	513	501	1,371	1,058

→	Primary insurance					
	Life		Health		Property-casualty	
€m	2010	Prev. year	2010	Prev. year	2010	Prev. year
Income from technical interest	3,052	2,874	1,431	1,172	174	150

→	Munich Health		Total	
€m	2010	Prev. year	2010	Prev. year
Income from technical interest	46	39	6,587	5,794

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

The income from technical interest is the amount earned by assumed insurance business from the mainly risk-free investment of assets covering the technical provisions. Its composition varies from segment to segment, depending on the type of insurance business conducted and the related statutory regulations.

In the primary insurance and reinsurance property-casualty segments, we allow for the fact that provisions established in prior years were invested at higher interest rates than the current level of market interest rates. The income from technical interest therefore corresponds to the risk-free interest on our economic (i.e. discounted) technical provisions at the respective historical interest rate, taking into account the relevant period of insurance and currency. For balance sheet provisions in excess of the economically required provisions, short-term interest rates are applied.

For the life segment in reinsurance, the interest on the provisions is essentially based on contractually agreed allocations of interest (in Germany, for example, at least the guaranteed interest rate).

For the life primary insurance segment, the income from technical interest for German life business comprises the gains and losses from unit-linked life insurance plus the guaranteed interest rate and profit sharing on the basis of the IFRS investment result. For the companies outside Germany, the income from technical interest corresponds to the gains and losses from unit-linked life insurance plus the risk-free interest on the provision for future policy benefits at the relevant national interest rate.

In the health primary insurance segment, the income from technical interest for German business corresponds to the allocation of interest to the ageing reserve (actuarial interest) and the allocation to the provision for premium refunds. The latter is based on the investment result exceeding the actuarial interest rate and on policyholders' participation in the other non-technical result components.

In the Munich Health segment, the income from technical interest for international primary insurance business is based on the interest on technical provisions at the relevant national risk-free interest rate and, where applicable, on the interest allocated to the provision for future policy benefits (actuarial interest rate). In the case of long-term reinsurance treaties, the interest corresponds to the contractually agreed allocations of interest. For short-term reinsurance treaties, the income from technical interest is calculated on the basis of the risk-free interest on technical provisions at the relevant national interest rate.

31 // Expenses for claims and benefits

Net expenses for claims and benefits[1]

				Reinsurance
		Life		Property-casualty
€m	2010	Prev. year	2010	Prev. year
Gross				
Claims and benefits paid	4,716	3,936	10,688	9,145
Change in technical provisions				
Provision for future policy benefits	724	480	17	–23
Provision for outstanding claims	381	250	–328	103
Provision for premium refunds	–	–	6	8
Other technical result	37	40	55	33
Gross expenses for claims and benefits	**5,858**	**4,706**	**10,438**	**9,266**
Ceded share				
Claims and benefits paid	188	119	1,056	807
Change in technical provisions				
Provision for future policy benefits	–69	–9	–	–
Provision for outstanding claims	81	13	–299	–359
Provision for premium refunds	–	–	–	–
Other technical result	–26	–6	–7	–13
Expenses for claims and benefits – Ceded share	**174**	**117**	**750**	**435**
Net				
Claims and benefits paid	4,528	3,817	9,632	8,338
Change in technical provisions				
Provision for future policy benefits	793	489	17	–23
Provision for outstanding claims	300	237	–29	462
Provision for premium refunds	–	–	6	8
Other technical result	63	46	62	46
Net expenses for claims and benefits	**5,684**	**4,589**	**9,688**	**8,831**

Continued on next page

→					Primary insurance	
		Life		Health		Property-casualty
€m	2010	Prev. year	2010	Prev. year	2010	Prev. year
Gross						
Claims and benefits paid	6,278	6,595	3,720	3,585	3,138	2,822
Change in technical provisions						
Provision for future policy benefits	1,126	588	1,026	1,015	47	60
Provision for outstanding claims	35	166	–6	54	233	195
Provision for premium refunds	706	97	1,067	612	19	17
Other technical result	182	184	–5	–5	30	39
Gross expenses for claims and benefits)	**8,327**	**7,630**	**5,802**	**5,261**	**3,467**	**3,133**
Ceded share						
Claims and benefits paid	92	94	7	7	85	82
Change in technical provisions						
Provision for future policy benefits	65	92	–	–1	–	–
Provision for outstanding claims	3	2	–	–2	39	–2
Provision for premium refunds	1	1	–	–	–	–2
Other technical result	–73	–73	–	–	–	–
Expenses for claims and benefits – Ceded share	**88**	**116**	**7**	**4**	**124**	**78**
Net						
Claims and benefits paid	6,186	6,501	3,713	3,578	3,053	2,740
Change in technical provisions						
Provision for future policy benefits	1,061	496	1,026	1,016	47	60
Provision for outstanding claims	32	164	–6	56	194	197
Provision for premium refunds	705	96	1,067	612	19	19
Other technical result	255	257	–5	–5	30	39
Net expenses for claims and benefits	**8,239**	**7,514**	**5,795**	**5,257**	**3,343**	**3,055**

→		Munich Health		Total
€m	2010	Prev. year	2010	Prev. year
Gross				
Claims and benefits paid	3,512	3,015	32,052	29,098
Change in technical provisions				
Provision for future policy benefits	88	99	3,028	2,219
Provision for outstanding claims	258	46	573	814
Provision for premium refunds	–6	7	1,792	741
Other technical result	3	–	302	291
Gross expenses for claims and benefits	**3,855**	**3,167**	**37,747**	**33,163**
Ceded share				
Claims and benefits paid	24	23	1,452	1,132
Change in technical provisions				
Provision for future policy benefits	–	–	–4	82
Provision for outstanding claims	–3	–2	–179	–350
Provision for premium refunds	–	–	1	–1
Other technical result	–	–	–106	–92
Expenses for claims and benefits – Ceded share	**21**	**21**	**1,164**	**771**
Net				
Claims and benefits paid	3,488	2,992	30,600	27,966
Change in technical provisions				
Provision for future policy benefits	88	99	3,032	2,137
Provision for outstanding claims	261	48	752	1,164
Provision for premium refunds	–6	7	1,791	742
Other technical result	3	–	408	383
Net expenses for claims and benefits	**3,834**	**3,146**	**36,583**	**32,392**

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

The change in the provision for future policy benefits (net) contains €275m (461m) in unrealised gains/losses from unit-linked life insurance. Expenses for claims and benefits include expenses for policyholders' bonuses. Of this, €1,308m (1,000m) is for the allocation to the provision for premium refunds on the basis of national regulations, €240m (–593m) for the change in the provision for deferred premium refunds recognised in the income statement, and €329m (382m) for direct crediting. The "other technical result" for life primary insurance mainly includes interest on policyholders' accumulated credit.

Expenses for profit commission in reinsurance are shown under operating expenses, not under expenses for claims and benefits.

32 // Operating expenses

Operating expenses[1]

	Reinsurance			
	Life		Property-casualty	
€m	2010	Prev. year	2010	Prev. year
Acquisition costs, profit commission and reinsurance commission paid	2,306	1,526	3,588	3,261
Administrative expenses	297	256	1,104	1,055
Changes in deferred acquisition costs and contingent commissions, amortisation and impairment losses of acquired insurance portfolios	–245	126	–114	–88
Gross operating expenses	**2,358**	**1,908**	**4,578**	**4,228**
Ceded share of acquisition costs, profit commission and reinsurance commission paid	193	91	209	220
Ceded share of changes in deferred acquisition costs and contingent commissions	–35	29	7	3
Operating expenses – Ceded share	**158**	**120**	**216**	**223**
Net operating expenses	**2,200**	**1,788**	**4,362**	**4,005**

→

	Primary insurance					
	Life		Health		Property-casualty	
€m	2010	Prev. year	2010	Prev. year	2010	Prev. year
Acquisition costs, profit commission and reinsurance commission paid	861	822	614	586	1,155	1,041
Administrative expenses	252	254	159	171	671	599
Changes in deferred acquisition costs and contingent commissions, amortisation and impairment losses of acquired insurance portfolios	53	309	–62	–19	–102	–51
Gross operating expenses	**1,166**	**1,385**	**711**	**738**	**1,724**	**1,589**
Ceded share of acquisition costs, profit commission and reinsurance commission paid	16	18	4	4	21	39
Ceded share of changes in deferred acquisition costs and contingent commissions	1	2	–	–	11	–5
Operating expenses – Ceded share	**17**	**20**	**4**	**4**	**32**	**34**
Net operating expenses	**1,149**	**1,365**	**707**	**734**	**1,692**	**1,555**

Continued on next page

→	Munich Health		Total	
€m	2010	Prev. year	2010	Prev. year
Acquisition costs, profit commission and reinsurance commission paid	892	629	9,416	7,865
Administrative expenses	139	138	2,622	2,473
Changes in deferred acquisition costs and contingent commissions, amortisation and impairment losses of acquired insurance portfolios	-23	-29	-493	248
Gross operating expenses	**1,008**	**738**	**11,545**	**10,586**
Ceded share of acquisition costs, profit commission and reinsurance commission paid	4	4	447	376
Ceded share of changes in deferred acquisition costs and contingent commissions	–	–	-16	29
Operating expenses – Ceded share	**4**	**4**	**431**	**405**
Net operating expenses	**1,004**	**734**	**11,114**	**10,181**

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

33 // Investment result

Investment result by type of investment and segment (before deduction of income from technical interest)[1]

	Reinsurance			
	Life		Property-casualty	
€m	2010	Prev. year	2010	Prev. year
Land and buildings, including buildings on third-party land	**25**	**13**	**140**	**74**
Investments in affiliated companies	**-1**	**-1**	**-10**	**1**
Investments in associates	**7**	**-3**	**35**	**-11**
Loans	**4**	**5**	**10**	**21**
Other securities held to maturity	**–**	**–**	**–**	**–**
Other securities available for sale				
Fixed-interest	599	462	2,286	2,081
Non-fixed-interest	51	166	265	808
Other securities at fair value through profit or loss				
Held for trading				
Fixed-interest	–	–	16	17
Non-fixed-interest	–	–	1	2
Derivatives	23	54	-44	-180
Designated at fair value through profit or loss				
Fixed-interest	–	–	–	–
Non-fixed-interest	–	–	–	–
Deposits retained on assumed reinsurance, and other investments	**146**	**213**	**-20**	**-73**
Investments for the benefit of life insurance policyholders who bear the investment risk	**–**	**–**	**–**	**–**
Expenses for the management of investments, other expenses	**35**	**36**	**167**	**184**
Total	**819**	**873**	**2,512**	**2,556**

					Primary insurance	
		Life		Health		Property-casualty
€m	2010	Prev. year	2010	Prev. year	2010	Prev. year
Land and buildings, including buildings on third-party land	**98**	**99**	**39**	**36**	**30**	**26**
Investments in affiliated companies	**-9**	**-12**	**-9**	**-8**	**35**	**-7**
Investments in associates	**7**	**-40**	**6**	**1**	**-4**	**-58**
Loans	**1,381**	**1,311**	**650**	**580**	**105**	**67**
Other securities held to maturity	**3**	**6**	**–**	**–**	**–**	**–**
Other securities available for sale						
Fixed-interest	1,681	1,788	565	479	275	241
Non-fixed-interest	141	-110	108	–	69	2
Other securities at fair value through profit or loss						
Held for trading						
Fixed-interest	6	26	–	–	–	–
Non-fixed-interest	–	–	–	–	–	–
Derivatives	76	-271	-46	-31	-3	2
Designated at fair value through profit or loss						
Fixed-interest	10	13	–	–	–	–
Non-fixed-interest	-4	–	–	–	–	–
Deposits retained on assumed reinsurance, and other investments	**-8**	**-5**	**-7**	**7**	**–**	**5**
Investments for the benefit of life insurance policyholders who bear the investment risk	**271**	**441**	**–**	**–**	**–**	**–**
Expenses for the management of investments, other expenses	**172**	**171**	**49**	**45**	**36**	**27**
Total	**3,481**	**3,075**	**1,257**	**1,019**	**471**	**251**

		Munich Health		Asset management		Total
€m	2010	Prev. year	2010	Prev. year	2010	Prev. year
Land and buildings, including buildings on third-party land	**3**	**1**	**4**	**4**	**339**	**253**
Investments in affiliated companies	**-5**	**–**	**8**	**9**	**9**	**-18**
Investments in associates	**9**	**-2**	**-10**	**-10**	**50**	**-123**
Loans	**–**	**–**	**–**	**–**	**2,150**	**1,984**
Other securities held to maturity	**–**	**–**	**–**	**–**	**3**	**6**
Other securities available for sale						
Fixed-interest	91	63	2	4	5,499	5,118
Non-fixed-interest	7	41	-6	–	635	907
Other securities at fair value through profit or loss						
Held for trading						
Fixed-interest	–	–	–	–	22	43
Non-fixed-interest	–	–	–	–	1	2
Derivatives	1	–	–	–	7	-426
Designated at fair value through profit or loss						
Fixed-interest	–	–	–	–	10	13
Non-fixed-interest	–	–	–	–	-4	–
Deposits retained on assumed reinsurance, and other investments	**–**	**–**	**3**	**3**	**114**	**150**
Investments for the benefit of life insurance policyholders who bear the investment risk	**–**	**–**	**–**	**–**	**271**	**441**
Expenses for the management of investments, other expenses	**5**	**3**	**–**	**1**	**464**	**467**
Total	**101**	**100**	**1**	**9**	**8,642**	**7,883**

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

The result for land and buildings includes rental income of €340m (340m). Part of the result for investments in affiliated companies derives from receipt of €39m for a deferred purchase price component agreed in connection with the acquisition of Nieuwe Hollandse Verzekeringsgroep N.V., Woerden, in the financial year 2005 and payable at the end of 2009. The gain is recognised under the item "investment income". The expenses for the management of investments include running costs and expenses for repair and maintenance of property totalling €53m (79m). We earned interest income of €2,123m (1,951m) on loans and €3m (6m) on other securities held to maturity. Other securities available for sale earned regular income of €4,686m (4,729m).

Investment income by segment (before deduction of income from technical interest)[1]

	Reinsurance			
	Life		Property-casualty	
€m	2010	Prev. year	2010	Prev. year
Regular income	788	777	1,957	1,956
Thereof: Interest income	680	683	1,703	1,760
Income from write-ups	470	269	558	682
Gains on the disposal of investments	481	436	2,108	2,342
Other income	–	–	–	–
Total	**1,739**	**1,482**	**4,623**	**4,980**

→	Primary insurance					
	Life		Health		Property-casualty	
€m	2010	Prev. year	2010	Prev. year	2010	Prev. year
Regular income	3,205	3,247	1,297	1,214	396	350
Thereof: Interest income	2,999	2,970	1,185	1,085	334	335
Income from write-ups	660	332	71	31	38	28
Gains on the disposal of investments	466	933	265	165	382	184
Other income	353	475	-1	–	1	1
Total	**4,684**	**4,987**	**1,632**	**1,410**	**817**	**563**

→	Munich Health		Asset management		Total	
€m	2010	Prev. year	2010	Prev. year	2010	Prev. year
Regular income	99	71	7	14	7,749	7,629
Thereof: Interest income	85	68	5	5	6,991	6,906
Income from write-ups	20	7	–	–	1,817	1,349
Gains on the disposal of investments	41	51	–	6	3,743	4,117
Other income	–	–	4	4	357	480
Total	**160**	**129**	**11**	**24**	**13,666**	**13,575**

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

Investment expenses by segment (before deduction of income from technical interest)[1]

	Reinsurance			
	Life		Property-casualty	
€m	2010	Prev. year	2010	Prev. year
Write-downs of investments	539	294	755	809
Losses on the disposal of investments	304	259	1,119	1,314
Management expenses, interest charges and other expenses	77	56	237	301
Thereof:				
Interest charges	41	19	69	116
Total	**920**	**609**	**2,111**	**2,424**

→

	Primary insurance					
	Life		Health		Property-casualty	
€m	2010	Prev. year	2010	Prev. year	2010	Prev. year
Write-downs of investments	658	1,052	85	125	153	169
Losses on the disposal of investments	263	606	228	201	147	108
Management expenses, interest charges and other expenses	282	254	62	65	46	35
Thereof:						
Interest charges	24	45	9	15	10	7
Total	**1,203**	**1,912**	**375**	**391**	**346**	**312**

→

	Munich Health		Asset management		Total	
€m	2010	Prev. year	2010	Prev. year	2010	Prev. year
Write-downs of investments	20	9	10	13	2,220	2,471
Losses on the disposal of investments	33	16	–	1	2,094	2,505
Management expenses, interest charges and other expenses	6	4	–	1	710	716
Thereof:						
Interest charges	2	2	–	–	155	204
Total	**59**	**29**	**10**	**15**	**5,024**	**5,692**

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

Write-downs of investments

€m	2010	Prev. year
Land and buildings, including buildings on third-party land	120	127
Investments in affiliated companies	13	16
Investments in associates	6	87
Loans	19	74
Other securities available for sale	283	522
Other securities held for trading	1,776	1,645
Other investments	3	–
Total	**2,220**	**2,471**

34 // Other operating result

Other operating result[1]

	Reinsurance			
	Life		Property-casualty	
€m	2010	Prev. year	2010	Prev. year
Other operating income	74	48	295	260
Other operating expenses	41	39	201	192

→	Primary insurance					
	Life		Health		Property-casualty	
€m	2010	Prev. year	2010	Prev. year	2010	Prev. year
Other operating income	107	117	50	55	127	69
Other operating expenses	144	200	97	64	236	190

→	Munich Health		Asset management		Total	
€m	2010	Prev. year	2010	Prev. year	2010	Prev. year
Other operating income	95	80	59	59	807	688
Other operating expenses	86	67	44	51	849	803

1 After elimination of intra-Group transactions across segments.

The other operating income mainly comprises income of €470m (361m) from services rendered, interest and similar income of €125m (64m), income of €125m (208m) from the release/reduction of miscellaneous provisions and adjustments of values for receivables, and income of €64m (37m) from owner-occupied property, some of which is also leased out.

In addition to expenses of €323m (292m) for services rendered, the other operating expenses chiefly include interest charges and similar expenses of €136m (132m), other write-downs of €68m (85m), and other tax of €34m (36m).

They also contain expenses of €45m (44m) for owner-occupied property, some of which is also leased out.

35 // Other non-operating result, impairment losses of goodwill and finance costs

Other non-operating result, impairment losses of goodwill and finance costs[1]

	Reinsurance			
	Life		Property-casualty	
€m	2010	Prev. year	2010	Prev. year
Other non-operating income	730	377	1,519	1,251
Other non-operating expenses	744	368	1,609	1,364
Impairment losses of goodwill	–	–	–	18
Finance costs	73	86	179	190

→	Primary insurance					
	Life		Health		Property-casualty	
€m	2010	Prev. year	2010	Prev. year	2010	Prev. year
Other non-operating income	263	746	703	572	268	229
Other non-operating expenses	347	836	756	644	455	376
Impairment losses of goodwill	–	47	–	–	109	12
Finance costs	5	5	–	–	24	12

→	Munich Health		Asset management		Total	
€m	2010	Prev. year	2010	Prev. year	2010	Prev. year
Other non-operating income	351	100	5	8	3,839	3,283
Other non-operating expenses	370	147	12	20	4,293	3,755
Impairment losses of goodwill	–	40	–	–	109	117
Finance costs	10	9	2	2	293	304

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

The other non-operating income and expenses are unrelated to the conclusion, or settlement of insurance contracts or the of investments.

Besides foreign currency exchange gains of €3,683m (2,996m), the other non-operating income contains other non-technical income of €156m (287m).

The other non-operating expenses comprise foreign currency exchange losses of €3,736m (3,133m), write-downs of €135m (142m) on other intangible assets and other non-technical expenses of €422m (480m), such as expenses unrelated to the accounting period, project costs and other amounts that cannot be allocated elsewhere, and restructuring expenses. An amount of €24m (138m) in restructuring expenses is attributable to the ERGO Group's "Continuous improvement of our competitive position" project.

By finance costs we understand all interest and other expenses directly attributable to strategic debt. Debt has a strategic character for us if it does not have an original, direct link with our operative business.

Finance costs by financing instrument

€m	2010	Prev. year
Subordinated bonds of Munich Reinsurance Company, Munich	249	262
Senior notes of Munich Re America Corporation, Princeton[1]	23	22
Bank borrowing of Munich Reinsurance Company, Munich	12	11
Subordinated bonds of BACAV AG, Vienna	4	4
Other	5	5
Total	**293**	**304**

Information on the Group's strategic debt can be found in the management report on page 101 and under (19) Subordinated liabilities and (26) Bonds and notes issued.

36 // Taxes on income

This item shows the corporation tax and municipal trade earnings tax paid by the German consolidated companies (including solidarity surcharge) and the comparable taxes on earnings paid by the foreign consolidated companies in the Group. In accordance with IAS 12, the determination of taxes on income includes the calculation of deferred taxes.

Recognised tax expenses/income broken down according to Germany and other countries

€m	2010	Prev. year
Current tax	1,065	1,177
Germany	673	683
Other countries	392	494
Deferred tax	–373	87
Germany	–183	169
Other countries	–190	–82
Taxes on income	**692**	**1,264**

Main components of tax expenses/income

€m	2010	Prev. year
Current tax for financial year	1,138	1,093
Current tax for other periods	–73	84
Deferred tax resulting from the occurrence or reversal of temporary differences	–441	–195
Deferred tax resulting from the occurrence or utilisation of loss carry-forwards	325	382
Valuation allowances for deferred taxes/loss carry-forwards	–244	–86
Effects of changes in tax rates on deferred tax	–13	–14
Taxes on income	**692**	**1,264**

The current tax is derived from the tax results of the financial year, to which the local tax rates of the respective Group companies are applied.

The following table shows the reconciliation between the expected taxes on income and the tax on income actually shown. The expected tax expenses are calculated by multiplying the consolidated result before taxes on income (after "other tax") by the Group tax rate. The applicable Group tax rate amounts to 33%. This takes into account corporation tax including solidarity surcharge, and trade tax. The trade-tax municipal factors range from 240% to 490%.

Reconciliation to effective tax expenses

€m	2010	Prev. year
Result before taxes on income (after "other tax")	3,122	3,828
Group tax rate in %	33,0	33,0
Derived taxes on income	1,030	1,263
Tax effect of:		
Tax rate differences	–155	–106
Tax-free income	–84	–326
Non-deductible expenses	205	251
Valuation allowances for deferred taxes/loss carry-forwards	–244	–86
Change in tax rates and tax legislation	–13	–14
Tax for prior years	–92	249
Trade tax adjustments	7	–2
Other	38	35
Taxes on income shown	**692**	**1,264**

The effective tax burden is the ratio between the taxes on income recognised and the result before taxes on income (after "other tax"). In the year under review, there was a tax burden of 22% (previous year: 33%). "Tax-free income" is made up of tax-free gains on the sales of shareholdings in joint-stock companies, tax-free dividends and other tax-free income.

The non-deductible expenses mainly comprise losses on the disposal of equities, goodwill impairments and interest on back tax payments.

The reconciliation effect of €244m (86m) from changes in valuation allowances for deferred taxes/loss carry-forwards mainly involves an amount of €246m (100m) in tax savings from the offsetting of positive taxable income with tax loss carry-forwards for which no deferred tax assets had previously been recognised. The remaining amount involves counter-effects from the change in valuation allowances for deferred tax assets.

The income from changes in tax rates and tax legislation relates to Canada, the UK and Switzerland.

"Tax for prior years" essentially comprises subsequent tax refunds from the transition to the half-income method for corporate taxation and refunds resulting from concluded appeal procedures.

Disclosures on risks from insurance contracts and financial instruments

Munich Re's reporting is based on various legal regulations governing risks it is exposed to as a result of its business operations:

IFRS 4 prescribes disclosures on the type and extent of risks from insurance contracts. Under IFRS 7, analogous disclosures on risks from financial instruments are required. Besides this, Section 315 para. 2 item 2 of the German Commercial Code prescribes disclosures in the management report on risk management objectives and methods, hedging methods and risks in connection with financial instruments. These requirements are specified in more detail in the German Accounting Standard No. 15 (DRS 15) for management reports as well as DRS 5 and DRS 5-20 for risk reporting and risk reporting at insurance companies.

Risk reporting concerns not only accounting but also the activities of integrated risk management (IRM) at Munich Re. To take both perspectives into account, information on risks is provided in the risk report within the management report, in the disclosures on risks from insurance contracts and in the disclosures on financial instruments in the notes to the financial statements. The disclosures in the risk report largely adopt a purely economic view. The report provides a detailed account of the organisation of risk management and Munich Re's risk strategy, briefly outlines the main risks we are exposed to and describes in detail the economic risk capital calculated by means of our internal risk model and available financial resources. Information on specific risk complexes completes the report.

The notes to the financial statements deal in detail with the various risks from insurance contracts and describe uncertainties in measuring them. In accordance with the requirements of IFRS 4, the effects of a change in the assumptions underlying the measurement of insurance contracts and/or in the market environment are also quantified. For risks from financial instruments, IFRS 7 stipulates that the disclosures must comprise information on the maximum credit risk exposure, the remaining terms, the rating, and a sensitivity analysis regarding the market risk. This information is also relevant for assessing the risk.

To obtain a complete overview of the risks to which Munich Re is exposed, the reader needs to refer to both the risk report and the disclosures on risks from insurance contracts and financial instruments in the notes to the financial statements, along with further information in the individual notes. Where necessary, we refer to the relevant information in the risk report and information on the respective items.

37 // Risks from life and health insurance business

The risks presented in this section concern business from the segments life and health primary insurance, life reinsurance and Munich Health. The Munich Health segment comprises primary insurance and reinsurance contracts. Since the disclosures are geared to the presentation of the relevant risks, Munich Health is not shown separately but reflected either in primary insurance or reinsurance, depending on the type of business involved.

Of primary importance for these insurance contracts are biometric risks, interest-rate risks and lapse risks. The measurement of technical provisions and deferred acquisition costs is based on biometric calculation tables, i.e. on assumptions with regard to mortality, disablement and morbidity, and on the respective contract- or plan-specific discount rates and actuarial interest rates. Besides this, measurement includes assumptions regarding the lapse rate and profit sharing. In addition, other market risks from unit-linked contracts and risks from embedded derivatives, as well as the liquidity risk, have to be taken into account.

Biometric risks Our portfolios' degree of exposure to biometric risks depends on the type of insurance contracts:

Biometric risks

Product category	Characteristics	Important risks
Life primary insurance		
Endowment and term life insurance	– Long-term contracts with a death benefit – In most cases, a lump-sum payment on termination – Actuarial assumptions fixed when contract is concluded; premium adjustments not possible	Mortality (short term): – Increase in claims expenditure due to exceptional, one-off circumstances (e.g. pandemics) Mortality (long term): – Increase in claims expenditure due to sustained rise in mortality in the portfolio
Annuity insurance	– In most cases, guaranteed lifetime annuity payment – Actuarial assumptions mainly fixed when contract is concluded	Longevity: – Increase in expected expenditure for annuities due to sustained rise in life expectancy in the portfolio
Disability insurance	– Long-term contracts with a guaranteed limited annuity in the event of disablement – Actuarial assumptions fixed when contract is concluded	Disablement: – Increased expenditure due to rise in the number of cases of disablement in the portfolio or a reduction in the average age at which the insured event occurs Longevity: – Increased expenditure due to rise in the average duration of annuity period
Life reinsurance		
	– Largely long-term contracts under which mainly mortality and disability risks are assumed from cedants	Mortality (short term): – Increase in claims expenditure due to exceptional, one-off circumstances (e.g. pandemics) Mortality (long term): – Increase in claims expenditure due to sustained rise in mortality in cedants' portfolios Disablement: – Increased expenditure for disability insurances in cedants' portfolios
Health primary insurance		
	– Largely long-term contracts guaranteeing assumption of costs for medical treatment; provisions are established for covering increased costs on ageing – Variable actuarial assumptions; premium adjustment possible if there are sustained changes in the cost structure	Morbidity: – Increase in medical costs that cannot be absorbed through premium adjustments – Increase in claims expenditure due to exceptional, one-off events (e.g. pandemics)
Health reinsurance		
	– In most cases, short-term contracts under which morbidity risks are assumed from cedants	Morbidity (short term): – Increase in costs of medical treatment within the risk period – Increase in claims expenditure due to exceptional, one-off events (e.g. pandemics)

The quantitative structure of our business is shown in the notes under (21) Provision for future policy benefits.

The biometric assumptions we use for measuring insurance contracts in our portfolios are regularly reviewed on the basis of updated portfolio information. Especially in primary insurance, this includes considering country-specific reviews by supervisory authorities.

We also take account of market standards when checking the adequacy of biometric actuarial assumptions and the trend assumptions included in them. This may result in a change in the provision for adverse deviation allowed for in the actuarial assumptions. The amount of the technical provisions or the deferred acquisition costs is not directly affected as long as there is provision for adverse deviation. In the view of the appointed actuaries, the biometric actuarial assumptions used by us are deemed sufficient. However, in long-term health insurance, we are proceeding on the assumption that there will be further advances in medical treatment, potentially giving rise to higher costs. For this business, it is generally possible to modify the actuarial assumptions by means of a premium adjustment to reflect the changes.

For short-term health insurance business, on the other hand, the main risk is a sudden increase in expenses due to exceptional one-off events.

Interventions by legislators or courts in the distribution of risks and rewards underlying the contracts concluded between the parties to insurance may mask or aggravate the biometric risks described, making it necessary to adjust the provision.

We measure sensitivity to changes in biometric assumptions in life insurance and for long-term contracts in health insurance using an embedded value analysis; cf. page 247 f.

Interest-rate risks A distinction must be made between risks of changes in interest rates on the one hand and interest-rate guarantee risks on the other. Risks of changes in interest rates would result from the discounting of the provision for future policy benefits and of parts of the provision for outstanding claims. In accordance with accounting valuation rules, the discount rate is fixed at contract commencement and will generally not be adjusted during the term of the contract. To this extent, the accounting valuation of these technical provisions does not depend directly on the level of the market interest rates.

Economically, however, an interest-rate risk derives in principle from the need to earn a return on the investments covering the provision that is commensurate with the discount rate used in measuring the provision.

In reinsurance, we use the following discount rates for the provision for future policy benefits and the provision for outstanding claims:

Discount rates used for provisions – Reinsurance (gross)

€m[1]	31.12.2010	Prev. year
Without discount rate	2,519	2,297
Discount rate ≤ 2.5%	180	–
2.5% < discount rate ≤ 3.5%	573	645
3.5% < discount rate ≤ 4.5%	2,032	1,469
4.5% < discount rate ≤ 5.5%	3,151	2,416
5.5% < discount rate ≤ 6.5%	1,458	1,370
6.5% < discount rate ≤ 7.5%	426	352
Discount rate > 7.5%	120	108
Covered by deposits retained on assumed reinsurance	5,121	5,216
Total	**15,580**	**13,873**

1 After elimination of intra-Group transactions across segments.

If provisions are covered by deposits retained on assumed reinsurance, the interest is directly secured by an inflow of investment income generally guaranteed by the ceding company. Consequently, for provisions for which at least the discount rate is guaranteed by the cedant, there is no interest-rate risk. For deposits amounting to €1,146m, no interest-rate guarantee has been given by the cedant. Therefore, for the remaining group of all provisions whose interest is not guaranteed by the cedant, application of the liability adequacy test as per IFRS 4 ensures that the expected income from the investments covering the technical provisions is sufficient to meet future obligations as a whole.

In life primary insurance, an implicit or explicit interest-rate guarantee is granted for the majority of contracts over their whole duration, based on a fixed interest rate applying at the time the contract is concluded. The discount rate used to calculate the provision for future policy benefits is identical with this interest rate for the majority of contracts in our portfolios. An appropriate minimum return needs to be earned in the long term from the investment result (possibly also with assistance from the technical result) for the contractually guaranteed benefits. In health primary insurance, a discount rate is also used for calculating the provision for future policy benefits, but for long-term business this rate can generally be altered by way of premium adjustment. For short-term business, there is no direct interest-rate risk.

The discount rates relevant for the portfolio in calculating the provision for future policy benefits and the provision for outstanding claims are as follows:

Discount rates used for provisions – Primary insurance (gross)

€m[1]	Life 31.12.2010	Health 31.12.2010	Total 31.12.2010	Total Prev. year
Without discount rate	4,633	1,513	6,146	6,013
Discount rate ≤ 2.5%	6,122	50	6,172	4,713
2.5% < discount rate ≤ 3.0%	18,713	23	18,736	18,938
3.0% < discount rate ≤ 3.5%	26,560	1,160	27,720	27,760
3.5% < discount rate ≤ 4.0%	14,982	1,082	16,064	15,738
4.0% < discount rate ≤ 4.5%	32	2,756	2,788	2,503
4.5% < discount rate ≤ 5.0%	2	18,306	18,308	17,435
Discount rate > 5.0%	20	116	136	244
Total	**71,064**	**25,006**	**96,070**	**93,344**

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

Besides this, in German health primary insurance, a discount rate of 3.5% (3.5%) is applied for calculating the provision for premium loadings and the provision for future premium reductions totalling €3,086m (2,830m), which are part of the provision for premium refunds; in principle, however, this rate can be altered by way of a premium adjustment.

Provisions in reinsurance and primary insurance that are not covered by deposits retained are covered by investments. In the case of a discrepancy between the durations of these investments and the liabilities (“duration mismatch”), the main risk lies in the fact that if interest rates fall markedly over the remaining settlement period of the liabilities, the return on the reinvested assets may be lower than the discount rates and thus necessitate further expenses. But a complete duration matching of liabilities with fixed-interest investments of identical maturities would not be expedient, because if interest rates rise significantly, policyholders might make increasing use of their surrender rights, resulting in a liquidity requirement for premature payouts.

We measure sensitivity to this interest-rate risk using an embedded value analysis; cf. page 247 f.

Other market risks and embedded derivatives In reinsurance, other market risks are generally ruled out through suitable treaty design. Some reinsurance contracts contain derivative components of variable annuities. These are measured separately and their changes in value are recognised in the investment result. The valuation of these embedded derivatives is sensitive to share prices and interest rates, but these sensitivities are nearly fully compensated for by the fact that such derivatives are for the most part directly matched by financial derivatives for hedging purposes.

In primary insurance, the risks to be considered in this context – besides the interest-rate guarantee, which we analyse in the modelling of the interest-rate risk – are particularly risks from unit-linked life insurance and the lump-sum option in the case of deferred annuity policies. Other embedded derivates are financially insignificant.

For the unit-linked insurance contracts in our portfolios, the investments are held for the benefit of life insurance policyholders who bear the investment risk, meaning that there is no direct market risk. Appropriate product design ensures that the necessary premium portions for payment of a guaranteed minimum benefit on occurrence of death are based on the current fund assets.

The lump-sum option in the case of deferred annuity policies gives policyholders the option of having their annuity paid out in a single payment at a fixed date. As a result, there is a potential risk if an unexpectedly large number of policyholders exercise their option at an interest-rate level markedly higher than the discount rate used for the annuity calculation. But there is no direct interest-rate sensitivity or market sensitivity, since the exercise of the option by the policyholder is determined to a crucial extent by individual factors and relates to the insurance components. This option is specifically taken into account when applying the liability adequacy test prescribed by IFRS 4 to technical provisions.

Lapse risks In reinsurance, a lapse risk derives primarily from the indirect transfer of lapse risks from cedants. As a rule, both this risk and the financial risk from extraordinary termination of reinsurance contracts are largely ruled out through appropriate contract design.

In life primary insurance, the reported technical provision in the case of contracts with a surrender option is generally at least as high as the relevant surrender value. Expected surrenders are taken into account in the amortisation of deferred acquisition costs in life primary insurance and reinsurance. The policyholder's right in some contracts to maintain the contract with a waiver of premium and an adjustment of the guaranteed benefits constitutes a partial lapse and is taken into account in the calculations analogously. Based on the relevant legal parameters, reserves for primary health insurance business are calculated considering amounts payable due to cancellation of policies. The underlying assumptions are regularly checked.

We measure sensitivity to changes in the lapse rate in life insurance and for long-term contracts in health insurance using an embedded value analysis; cf. page 247 f.

Liquidity risks For Munich Re, there could be a liquidity risk if the cash outflow for insurance claims payments and the costs related to the business were to exceed the cash inflow from premiums and investments. For our mainly long-term business, we therefore analyse the expected future balance from cash inflows due to premium payments and outflows for payment of insurance claims and benefits plus costs.

For the business at the balance sheet date, this results in the future expected technical payment balances (including variable annuities) shown in the table according to duration bands. As only the technical payment flows are considered, inflows from investments – i.e. investment income and investments that become free – are not included in the quantifications. Taking into account the inflows from investments, whose cash flows are largely aligned with those of the liabilities through our asset-liability management, items in the future expectations are positive throughout, so that the liquidity risk of these insurance contracts is minimised accordingly.

Expected future technical cash flow (gross)[1, 2]

€m	31.12.2010	Prev. year
Up to one year	–2,342	–2,178
Over one year and up to five years	–9,061	–10,715
Over five years and up to ten years	–17,222	–20,202
Over ten years and up to 20 years	–36,543	–39,175
Over 20 years	–141,399	–127,571

[1] Premiums less benefits guaranteed at the balance sheet date and costs (excluding unit-linked products).
[2] After elimination of intra-Group transactions across segments.

With these numerical estimates, it should be borne in mind that these forward-looking data may involve considerable uncertainty.

Further information on the liquidity risk is provided in the risk report on page 124 f.

Risk minimisation measures In reinsurance, the assumption of biometric risks is controlled by means of a risk-adequate underwriting policy. Risks are restricted through appropriate treaty design, specifically by limiting the coverage in the case of non-proportional business. In particular, the underwriting of longevity risks from reinsured portfolios is strictly limited. Interest-rate and other market risks are frequently ruled out by depositing the provisions with the cedant, with a guaranteed rate of interest from the deposit. In individual cases, these risks are also hedged by means of suitable capital market instruments.

In primary insurance, there is substantial risk minimisation through product design. For the most part, prudent actuarial assumptions are used in fixing the guaranteed benefits, in addition to which policyholders are granted a performance-related participation in surplus. More than 99% (99%) of the amounts shown under (21) Provision for future policy benefits is apportionable to such contracts. Given the relevant margins in the actuarial assumptions, it is also possible to fulfil the future guaranteed obligations without adjusting the provisions in the case of moderate changes in assumptions. Of great significance for risk-balancing in the case of adverse developments are parts of the provision for premium refunds based on national regulations, parts of the provision for deferred premium refunds resulting from other revaluations, and unrealised gains and losses on investments taken as a basis for posting the provision for deferred premium refunds. Reference is made to (23) Other technical provisions.

In health primary insurance, there is the additional possibility of adjusting premiums for most long-term contracts. If it is foreseeable that the assumptions behind the calculation are permanently inadequate to cover expenses for claims or the actual mortalities deviate significantly from the calculated ones, premiums can be raised accordingly, thus closely limiting the financial and balance sheet effects of cost increases in healthcare and permanent changes in morbidity.

For information on our risk management processes, reference is made to the risk report, pages 116–120 and page 122.

Impact on equity and the consolidated income statement In the liability adequacy test pursuant to IFRS 4, the technical provisions and deferred acquisition costs are regularly tested to ensure they are appropriate. An adjustment is made if such tests show that, as a whole, the amounts calculated using the previous assumptions for biometric actuarial rates, for discounting provisions and for lapses are no longer sufficient. Particularly in primary insurance, the possibilities of adjusting participation in surplus are taken into account.

If an adjustment is required, we recognise any deficit as an expense in the consolidated income statement.

Quantitative impacts of changes in assumptions on long-term insurance business Munich Re measures the sensitivity of its long-term life and health insurance business using an economic valuation on the basis of the Market Consistent Embedded Value Principles and Guidance of the CFO Forum; cf. page 55 f. This covers 100% (100%) of the long-term business in reinsurance and more than 94% (94%) of the long-term business in primary insurance.

The sensitivities given below measure the impact of changes in the calculation bases and capital market parameters on the calculated economic value of our business. They take account of our risk minimisation measures and tax effects.

Munich Re continues to adhere to the strict rules of market-consistent evaluation as at the end of the year. The low interest-rate level and high volatility at the reporting date of 31 December 2010 result in distortions in life primary insurance in particular, owing to the long-term interest-rate guarantees.

Embedded value sensitivities

	Reinsurance		Primary insurance	
€m	2010	Prev. year	2010	Prev. year
Embedded value at the balance sheet date	**8,284**	**6,773**	**4,108**	**5,126**
Change in the event of a sustained increase in interest rates of 100 BP	–294	–267	1,099	585
Change in the event of a sustained decrease in interest rates of 100 BP	260	265	–1,632	–1,173
Change in the event of a 10% decrease in the value of equities and real estate	–	–3	–143	–94
Change in the event of an increase in mortality by 5% in the case of contracts mainly covering the mortality risk	–1,479	–1,137	–29	–23
Change in the event of a decrease in mortality by 5% in the case of contracts mainly covering the longevity risk	–34	–10	–58	–45
Change in the event of an increase in morbidity by 5%	–281	–183	–28	–25
Change in the event of an increase in the lapse rate by 10%	–10	25	14	–27

38 // Risks from property-casualty insurance business

The risks presented in this section concern business from the primary insurance and reinsurance property-casualty segments.

Of particular importance for these insurance contracts is the estimation risk with regard to the amount of the expected claims expenditure for future claims from current insurance contracts (premium risk) and for claims already incurred (reserve risk). In estimating claims expenditure, we also take cost increases into account. There is an interest-rate risk for parts of the portfolio. Besides this, the liquidity risk has to be taken into account.

The basis for measuring the risk assumed is an estimate of the claims frequency to be expected for a contract or a portfolio of contracts. In addition, an estimation of the claims amount is necessary, from which a mathematical distribution of the expected losses is derived. The result of these two steps is an estimation of the expected overall claims in a portfolio. A third element comprises the expected cash flows to settle claims incurred, a process which frequently extends over several years.

As the proportion of business ceded is very small, the following analysis of underwriting risks largely adopts a gross approach.

Premium risks The degree of exposure to estimation risks differs according to class of business and also between primary insurance and reinsurance. On the basis of the loss ratios and combined ratios of past years, conclusions can be drawn about the historical volatilities in the different classes of business and about possible interdependencies. The differences in volatility are due both to fluctuations in claims burdens and to fluctuations in the respective market price level for the covers granted.

Premiums, loss ratios and combined ratios by class of business

	2010	2009	2008	2007	2006
Gross premiums written in €m					
Reinsurance					
Liability	2,112	2,162	2,118	2,227	2,394
Accident	278	353	503	547	713
Motor	2,793	2,218	2,441	2,643	2,913
Marine, aviation, space	1,838	1,900	1,836	1,730	1,751
Fire	4,350	4,339	3,998	3,932	3,763
Engineering	1,658	1,536	1,457	1,286	1,239
Credit and bonding	744	632	825	710	688
Other classes of business	1,928	1,847	1,561	1,149	1,090
Primary insurance	5,498	5,131	5,105	5,639	5,147
Loss ratio in %					
Reinsurance					
Liability	101.1	108.7	80.0	80.4	81.7
Accident	114.4	102.7	108.6	118.6	134.0
Motor	74.6	66.7	86.6	80.9	84.9
Marine, aviation, space	65.2	64.6	69.9	63.5	67.7
Fire	62.8	35.4	57.1	52.6	32.2
Engineering	63.2	46.6	58.5	53.9	56.4
Credit and bonding	48.1	131.1	59.4	43.3	42.4
Other classes of business	50.7	70.3	63.3	76.8	56.8
Primary insurance	63.1	60.3	58.4	58.6	55.8
Combined ratio in %					
Reinsurance					
Liability	133.1	139.3	114.2	111.0	110.7
Accident	144.3	144.7	148.8	160.2	167.7
Motor	102.0	92.2	111.6	104.6	109.7
Marine, aviation, space	94.1	90.8	96.1	93.3	91.5
Fire	89.8	61.0	84.6	78.0	58.8
Engineering	104.0	83.2	89.7	87.3	87.8
Credit and bonding	82.4	173.4	98.3	85.6	78.6
Other classes of business	89.8	102.3	94.3	100.4	86.7
Primary insurance	96.8	93.2	90.9	93.4	90.8

The estimation of technological, social and demographic parameters plays an important part in assessing and pricing risks assumed in all classes of business. Beyond this, in liability insurance, workers' compensation insurance, credit insurance and sections of motor insurance, the development of economic and legal parameters can be significant, whereas especially in the lines of business fire and marine, and also in sections of engineering business and primary insurance, there is a high degree of sensitivity regarding the underlying assumptions about natural catastrophes. In the latter area, we include expected trends in our considerations when assessing the risks, with special importance given to a precise analysis of climate-related changes in the risk profile. The following table shows Munich Re's combined ratios including and excluding natural catastrophes:

Combined ratio for the last ten years

%	2010	2009	2008	2007	2006	2005	2004	2003	2002[1]	2001[2]
Including natural catastrophes	100.5	95.3	99.4	96.4	92.6	111.7	98.9	96.5	123.7	136.9
Excluding natural catastrophes	89.5	93.9	93.2	91.7	91.6	92.5	93.9	94.8	120.3	135.4

[1] Thereof World Trade Center and reserve strengthening at Munich Re America: 17.1%.
[2] Thereof World Trade Center and reserve strengthening at Munich Re America: 24.3%.

Large and very large losses are of particular relevance for property-casualty business in reinsurance. The analysis below shows that the volatility of the individual years in this loss category is mainly attributable to the respective intensity of natural catastrophe losses, whilst the other accumulation risks exhibit a distinctly less volatile pattern.

Large and very large losses in reinsurance according to individual calendar years (net)

€m	2010	2009	2008	2007	2006
Large and very large losses	2,228	1,158	1,509	1,103	585
Thereof losses from natural catastrophes	1,564	196	832	634	139
Thereof other accumulation losses[1]	664	962	677	469	446

[1] Special impact for 2009: In credit and surety business, defaults triggered by the financial crisis led to a claims burden of €510m.

Further information on risks from large and accumulation losses can be found in the risk report on page 128 f.

Reserve risks The provision for outstanding claims is subject to the risk that actual claims settlement may be less than or exceed the amount reserved (reserve risk). Particular attention is given to those situations where the funds dedicated to future claim payments may be inadequate.

The measurement of the provision for outstanding claims is based on an analysis of the historical loss development data for the different classes of business. We use a range of well-established actuarial methods for this purpose, which embed various pricing, coverage and benefit/inflation levels. In so doing, we draw on the specialist knowledge present in our claims and underwriting departments and take all foreseeable future trends into account. As part of our regular results monitoring process, we keep a close eye on trends to ensure that the assumptions underlying the measurement of the provisions always reflect the latest developments. Consequently, in the course of reserve run-off, it may be necessary to revise the original estimates of the claims expenditure required and to adjust the provisions accordingly.

The development of our claims reserves and the corresponding run-off results are shown under (22) Provision for outstanding claims.

A particular sensitivity exists in the case of contracts with long run-off periods. This characteristic applies especially to casualty insurance, where liabilities may manifest themselves with a considerable time lag. In addition, changes in court verdicts, class actions, inflation in medical care costs and modifications in general life expectancy can influence the valuation of reserves. The following section discusses the areas in the current reserve portfolio where, within the framework of an appropriate reserve estimate, the uncertainty is the greatest.

Asbestos insurance liabilities currently emanating predominantly from the US and some European countries are an area of concern for the entire insurance and reinsurance industry. Since the mid-1980s industrial insurers writing business worldwide have found themselves being confronted with losses from policies taken out decades before. This also applies to Munich Re. In our case, the policies mainly cover claims which manifest themselves after a latency period of as long as 30 to 50 years. In response, we have posted provisions for claims under long-cancelled general liability policies which provided coverage according to the then-applicable legal environment.

Time lags in claims settlement may assume significant dimensions, especially in reinsurance. Loss notification often involves a long "chain": exposure to the loss, manifestation of an injury, possible filing of a lawsuit against a defendant and adjudication of the suit, reporting and payment of an insurance recovery and then, finally, notification to the reinsurer. Therefore, besides monitoring these developments on a claim-by-claim level, we also monitor the development from an industry perspective, as this may be considered an important early indicator.

Provisions for asbestos and environmental claims

	31.12.2010		Prev. year	
€m[1]	Gross	Net	Gross	Net
Asbestos	1,935	1,549	1,762	1,422
Environmental	460	368	354	302

1 The previous year's figures have been adjusted to eliminate currency translation effects.

In addition, there are loss scenarios which are highly influenced by the continuously evolving practice of jurisprudence under tort law, but also by a growing number of class actions. The main lines of business affected are product liability and professional liability in the USA. Besides this, we see increased uncertainties in the assessment of the liability scenarios for pure financial losses as a result of the massive changes in economic parameters. The subprime loan crisis and the ensuing global financial crisis have led to a wave of lawsuits from aggrieved investors and shareholders, particularly against the managements of financial institutions. We continue to carefully monitor trends and respond to the emergence of new information as appropriate.

In the area of bodily injury losses, Munich Re carries a significant amount of reserves for individual claims where the claimant is severely injured and is in need of a high degree of individual, specialised medical treatment and care. US workers' compensation business and motor liability business in some European countries are particularly affected by such claims. In both cases, coverage is provided for permanent disability cases where the claimant is expected to live for a considerable length of time and requires significant medical attention. Accordingly, the loss provisions are highly sensitive especially to inflation of medical care costs and to the trend with regard to general life expectancy. Owing to unexpectedly high price inflation, we have repeatedly had to increase these provisions in the past. Actual claims reported are compared with projected amounts to check whether the loss development patterns used are still appropriate for projecting future claims payments.

Risk minimisation measures With our underwriting policy geared to systematic diversification, i.e. the greatest possible mix and spread of individual risks, we substantially reduce the volatility for our insurance portfolio as a whole.

Another important measure for controlling underwriting risks is the cession of a portion of our risks to other carriers via external reinsurance and retrocession; cf. (12) Ceded share of technical provisions and (29) Premiums. All our companies have intra-Group and external reinsurance and retrocession cover. Particularly important in this context is an accumulation excess-of-loss cover, which provides protection against property damage losses from natural catastrophes. The dimensions of this cover are based on analyses of our accumulation budgets in those parts of the world exposed to natural catastrophes. The protection afforded by retrocession comes into play if we are hit by an extremely large loss.

We further diversify our risk management instruments by issuing catastrophe bonds.

For information on our risk management processes, reference is made to the risk report; cf. pages 116–122.

Interest-rate risks Economically, an interest-rate risk derives in principle from the need to earn a return on the investments covering the provision that is commensurate with the discount rate used in measuring the provision. In balance sheet terms, the interest-rate risk affects only those parts of the technical provisions that are discounted and for which an inflow of investment income from deposits retained is not secured from the cedant in at least the same amount.

Discounted technical provisions according to discount rates (gross)

		Reinsurance		Primary insurance		Total
€m[1]	31.12.2010	Prev. year	31.12.2010	Prev. year	31.12.2010	Prev. year
Discount rate ≤ 2.5%	15	7	169	126	184	133
2.5% < discount rate ≤ 3.5%	223	138	511	479	734	617
3.5% < discount rate ≤ 4.5%	1,863	1,740	68	74	1,931	1,814
Discount rate > 4.5%	–	–	–	–	–	–
Total	**2,101**	**1,885**	**748**	**679**	**2,849**	**2,564**

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

The major part of the discounted provisions in reinsurance are for US workers' compensation business, for which the discount rates are governed by supervisory law and are determined prospectively per accident year. We currently do not expect any changes in the US regulatory authorities' approval procedure. A sustained reduction in market interest rates is taken into account through conservative discount rate assumptions for future provisions for outstanding claims. If the discount rate were subsequently lowered by 100 BP, this would necessitate additional reserving of €222m (227m), which would have to be recognised as an expense in the income statement.

The discounting of the provisions in primary insurance is also largely governed by supervisory law. An interest-rate risk arises for us here primarily for annuity insurance claims. However, as only around 14.1% (13.6%) of the actuarial and claims reserves to be considered in this connection in our property-casualty primary insurance are discounted, this risk can be assessed as small. If the investment income failed to cover the expenses arising from the discounting, this would result in losses not included in the calculations. In such a case, a reserve adjustment might be necessary. Conversely, if the investment income were higher, this would result in unforeseen gains.

Liquidity risks Such risks could result for Munich Re if the cash outflow for insurance claims payments and the costs related to the business were to exceed the cash inflow from premiums and investments. In property-casualty insurance, a distinction must be made between payments for claims for which reserves were posted in previous years and immediate payments, i.e. payments for claims incurred in the current financial year. If claims reserves are posted, the liquidity risk can be minimised through our asset-liability management, in which investments are geared to the character of the liabilities. The proportion of immediate claims payments constitutes only a fraction of the total payments to be made and is temporally stable according to our experience. Consequently, the liquidity risks in respect of these payments can also be minimised by means of asset-liability management.

The following table shows that in the past calendar years the liquidity situation has always been positive. Not explicitly considered in the quantification – but important – is the fact that owing to our far-reaching asset-liability management for payments of claims incurred in prior years, even extremely large losses (from natural-catastrophe and non-natural-catastrophe scenarios) are covered by our liquidity position. In addition, we regularly simulate the impact of major shock scenarios on our liquidity situation and take appropriate account of this in the structure of our investment portfolio. The losses simulated in these scenarios exceed the demands of very large claims burdens sustained in the past (e.g. World Trade Center or hurricanes like Katrina) in terms of both absolute amount and speed of settlement.

Payment flows and liquid funds in the individual calendar years (gross)

€m	2010	2009	2008	2007	2006
Premiums received	20,834	19,759	19,491	19,021	18,917
Claims payments for financial year	5,213	4,378	4,393	4,264	3,493
Claims payments for previous years	8,613	7,589	7,675	7,597	7,722
Costs	6,517	5,956	5,728	5,717	5,455
Liquid funds	491	1,836	1,695	1,443	2,247

Further information on the liquidity risk is provided in the risk report on page 124 f.

Impact of changes in underwriting assumptions on equity and the consolidated income statement As part of the monitoring of our portfolio, we check whether original assumptions need to be adjusted. By means of the IFRS 4 liability adequacy test, we review expected claims expenditure in the light of updated assumptions, taking into account our risk minimisation measures. If this test shows that an adjustment to technical provisions is required, the amount is recognised in the consolidated income statement.

39 // Credit risks from ceded reinsurance business

In connection with the business we cede, the credit risk is also of relevance. For our reinsurance and retrocessions to be placed externally, we choose only business partners that meet the requirements of our Retro Security Guideline.

The credit ratings of our retrocessionaires and reinsurers for the externally ceded share of our provisions are given on page 132 of the risk report, which also includes further information on credit risks on pages 123 f.

50% (44%) of the ceded share of provisions is directly collateralised through deposits, so the credit risk can be ignored for this portion.

Apart from this, there are credit risks from the underwriting of credit reinsurance contracts. Information on these can be found under (38) Risks from property-casualty insurance business. We do not conduct any active credit insurance business in our primary insurance.

40 // Market risks from financing instruments – Sensitivity analysis

The sensitivity analysis shows the effect of capital market events on the value of investments and the corresponding impact on the income statement. Sensitivities of investments to share prices, interest rates and exchange rates are analysed independently of one another, i.e. ceteris paribus, with the change in market value being determined under selected capital market scenarios as follows:

The analysis of equities and equity derivatives is based on a change in market value of ±10%, ± 30% of the delta-weighted exposure. For interest-rate-sensitive instruments, on the other hand, the change in market value resulting from a global change in interest rates of +200 BP, ±100 BP and –50 BP is determined using duration and convexity. Owing to the low market interest-rate level, an assumed reduction in interest rates by 200 BP would lead to interest rates becoming partially negative. By contrast, an interest-rate increase of 200 BP is not unrealistic, which results in an asymmetrical presentation of the market interest-rate risk of investments sensitive to interest rates. The reaction of interest-rate derivatives to the change in market value of the underlying investment is taken into account using the delta of the derivative. By contrast, changes in exchange rates affect both interest-rate-sensitive and share-price-sensitive instruments. The sensitivity of instruments in foreign currency is determined by multiplying the euro market value by the assumed change of ±10% in the exchange rates. Alternative investments (private equity, hedge funds and commodities) are analysed together with the equities.

The effects of the capital market events listed in the following table do not take account of tax or the provision for premium refunds (gross disclosure), i.e. the analysis does not take into account the effects resulting from policyholders' participation in surplus in insurances of the person. The impact on the results and equity shown below would be substantially reduced if these effects were considered. It is also assumed that changes in the capital markets occur instantaneously, preventing our limit systems and active counter-measures from taking effect. The analysis considers around 98% of Munich Re's investments.

Market risk – Share prices The impact of a change on the stock markets in terms of absolute amounts increased in the year under review. This is due to our active expansion of equity positions, especially in the second half of 2010. A change in the stock market by 10% has an impact of 11.2% (10.5%) on the market value of the equity portfolio.

The non-linear effects of equity options or other asymmetrical strategies are not taken into account in this presentation owing to the delta-weighted approach selected.

Change in market value of investments sensitive to share prices

Change in share prices	31.12.2010			Prev. year		
€bn	Impact on profit or loss[1]	Impact on equity[1]	Total change in market value	Impact on profit or loss[1]	Impact on equity[1]	Total change in market value
Increase of 30%	0.401	2.290	3.087	0.120	1.323	1.763
Increase of 10%	0.120	0.763	1.015	0.040	0.441	0.588
Decrease of 10%	–0.393	–0.489	–1.014	–0.150	–0.331	–0.587
Decrease of 30%	–1.560	–1.085	–3.040	–0.583	–0.856	–1.760
Market values			9.057			5.605

[1] Gross before tax and policyholder participation in surplus.

Market risk – Interest rates The change in the market price of investments sensitive to interest rates is calculated using a parallel shift of the interest-rate curve and a revaluation of the fixed-interest securities and interest-rate derivatives on the basis of their duration and convexity. Cash positions and other derivatives are not included in the calculation. The main strategic interest-rate derivatives are receiver swaps and swaptions. Bond futures are used for tactical management of the portfolio.

The impact on the income statement is small compared with the impact on equity, as most of the changes in the value of fixed-interest investments are accounted for in equity, with no effect on profit or loss. Also, nearly a third of the investments considered in this analysis are measured at amortised cost, so that changes in market value have no effect on the financial statements.

Economically speaking, the impact of the fixed-interest investments on equity is paralleled by a change in the economic value of the liabilities. Therefore our asset-liability management steers the investments in such a way that the effects of interest-rate changes on the value of the investments and on the economic value of the liabilities largely cancel each other out. This offsetting does not have an impact on the balance sheet, however, since significant portions of the liabilities are not valued on the basis of the current interest-rate curves.

Change in market value of investments sensitive to interest rates

Change in interest rates	31.12.2010			Prev. year		
€bn	Impact on profit or loss[1]	Impact on equity[1]	Total change in market value	Impact on profit or loss[1]	Impact on equity[1]	Total change in market value
Increase of 200 BP	–0.930	–11.342	–18.909	0.097	–10.426	–16.323
Increase of 100 BP	–0.596	–5.957	–10.147	–0.054	–5.442	–8.750
Decrease of 50 BP	0.396	3.193	5.593	0.104	2.893	4.816
Decrease of 100 BP	0.858	6.528	11.531	0.259	5.901	9.927
Market values			162.777			157.391

[1] Gross before tax and policyholder participation in surplus.

Market risk – Exchange rates Our asset-liability management gears the currency structure of our assets to that of our liabilities. As a substantial portion of our non-euro liabilities is in US dollars, around 60% of the investments' sensitivity to exchange rates shown above stems from the US dollar. The British pound and the Canadian dollar contribute a further 28%. In this analysis, an increase of 10% in the exchange rate means that the foreign currency appreciates by 10% against the euro.

Change in market value of investments sensitive to exchange rates

Change in exchange rates	31.12.2010			Prev. year		
€bn	Impact on profit or loss[1]	Impact on equity[1]	Total change in market value	Impact on profit or loss[1]	Impact on equity[1]	Total change in market value
Increase of 10%	4.006	0.463	4.469	3.463	0.140	3.603
Decrease of 10%	–4.006	–0.463	–4.469	–3.463	–0.140	–3.603
Market values			52.053			43.389

[1] Gross before tax and policyholder participation in surplus.

Other information

41 // Parent

The Group parent is Münchener Rückversicherungs-Gesellschaft Aktiengesellschaft in München (Munich Reinsurance Company Joint-Stock Company in Munich), Königinstrasse 107, 80802 München. Its registered seat is Munich, Germany.

In addition to its function as a reinsurer, the parent also fulfils the function of holding company for the Group.

42 // Related parties

Information on the remuneration of Board members and transactions with these persons can be found in the remuneration report, starting on page 28 and under (46) Remuneration report. Transactions between Munich Reinsurance Company and subsidiaries that are to be deemed related parties have been eliminated in consolidation and are not disclosed in the notes. Business relations with unconsolidated subsidiaries are of subordinate importance as a whole; this also applies to business relations with associates.

Munich Reinsurance Company has established a contractual trust agreement in the form of a two-way trust for its unfunded company pension obligations. The Munich Re pension scheme is considered a related party in accordance with IAS 24. Contributions to the pension scheme are recognised as expenses for defined contribution plans; cf. (25) Other accrued liabilities.

43 // Personnel expenses

The following personnel expenses are included in the operating expenses, in the expenses for claims and benefits (for claims adjustment) and in the investment result:

Breakdown of personnel expenses

€m	2010	Prev. year
Wages and salaries	2,534	2,280
Social security contributions and employee assistance	472	402
Expenses for employees' pensions	208	199
Total	**3,214**	**2,881**

44 // Long-Term Incentive Plan

Every year since 1 July 1999, Munich Reinsurance Company has set up long-term incentive plans, each with a term of seven years. From 1999 to 2009, the members of the Board of Management and senior management in Munich, and the top executives in Munich Re's international organisation were participants in the scheme. Since 2010, these share-price-related remuneration plans are only provided for senior management members and selected top executives in the international organisation.

Participants receive a certain number of stock appreciation rights.

The relevant initial share price for the stock appreciation rights is calculated from the average of closing prices for Munich Re shares in Frankfurt Xetra trading over the last three months prior to plan commencement. The initial price for the 2010 long-term incentive plan is €109.11 (97.57). As a result of Munich Reinsurance Company's capital increase in the financial year 2003, the initial share price for the stock appreciation rights issued up to then and the number of stock appreciation rights already granted were adjusted in accordance with the conditions. In the year under review, a total of 675,029 (459,734) stock appreciation rights were granted, – (151,667) of these to members of the Board of Management. The future obligations arising from the long-term incentive plans are covered by Munich Reinsurance Company shares.

The personnel expenses and income incurred for the stock appreciation rights are determined on the basis of the change in the fair value of the underlying options. The fair value recognises not only the intrinsic value (difference between current share price and initial share price of the stock appreciation rights) but also the possibility of growth in value up to the date of forfeiture or expiry of the rights and is determined on the basis of recognised valuation models, taking into account the exercise conditions. At each balance sheet date, the fair value is calculated and reserved; this amount is recognised in full. In the year under review, provisions of €36.7m (29.5m) had to be posted for Munich Reinsurance Company. The personnel expense/income recognised in the income statement corresponds to the change in the provision in the year under review, taking into consideration any rights exercised. In 2010, this resulted in expenses of €15.1m (–33.3m). The weighted average share price for the stock appreciation rights exercised in 2010 was €111.26 for plan year 2003, €117.66 for plan year 2004, and €116.69 for plan year 2005. The intrinsic value of the exercisable stock appreciation rights amounted to €10.9m at the balance sheet date.

Munich Reinsurance Company's Long-Term Incentive Plans 2003–2010

	Incentive Plan 2003	Incentive Plan 2004	Incentive Plan 2005	Incentive Plan 2006	Incentive Plan 2007	Incentive Plan 2008	Incentive Plan 2009	Incentive Plan 2010
Plan commencement	1.7.2003	1.7.2004	1.7.2005	1.7.2006	1.7.2007	1.7.2008	1.7.2009	1.7.2010
Plan end	30.6.2010	30.6.2011	30.6.2012	30.6.2013	30.6.2014	30.6.2015	30.6.2016	30.6.2017
Old initial share price	€86.24	–	–	–	–	–	–	–
New initial share price after 2003 capital increase	€82.02	€88.65	€88.10	€108.87	€134.07	€121.84	€97.57	€109.11
Intrinsic value 2010 for one right	€31.28	€24.65	€25.20	€4.43	–	–	€15.73	€4.19
Fair value 2010 for one right	–	€24.75	€25.30	€10.25	€5.65	€9.15	€17.10	€14.22
Number of rights on 31 Dec. 2003	439,581	–	–	–	–	–	–	–
Additions	–	456,336	–	–	–	–	–	–
Forfeited	2,354	–	–	–	–	–	–	–
Number of rights on 31 Dec. 2004	437,227	456,336	–	–	–	–	–	–
Additions	320	1,697	485,527	–	–	–	–	–
Exercised	177,748	–	–	–	–	–	–	–
Forfeited	121	2,005	–	–	–	–	–	–
Number of rights on 31 Dec. 2005	259,678	456,028	485,527	–	–	–	–	–
Additions	–	–	–	443,609	–	–	–	–
Exercised	63,942	119,363	–	–	–	–	–	–
Forfeited	–	–	–	1,019	–	–	–	–
Number of rights on 31 Dec. 2006	195,736	336,665	485,527	442,590	–	–	–	–
Additions	–	–	–	6,123	341,737	–	–	–
Exercised	70,690	85,652	84,329	–	–	–	–	–
Forfeited	–	–	3,892	8,514	503	–	–	–
Number of rights on 31 Dec. 2007	125,046	251,013	397,306	440,199	341,234	–	–	–
Additions	–	–	–	–	4,013	444,104	–	–
Exercised	40,045	31,582	31,716	–	–	–	–	–
Forfeited	–	1,069	–	5,388	5,848	3,063	–	–
Number of rights on 31 Dec. 2008	85,001	218,362	365,590	434,811	339,399	441,041	–	–
Additions	–	–	–	–	–	463	459,271	–
Exercised	24,085	8,906	19,213	–	–	–	–	–
Forfeited	–	–	715	2,904	2,804	4,194	–	–
Number of rights on 31 Dec. 2009	60,916	209,456	345,662	431,907	336,595	437,310	459,271	–
Additions	–	–	–	–	–	–	–	675,029
Exercised	60,916	120,331	72,662	–	–	–	–	–
Forfeited	–	1,833	1,936	1,653	1,379	1,462	1,287	–
Number of rights on 31 Dec. 2010	**–**	**87,292**	**271,064**	**430,254**	**335,216**	**435,848**	**457,984**	**675,029**
Exercisable at year-end	**–**	**87,292**	**271,064**	**430,254**	**335,216**	**435,848**	**–**	**–**

From 2002 to 2009, ERGO Versicherungsgruppe AG and some of its subsidiaries, as well as the MEAG companies, also set up long-term incentive plans at yearly intervals and with terms of seven years each. The persons eligible for participation – Board of Management members, managing directors and, in individual cases, also top executives – were granted a defined number of stock appreciation rights in respect of Munich Re shares. Since 2010, these share-price-related remuneration plans are only provided for senior management at the MEAG companies and for the managing directors of MEAG MUNICH ERGO Kapitalanlagegesellschaft mbH. The design of the plans is identical to that of Munich Re's long-term incentive plans and they are accounted for in the same way. In the year under review, a total of 39,046 (148,834) stock appreciation rights were granted, of which – (112,764) were to members of the Board of Management. The future obligations arising from the long-term incentive plans are covered by Munich Re shares or options on Munich Re shares. In the year under review, provisions of €8.9m (9.4m) had to be posted for the ERGO and MEAG companies. The personnel expense/income recognised in the income statement corresponds to the change in the provision in the year under review, taking into consideration any rights exercised. In 2010, this resulted in expenses of €0.8m (–7.6m). The weighted average share price for the stock appreciation rights exercised in 2010 was €111.13 for plan year 2003, €116.93 for plan year 2004, and €118.09 for plan year 2005. The intrinsic value of the exercisable stock appreciation rights amounted to €2.7m at the balance sheet date.

Long-Term incentive Plans 2003–2010 of ERGO and MEAG

	Incentive Plan 2003	Incentive Plan 2004	Incentive Plan 2005	Incentive Plan 2006	Incentive Plan 2007	Incentive Plan 2008	Incentive Plan 2009	Incentive Plan 2010
Plan commencement	1.7.2003	1.7.2004	1.7.2005	1.7.2006	1.7.2007	1.7.2008	1.7.2009	1.7.2010
Plan end	30.6.2010	30.6.2011	30.6.2012	30.6.2013	30.6.2014	30.6.2015	30.6.2016	30.6.2017
Old initial share price	€86.24	–	–	–	–	–	–	–
New initial share price after 2003 capital increase	€82.02	€88.65	€88.10	€108.87	€134.07	€121.84	€97.57	€109.11
Intrinsic value 2010 for one right	€31.28	€24.65	€25.20	€4.43	–	–	€15.73	€4.19
Fair value 2010 for one right	–	€24.75	€25.30	€10.25	€5.65	€9.15	€17.10	€14.22
Number of rights on 31 Dec. 2003	168,681	–	–	–	–	–	–	–
Additions	1,650	154,189	–	–	–	–	–	–
Forfeited	13,414	–	–	–	–	–	–	–
Number of rights on 31 Dec. 2004	156,917	154,189	–	–	–	–	–	–
Additions	87	–	211,941	–	–	–	–	–
Exercised	90,398	–	–	–	–	–	–	–
Forfeited	7,498	32,130	24,411	–	–	–	–	–
Number of rights on 31 Dec. 2005	59,108	122,059	187,530	–	–	–	–	–
Additions	–	–	–	173,682	–	–	–	–
Exercised	31,027	31,390	–	–	–	–	–	–
Forfeited	–	–	3,072	–	–	–	–	–
Number of rights on 31 Dec. 2006	28,081	90,669	184,458	173,682	–	–	–	–
Additions	–	–	–	–	121,821	–	–	–
Exercised	4,258	30,372	34,879	–	–	–	–	–
Forfeited	–	–	–	7,483	10,422	–	–	–
Number of rights on 31 Dec. 2007	23,823	60,297	149,579	166,199	111,399	–	–	–
Additions	–	–	–	–	–	173,153	–	–
Exercised	6,812	10,304	24,219	–	–	–	–	–
Forfeited	–	–	–	3,966	1,597	601	–	–
Number of rights on 31 Dec. 2008	17,011	49,993	125,360	162,233	109,802	172,552	–	–
Additions	–	–	–	–	–	–	148,834	–
Exercised	2,200	2,859	14,851	–	–	–	–	–
Forfeited	–	–	–	2,046	1,578	1,803	–	–
Number of rights on 31 Dec. 2009	14,811	47,134	110,509	160,187	108,224	170,749	148,834	–
Additions	–	–	–	–	–	–	–	39,046
Exercised	14,811	32,555	45,130	–	–	–	–	–
Forfeited	–	–	–	241	1,856	2,506	–	–
Number of rights on 31 Dec. 2010	**–**	**14,579**	**65,379**	**159,946**	**106,368**	**168,243**	**148,834**	**39,046**
Exercisable at year-end	**–**	**14,579**	**65,379**	**159,946**	**106,368**	**168,243**	**–**	**–**

Each stock appreciation right entitles the holder to draw in cash the difference between the Munich Re share price at the time when the right is exercised and the initial share price. The stock appreciation rights may only be exercised after a two-year vesting period and then only if the share price is at least 20% higher than the initial price. In addition, Munich Re shares must have outperformed the the EURO STOXX 50 twice at the end of a three-month period during the term of the plan. The gross amount that may be obtained from the exercising of the stock appreciation rights is limited to an increase of 150% of the initial share price.

When the stock appreciation rights are exercised, the cash payment is made (in the respective national currency) by the company that granted the rights. Stock appreciation rights not exercised on the last trading day of the plan term are exercised on the participant's behalf insofar as the prerequisites for this are met. If the prerequisites are not met, the stock appreciation rights are forfeited. If another company acquires control of Munich Reinsurance Company or if the latter's group of shareholders changes significantly due to a merger or comparable transaction or intended business combination ("change of control"), all plan participants from Munich Re may exercise their stock appreciation rights within 60 days after the change of control becomes effective, even if the prerequisites for exercising the rights are not yet met at that juncture.

45 // Mid-Term Incentive Plan

Since 1 January 2009, Munich Reinsurance Company has set up mid-term incentive plans, each with a term of three years. Entitled to participate in these cash-settled share-price-related remuneration plans are members of senior management in Munich, and – for 2009 only – the members of the Board of Management. ERGO Versicherungsgruppe AG and some of its subsidiaries, as well as MEAG MUNICH ERGO AssetManagement GmbH, established a similar plan for their Board members and company management for 2009 only. The participants receive performance share units (PSUs). In the fourth year after plan commencement, participants are entitled to a bonus payment dependent on the achievement of value-based performance targets and the increase in the total shareholder return (TSR).

The plan conditions are structured as follows:

The calculation factors are, on the one hand, value-based performance targets and, on the other, the total shareholder return of Munich Reinsurance Company shares.

The value-based performance targets are set in the form of an average target to be achieved over the years of the plan and are allocated according to responsibilities.

The share-based factor TSR represents the total return on Munich Re shares and comprises share price performance plus dividends paid over a certain observation period. The initial TSR value and the final TSR value are determined from the average of the last 60 days prior to plan commencement and plan termination respectively.

At plan commencement, the PSUs are granted as follows: the contractual target amount for 100% achievement of the performance targets is divided by the initial TSR value. The total return index of the Xetra listing of Munich Re shares, starting on 22 January 1996, is used for the TSR.

The final number of PSUs is calculated by multiplying the PSUs at plan commencement by the percentage achievement of the performance target at plan termination. The number of PSUs may fluctuate between 0 and 1.5 times the initially allocated number.

Payment is capped if the TSR doubles. The maximum amount payable is limited to 150% of the target amount for members of the Board of Management and company management, and to 300% of the target amount for senior management.

The basis for full and partial allocation of PSUs is the year of commencement (= first plan year). A pro rata temporis arrangement applies for participants joining or leaving the plan during the year.

The Mid-Term Incentive Plan at the reporting date is valued indirectly at the fair value of the liabilities. The fair value takes account of the value-based performance target and the total shareholder return (TSR) during the performance period. To this end, the

TSR index value observed in the market is updated with the current dividend yield of Munich Re shares at the termination date and discounted with appropriate market interest rates.

Munich Re's Mid-Term Incentive Plans 2009 and 2010

	Incentive Plan 2009	Incentive Plan 2010
Plan commencement	1.1.2009	1.1.2010
Plan end	31.12.2011	31.12.2012
Fair value 2010 for one right	€206.61	€214.56
Number of rights (for 100% achievement of objectives) on 1 January 2009	87,347	–
Additions	–	–
Forfeited	–	–
Number of rights (for 100% achievement of objectives) on 31 December 2009	87,347	–
Number of rights (for 100% achievement of objectives) on 1 January 2010	87,347	38,284
Additions	–	–
Forfeited	245	–
Number of rights (for 100% achievement of objectives) on 31 December 2010	87,102	38,284

In the financial year 2010, expenses of €11.3m were recognised for the Mid-Term Incentive Plan. The provision at the reporting date amounted to €27.0m (15.7m).

46 // Remuneration report

The members of Munich Reinsurance Company's Board of Management received remuneration totalling €11.7m (17.8m). The total remuneration of Munich Reinsurance Company's Supervisory Board amounted to €1.6m (1.3m); not included in this figure is €0.2m (0.2m) for membership of supervisory boards at other Group companies, so that the overall amount came to €1.8m (1.5m).

Payments to retired members of the Board of Management or their surviving dependants totalled €5.6m (5.7m).

Personnel expenses were not incurred for retired members of the Board of Management. After deduction of plan assets held by a separate entity (under a contractual trust agreement), there were no pension provisions or provisions for comparable benefits for retired members of the Board of Management or their surviving dependants.

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

The members of the Supervisory Board and Board of Management did not receive any cash advances or loans in the year under review. Neither were there any notifiable transactions between Board members and Munich Re. Nor, apart from the above-mentioned remuneration for membership of supervisory boards at other Group companies, no payments were made or advantages extended to members of the Supervisory Board for services provided personally within the meaning of item 5.4.6 para. 3 of the German Corporate Governance Code.

All other disclosures on the remuneration of Board members, on share trading and shares held by the members of the Board of Management and the Supervisory Board, and on the structure of the Board of Management's remuneration system can be found in the remuneration report on page 28 ff.

47 // Employee share-ownership programmes

No employee share-ownership programmes were launched in 2010. The shares left over from previous-year programmes were sold.

48 // Number of staff

The number of staff employed by the Group at year-end totalled 24,537 (24,951) in Germany and 22,378 (22,298) in other countries.

Breakdown of number of staff

	31.12.2010	Prev. year
Reinsurance	11,370	11,309
Primary insurance	30,887	31,145
Munich Health	3,899	4,007
Asset management	759	788
Total	**46,915**	**47,249**

49 // Auditor's fees

For services rendered to the parent and consolidated subsidiaries by the Group auditor (KPMG Bayerische Treuhandgesellschaft AG Wirtschaftsprüfungsgesellschaft, Munich, and its affiliated companies within the meaning of Section 271 para. 2 of the German Commercial Code), the following fees have been recognised as an expense in the financial year:

Breakdown of auditor's fees

€k	2010	Prev. year
Audits of financial statements	8,601	8,243
Other assurance and appraisal services	3,131	2,519
Tax consultancy services	1,427	1,665
Other services	1,295	1,045
Total	**14,454**	**13,472**

With effect from 1 February 2010, KPMG GUS (KPMG Russia, Georgia, Ukraine, Armenia, Kazakhstan, Kyrgyzstan) became part of KPMG Europe LLP. These companies, along with KPMG Spain, KPMG Switzerland, KPMG LLP (UK), KPMG Belgium, KPMG Netherlands, KPMG Luxembourg and KPMG Turkey, are thus affiliated companies of KPMG Germany within the meaning of Section 271 para. 2 of the German Commercial Code. Consequently, these units have been included in the auditor's fees to be disclosed.

50 // Contingent liabilities, other financial commitments

Munich Re enters into contingent liabilities in connection with its normal business operations. In this context, the obligations from guarantees total €106m (129m) and those from letters of support €8m (8m).

Besides this, Munich Re has entered into various other financial obligations amounting to €218m (103m) for work and service contracts and €1,001m (1,174m) for investment obligations. These figures represent undiscounted nominal amounts. There are other financial commitments amounting to €17m (19m).

In accordance with the German Insurance Control Act (VAG), all German life and health insurers of our Group are obliged to be members of a protection fund. For life insurers, the protection fund can levy special contributions of up to one per mille of total net technical provisions, in addition to a regular contribution of 0.2 per mille of total net technical provisions. For the health insurers, there is no pre-financing, but the fund may levy special contributions of up to two per mille of net technical provisions to fulfil its functions. This could give rise to a potential payment obligation of €113m (147m) at Group level. The functions and powers of the statutory protection fund for life insurance rest with Protektor Lebensversicherungs-AG, and those of the statutory protection fund for health insurance with Medicator AG.

All information on risks arising from legal disputes can be found on page 135 in the risk report.

There are no other financial commitments of significance for the assessment of the Group's financial position. No contingent liabilities have been entered into for the benefit of Board members.

51 // Restrictions regarding transfer of capital

Our subsidiaries Munich Re America (MRAm) und Munich American Reassurance Company (MARC) show a negative earned surplus of US$ 267m and US$ 512m respectively in their local financial statements as at 31 December 2010 (Statutory Accounting Principles). For this reason, the companies can only pay dividends or transfer capital to the parent company with the approval of the competent US regulatory authority.

Owing to Munich Re's acquisition of The Hartford Steam Boiler Inspection and Insurance Company (HSBIIC), Connecticut, on 31 March 2009, dividend payments by this subsidiary are subject to the approval of the competent US regulatory authority up to 31 March 2011.

52 // Leasing

Munich Re as lessee At the balance sheet date, future minimum lease payments under non-cancellable operating leases totalled €455m (397m).

Due dates

€m	31.12.2010	Prev. year
Not later than one year	114	84
Later than one year and not later than five years	267	236
Later than five years	74	77
Total	**455**	**397**

Payments from operating leases concern in particular rents for offices and business premises of the Group.

Payments from finance leases also concern in particular rents for offices and business premises of the Group. They include extension options as well as restrictions regarding the agreement of subleases, but no price adjustment clauses or purchase options. The following table shows the future minimum lease payments and their present value for finance leases at 31 December 2010.

Due dates

			31.12.2009			Prev. year
€m	Minimum lease payments	Interest component	Present value of minimum lease payments	Minimum lease payments	Interest component	Present value of minimum lease payments
Not later than one year	8	2	6	7	–	7
Later than one year and not later than five years	27	5	22	26	7	19
Later than five years	15	2	13	23	6	17
Total	**50**	**9**	**41**	**56**	**13**	**43**

The total of future minimum sublease payments expected to be received under non-cancellable subleases was €2m (3m) at 31 December 2010.

Munich Re as lessor Operating leases mainly involve leased property. The total of future minimum lease payments under non-cancellable leases at the balance sheet date was €911m (716m).

Due dates

€m	31.12.2010	Prev. year
Not later than one year	164	139
Later than one year and not later than five years	447	363
Later than five years	300	214
Total	**911**	**716**

There were no finance leases at the balance sheet date.

53 // Events after the balance sheet date

On 1 January 2011, through its subsidiary Munich Health North America Inc., Wilmington, Delaware, Munich Re acquired 100% of the shares in the Windsor Health Group Inc. (Windsor), Brentwood, Tennessee, for a total of US$ 131m (€98m) in cash, fully financed from our own resources.

Windsor operates government-sponsored health plans through its subsidiary Windsor Health Plan, Inc., Brentwood, Tennessee, which provides specialty managed healthcare services in the senior segment to more than 75,000 members in the US states of Alabama, Arkansas, Mississippi, South Carolina and Tennessee. The acquisition of Windsor strengthens the position of our US subsidiary Sterling Life Insurance Company, Bellingham, Washington State, in the senior segment by sharpening our competitive edge for the challenges of the US health reform.

In connection with the acquisition of Windsor, other intangible assets of €46.6m and goodwill of €45.8m will probably be recognised. The goodwill derives in particular from synergies with the rest of Munich Re's Medicare business as regards products and services offered, geographical spread and distribution channels. The goodwill includes the value assigned to Windsor's staff. We are proceeding on the assumption that the goodwill will not be tax-deductible.

Windsor's combined opening balance sheet at the time of acquisition, after elimination of its intra-group business, also includes the following provisional IFRS figures: investments of €9.0m, cash at banks, cheques and cash in hand of €29.5m, receivables of €21.8m, other assets of €13.4m, technical provisions of €29.4m, and other provisions, liabilities and deferred taxes of €38.7m. Windsor's equity at the time of acquisition amounted to €23.4m.

The acquired receivables consist mainly of amounts payable by the Center for Medicare and Medicaid Services (CMS), from which Windsor receives its premiums. At the time of acquisition, the receivables amounted to €13m. This represents the fair value, as we do not expect any defaults from CMS, given that it is a federal agency.

No contingent liabilities, contingent payments or separate transactions within the meaning of IFRS 3 were identified. As Windsor was only acquired as from 1 January 2011, no income and expenses from Windsor have yet been included in the consolidated income statement.

The aforementioned disclosures regarding first-time recognition are provisional, since among other things there may still be changes in the purchase price and tax items in the balance sheet.

With economic effect from 1 January 2011, via its subsidiary MR RENT-Investment GmbH, Munich, Munich Re acquired 100% of the voting shares in 11 wind park companies in a bidding process. The wind park portfolio comprises wind parks already operating in various regions of Germany with a total of 40 wind turbines and an output of 72.7 megawatts.

Through a purchase and share transfer contract and an agreement on the change of general partner, MR RENT-Investment GmbH, Munich, acquired from wpd windpark asset GmbH & Co. KG, Bremen, all the limited partner shares in each of the following limited partnerships:

// Windpark Mittelhausen GmbH & Co. KG, Bremen
// Windpark Sassenberg GmbH & Co. KG, Bremen
// Einzelanlage Hohenseefeld GmbH & Co. KG, Bremen
// wpd Windpark Wergzahna GmbH & Co. KG, Bremen
// Windpark Hillmersdorf GmbH & Co. KG, Bremen
// Windpark Marwitz GmbH & Co. KG, Bremen
// Windpark Großberndten 2 GmbH & Co. KG, Bremen
// Windpark Kruge GmbH & Co. KG, Bremen
// Windpark Geisleden Betriebs GmbH & Co. KG, Bremen
// Windpark Klein Bünzow GmbH & Co. KG, Bremen
// Windpark Langengrassau GmbH & Co. KG, Bremen

MR-RENT Management GmbH, Munich, also a subsidiary of Munich Re, became the new general partner in the limited partnerships. The acquisition is part of the RENT programme (Renewable Energy and New Technologies), through which Munich Re plans to invest in renewable energies and new environmental technologies.

The provisional purchase price for the wind park portfolio is €40.5m in cash and will be fully financed from our own resources. The purchase price contains various components, dependent in particular on the final determination of the technical yield statement for the wind turbines at the acquisition date and the definitive financial statements of the wind park partnerships at 31 December 2010.

The initial accounting of the acquired assets and liabilities of the wind park portfolio was not yet complete at the time the consolidated financial statements were prepared, so that it is not yet possible to make any disclosures regarding carrying amounts.

As they were only acquired as from 1 January 2011, no income and expenses from the wind park companies have yet been included in the consolidated income statement.

In China, ERGO intends to establish a joint venture with the Shandong State-owned Assets Investment Holding Company (SSAIH) to offer mainly life insurance products for private clients in the province of Shandong. SSAIH and we will each hold half the shares in the planned joint venture. Under the articles of association, we will pay RMB 300m (€34m) for our portion of the company's share capital. The company, whose start-up will begin as soon as the supervisory authority has given its approval, is to be called ERGO China Life Insurance Co. Ltd.

The floods triggered by heavy rains in Australia continued into the new year. On top of this, in February 2011, Australia was hit by Cyclone Yasi. For 2011, we currently expect a claims burden from these events in the low to mid three-digit million euro range after retrocession. In addition, a severe earthquake of magnitude 6.3 occurred on 22 February 2011 near the city of Christchurch in New Zealand, with resulting exposure for Munich Re.

Under the share buy-back programme decided on by Munich Reinsurance Company's Board of Management on 7 May 2010, we repurchased a further 1.7 million Munich Re shares with a volume of €195m after the balance sheet date up to 25 February 2011.

54 // Earnings per share

Diluting effects to be disclosed for the calculation of earnings per share were not present either in the financial year or in the previous year. Earnings per share can be potentially diluted in future through the issue of shares or subscription rights from amounts authorised for increasing the share capital and from contingent capital.

Earnings per share

		2010	Prev. year
Consolidated result attributable to Munich Reinsurance Company equity holders	€m	2,422	2,521
Weighted average number of outstanding shares		185,422,866	194,692,459
Earnings per share	€	13.06	12.95

The number of outstanding shares has decreased owing to the repurchase of 11,531,594 (3,745,174) shares in the course of the financial year 2010.

55 // Proposal for appropriation of profit

Munich Reinsurance Company's net retained profits for 2010 according to its financial statements prepared on the basis of the German Commercial Code amount to €1,177,927,943.75. The Board of Management will propose to shareholders at the Annual General Meeting that these net retained profits be used for payment of a dividend of €6.25 per dividend-bearing share, with the amount apportionable to own shares held or already retired at the time of the Annual General Meeting being carried forward to new account.

List of shareholdings as at 31 December 2010 in accordance with Section 313 para. 2 of the German Commercial Code

The following disclosures relate to companies in which our directly and indirectly held shareholdings (as defined in Section 16 paras. 2 and 4 of the German Stock Companies Act) add up to 20% or more of the share capital, and large companies (as defined in Section 267 para. 3 of the German Commercial Code) in which our directly and indirectly held shareholdings add up to more than 5% of the voting rights.

Company and registered seat	% share of capital
Consolidated subsidiaries	
40, Rue Courcelles SAS, Paris	100.0000
80e LIMITED, Bristol	100.0000
AEVG 2004 GmbH, Frankfurt[4]	0.0000
Agora Insurance Network Solutions, Inc., Chicago, Illinois	100.0000
aktiva Vermittlung von Versicherungen und Finanz-Dienstleistungen GmbH, Cologne	100.0000
ALICE Software Service GmbH, Erkrath	100.0000
Allfinanz Limited, Dublin	100.0000
almeda GmbH, Munich	100.0000
almeda Versicherungs-Aktiengesellschaft, Munich	100.0000
American Alternative Insurance Corporation, Wilmington, Delaware	100.0000
American Family Home Insurance Company, Jacksonville, Florida	100.0000
American Modern Home Insurance Company, Amelia, Ohio	100.0000
American Modern Home Service Company, Amelia, Ohio	100.0000
American Modern Insurance Company of Florida, Inc., Jacksonville, Florida	100.0000
American Modern Insurance Group, Inc., Amelia, Ohio	100.0000
American Modern Life Insurance Company, Amelia, Ohio	100.0000
American Modern Lloyds Insurance Company, Dallas, Texas	100.0000
American Modern Select Insurance Company, Amelia, Ohio	100.0000
American Modern Surplus Lines Insurance Company, Amelia, Ohio	100.0000
American Southern Home Insurance Company, Jacksonville, Florida	100.0000
American Western Home Insurance Company, Oklahoma City, Oklahoma	100.0000
Amicus Legal Ltd., Colchester	100.0000
Amicus Ltd., Colchester	100.0000
Arkansas Life Insurance Company, Phoenix, Arizona	100.0000
avanturo GmbH, Düsseldorf	100.0000
B&C International Insurance, Hamilton, Bermuda	100.0000
Bank Austria Creditanstalt Versicherung AG, Vienna	90.0000
Beaufort Dedicated No.1 Ltd, London	100.0000
Beaufort Dedicated No.2 Ltd, London	100.0000
Beaufort Dedicated No.5 Ltd., London	100.0000
Beaufort Underwriting Agency Limited, London	100.0000
Bell & Clements (Bermuda) Ltd., Hamilton, Bermuda	100.0000
Bell & Clements (London) Ltd, London	100.0000
Bell & Clements (USA) Inc, Reston, Virginia	100.0000
Bell & Clements Inc, Reston, Virginia	100.0000
Bell & Clements Ltd, London	100.0000
Bos Incasso B.V., Groningen	90.0240

Company and registered seat	% share of capital
CAPITAL PLAZA Holding GmbH & Co. Singapur KG, Düsseldorf	100.0000
Capital Square Pte. Ltd., Singapore	100.0000
Capitol Life & Accident Insurance Company, Jonesboro, Arkansas	100.0000
CJSIC "European Travel Insurance", Moscow	100.0000
Compagnie Européenne d'Assurances, Nanterre	100.0000
Compania Europea de Seguros S.A., Madrid	100.0000
D.A.S. Defensa del Automovilista y de Siniestros – Internacional, S.A. de Seguros, Barcelona	100.0000
D.A.S. Deutscher Automobil Schutz Allgemeine Rechtsschutz-Versicherungs-Aktiengesellschaft, Munich	100.0000
D.A.S. HELLAS Allgemeine Rechtsschutz-Versicherungs-AG, Athens	99.9983
D.A.S. Jogvédelmi Biztosíto Részvénytársaság, Budapest	99.9008
D.A.S. Luxemburg Allgemeine Rechtsschutz-Versicherung S.A., Strassen	99.9500
D.A.S. Oigusabikulude Kindlustuse AS, Tallinn	100.0000
D.A.S. Österreichische Allgemeine Rechtsschutz-Versicherungs-Aktiengesellschaft, Vienna	99.9800
D.A.S. poist'ovna právnej ochrany, a.s., Bratislava	100.0000
D.A.S. pojišt'ovna právní ochrany, a.s., Prague	100.0000
D.A.S. Société anonyme belge d'assurances de Protection Juridique, Brussels	99.9800
D.A.S. Towarzystwo Ubezpieczen Ochrony Prawnej S.A., Warsaw	99.9000
DAS Assistance Limited, Bristol	100.0000
DAS Holding N.V., Amsterdam	51.0000
DAS Law Limited, Bristol	100.0000
DAS Legal Expenses Insurance Co., Ltd., Seoul	100.0000
DAS Legal Expenses Insurance Company Limited, Bristol	100.0000
DAS Legal Finance B.V., Amsterdam	100.0000
DAS Legal Protection Insurance Company Ltd., Toronto	100.0000
DAS Legal Protection Ireland Limited, Dublin	100.0000
DAS Legal Protection Limited, Christchurch, New Zealand	100.0000
DAS Legal Protection Limited, Vancouver	100.0000
DAS LEGAL SERVICES LIMITED, Bristol	100.0000
DAS Nederlandse Rechtsbijstand Verzekeringmaatschappij N.V., Amsterdam	100.0000
DAS Rechtsschutz-Versicherungs-AG, Lucerne	100.0000
DAS Services Limited, Bristol	100.0000
DAS Support B.V., Amsterdam	100.0000
DAS UK Holdings Limited, Bristol	100.0000
DKV – Alpha Vermögensverwaltungs GmbH, Cologne	100.0000
DKV BELGIUM S.A., Brussels	100.0000
DKV Deutsche Krankenversicherung Aktiengesellschaft, Cologne	100.0000
DKV Globality S.A., Luxembourg	100.0000
DKV Luxembourg S.A., Luxembourg	75.0000
DKV Seguros y Reaseguros, Sociedad Anónima Española, Saragossa	100.0000
EIG, Co., Wilmington, Delaware	100.0000

Company and registered seat	% share of capital
ERGO Achte Beteiligungsgesellschaft mbH, Düsseldorf	100.0000
ERGO ASIGURARI DE VIATA SA, Bucharest	100.0000
ERGO Assicurazioni S.p.A., Milan	100.0000
ERGO Austria International AG, Vienna	100.0000
ERGO Daum Direct General Insurance Co. Ltd., Seoul	75.0000
ERGO DIREKT Krankenversicherung AG, Fürth	100.0000
ERGO DIREKT Lebensversicherung AG, Fürth	100.0000
ERGO Direkt Lebensversicherung AG, Schwechat	100.0000
ERGO DIREKT Versicherung AG, Fürth	100.0000
ERGO Életbiztosító Zrt., Budapest	100.0000
ERGO Elukindlustuse AS, Tallinn	100.0000
ERGO Emeklilik ve Hayat A.S., Istanbul	99.9999
ERGO Funds AS, Tallinn	100.0000
ERGO Generales Seguros y Reaseguros, S.A., Madrid	100.0000
ERGO Grubu Holding A.S., Istanbul	100.0000
ERGO Immobilien-GmbH 14.Victoria & Co. KG, Kreien	100.0000
ERGO Immobilien-GmbH 5. Hamburg-Mannheimer & Co.KG, Kreien	100.0000
ERGO International Aktiengesellschaft, Düsseldorf	100.0000
ERGO International Services GmbH, Düsseldorf	100.0000
ERGO Invest SIA, Riga	100.0000
ERGO Italia Business Solutions S.c.r.l., Milan	100.0000
ERGO Italia Direct Network s.r.l., Milan	100.0000
ERGO Italia S.p.A., Milan	100.0000
ERGO Kindlustuse AS, Tallinn	100.0000
ERGO Latvija Lebensversicherung AG (ERGO Latvija Dziviba AAS), Riga	100.0000
ERGO Latvija Versicherung AG (ERGO Latvija Apdrosinasanas Akciju Sabiedriba), Riga	100.0000
ERGO Lebensversicherung Aktiengesellschaft, Hamburg	100.0000
ERGO Lietuva draudimo UADB, Vilnius	100.0000
ERGO Lietuva gyvybes draudimas, Vilnius	100.0000
ERGO Life N.V., Brussels	99.9999
ERGO Pensionsfonds Aktiengesellschaft, Düsseldorf	100.0000
ERGO Previdenza S.p.A., Milan	100.0000
ERGO Private Capital Gesundheit GmbH & Co. KG, Düsseldorf	100.0000
ERGO Private Capital Leben GmbH & Co. KG, Düsseldorf	100.0000
ERGO Private Equity Gesundheit GmbH, Düsseldorf	100.0000
ERGO Private Equity Komposit GmbH, Düsseldorf	100.0000
ERGO Private Equity Leben GmbH, Düsseldorf	100.0000
ERGO RUSS Versicherung AG, St. Petersburg	99.9638
ERGO Shisn, Moscow	100.0000
ERGO SIGORTA A.S., Istanbul	99.9999
ERGO Versicherung Aktiengesellschaft, Düsseldorf	100.0000
ERGO Versicherungsgruppe AG, Düsseldorf	100.0000
ERGO Vida Seguros y Reaseguros, Sociedad Anónima, Saragossa	100.0000
ERGO Zavarovalnica d. d., Ljubljana	100.0000
ERGO životná poistovna, a. s., Bratislava	100.0000
ERGO Zweite Beteiligungsgesellschaft mbH, Düsseldorf	99.9999
Europaeiske Rejseforsikring A/S, Copenhagen	100.0000

Company and registered seat	% share of capital
EUROPÄISCHE Reiseversicherung Aktiengesellschaft, Munich	100.0000
European International Holding A/S, Copenhagen	100.0000
Europeiska Försäkringsaktiebolaget, Stockholm	100.0000
Evropska Cestovni Pojistovna A.S., Prague	90.0000
Excess Reinsurance, Inc, Providenciales	100.0000
FAIRANCE GmbH, Düsseldorf	100.0000
First Legal Protection Limited, St. Albans	100.0000
First Marine Insurance Company, Amelia, Ohio	100.0000
Flexitel Telefonservice GmbH, Berlin	100.0000
Geschlossene Aktiengesellschaft Europäische Reiseversicherung, Kiev	95.2708
GF 65, Vienna[4]	100.0000
Global Standards LLC, Wilmington, Delaware	100.0000
Great Lakes Reinsurance (UK) Plc., London	100.0000
Great Lakes Services Ltd., London	100.0000
Group Risk Services Limited, London	100.0000
Groves, John & Westrup Limited, London	100.0000
Hamburg-Mannheimer Consulting NV, Brussels	100.0000
Hamburg-Mannheimer Pensionskasse AG, Hamburg	100.0000
Hartford Steam Boiler (M) Sdn. Bhd, Kuala Lumpur	100.0000
Hartford Steam Boiler (Singapore), PTE Ltd., Singapore	100.0000
Hartford Steam Boiler International India Pyt Ltd., Kolkata	100.0000
Hartford Steam Boiler International-GmbH, Rheine	100.0000
HMV GFKL Beteiligungs GmbH, Düsseldorf	100.0000
HSB Engineering Finance Corporations, Wilmington, Delaware	100.0000
HSB Engineering Insurance Limited, London	100.0000
HSB Group, Inc., Wilmington, Delaware	100.0000
HSB Haughton Engineering Insurance Services Limited, Oldham	100.0000
HSB Japan KK, Minato-KU, Tokyo	100.0000
HSB Professional Loss Control, Inc., Lenoir City, Tennessee	100.0000
HSB Solomon Associates LLC, Wilmington, Delaware	100.0000
HSB Technical Consulting & Services (Shanghai) Company, Ltd., Shanghai	100.0000
Hyneman Life Corporation, Jonesboro, Arkansas	100.0000
IDEENKAPITAL AG, Düsseldorf	100.0000
IDEENKAPITAL Financial Engineering AG, Düsseldorf	100.0000
IDEENKAPITAL Financial Service AG, Düsseldorf	100.0000
Ideenkapital Media Finance AG, Düsseldorf	50.1000
iii, Munich[4]	100.0000
IK Einkauf Objekt Eins gmbH & Co. KG, Düsseldorf	100.0000
IK Einkaufsmärkte Deutschland GmbH & Co. KG, Düsseldorf	52.0295
IK Premium Fonds GmbH & Co. KG, Düsseldorf	100.0000
IK Premium Fonds zwei GmbH & Co. KG, Düsseldorf	100.0000
IKFE Properties I AG, Zurich	63.5532
IRIS Capital Fund II German Investors GmbH & Co. KG, Düsseldorf	85.7143
ITERGO Informationstechnologie GmbH, Düsseldorf	100.0000
Itus Verwaltungs AG, Munich	100.0000

Company and registered seat	% share of capital
Joint Stock Insurance Company ERGO, Minsk	92.3100
Jordan Health Cost Management Services W.L.L., Amman	100.0000
K & P Pflegezentrum IMMAC Uelzen Renditefonds GmbH & Co. KG, Uelzen	84.8817
KA Köln Assekuranz.Agentur GmbH, Cologne	100.0000
Kapdom-Invest GmbH, Moscow	100.0000
Landelijke Associatie van Gerechtsdeurwaarders B.V., Groningen	90.0240
LAVG Associatie van Gerechtsdeurwaarders Zuid Holding B.V., Breda	80.0000
LawAssist Limited, Bristol	100.0000
LifePlans Inc., Waltham, Massachusetts	100.0000
LifePlans LTC Services, Inc., Ontario, California	100.0000
Lloyds Modern Corporation, Dallas, Texas	100.0000
Longial GmbH, Düsseldorf	100.0000
Marina Salud S.A., Alicante	65.0000
Marina Sp.z.o.o., Sopot	100.0000
MEAG Acofonds, Munich[4]	100.0000
MEAG Adam, Munich[4]	100.0000
MEAG ANGLO CELTIC Fund, Munich[4]	100.0000
MEAG BLN 2, Munich[4]	100.0000
MEAG BLN 3, Munich[4]	100.0000
MEAG Cash Management GmbH, Munich	100.0000
MEAG Consortio, Munich[4]	100.0000
MEAG EDL CurryGov, Munich[4]	100.0000
MEAG EDL EuroValue, Munich[4]	100.0000
MEAG EUR Global 1, Munich[4]	100.0000
MEAG EUR Global 2, Munich[4]	100.0000
MEAG Eurak, Munich[4]	100.0000
MEAG Euro 1, Munich[4]	100.0000
MEAG Euro 2, Munich[4]	100.0000
MEAG EURO-FONDS, Munich[4]	100.0000
MEAG Eurostar, Munich[4]	100.0000
MEAG EURO-Yield, Munich[4]	100.0000
MEAG GBP Equities, Munich[4]	100.0000
MEAG GBP-Global-STAR, Munich[4]	100.0000
MEAG German Prime Opportunities (German Pro), Munich[4]	100.0000
MEAG Gilagrent, Munich[4]	100.0000
MEAG Golf 1, Munich[4]	100.0000
MEAG HBG 1, Munich[4]	100.0000
MEAG HM Global, Munich[4]	100.0000
MEAG HM Recht Chance, Munich[4]	100.0000
MEAG HM Renten, Munich[4]	100.0000
MEAG HM Sach 1, Munich[4]	100.0000
MEAG HM Sach Rent 1, Munich[4]	100.0000
MEAG HM2000, Munich[4]	100.0000
MEAG HM2001, Munich[4]	100.0000
MEAG HMR1, Munich[4]	100.0000
MEAG HMR2, Munich[4]	100.0000
MEAG IREN, Munich[4]	100.0000
MEAG Kapital 2, Munich[4]	100.0000

Company and registered seat	% share of capital
MEAG Kapital 3, Munich[4]	100.0000
MEAG Kapital 5, Munich[4]	100.0000
MEAG Lambda EUR, Munich[4]	100.0000
MEAG Lambda EUR 2, Munich[4]	100.0000
MEAG Lambda GBP, Munich[4]	100.0000
MEAG Lambda USD, Munich[4]	100.0000
MEAG Lambda USD-COP, Munich[4]	100.0000
MEAG Multi Sach 1, Munich[4]	100.0000
MEAG MUNICH ERGO AssetManagement GmbH, Munich	100.0000
MEAG MUNICH ERGO Kapitalanlagegesellschaft mbH, Munich	100.0000
MEAG New York Corporation, Wilmington, Delaware	100.0000
MEAG NOK-Fonds, Munich[4]	100.0000
MEAG OptiMAX, Munich[4]	100.0000
MEAG PK-NORD, Munich[4]	100.0000
MEAG PK-WEST, Munich[4]	100.0000
MEAG Prestige, Munich[4]	100.0000
MEAG RenditePlus, Munich[4]	100.0000
MEAG REVO, Munich[4]	100.0000
MEAG SAG 1, Munich[4]	100.0000
MEAG Sustainability, Munich[4]	100.0000
MEAG Tandem, Munich[4]	100.0000
MEAG UK Reserve 1, Munich[4]	100.0000
MEAG US Dollar Bond, Munich[4]	100.0000
MEAG US Real Estate Management Holdings, Inc., Wilmington, Delaware	100.0000
MEAG US Reserve, Munich[4]	100.0000
MEAG USD Equities, Munich[4]	100.0000
MEAG Vertical, Munich[4]	100.0000
MEAG Vidas 2, Munich[4]	100.0000
MEAG Vidas 4, Munich[4]	100.0000
MEAG Vidas Rent 2, Munich[4]	100.0000
MEAG Vidas Rent 3, Munich[4]	100.0000
MEAG Vigifonds, Munich[4]	100.0000
MEAG VLA, Munich[4]	100.0000
MedNet Bahrain W.L.L., Bahrain	100.0000
MedNet Greece S.A., Athens	78.1419
MedNet Gulf E.C., Manama	100.0000
MedNet Holding GmbH, Munich	100.0000
MedNet International Ltd., Nicosia	100.0000
MedNet Saglik Hizmetleri Yönetim ve Danismanlik Anonim Sirketi, Istanbul	100.0000
MedNet Saudi Arabia LLC, Riyadh	100.0000
MedNet UAE FZ L.L.C., Dubai	100.0000
Mercur GRIP GmbH Gesellschaft für Rehabilitation, Integration und Prävention, Munich	100.0000
Merkur Grundstücks- und Beteiligungs-Gesellschaft mit beschränkter Haftung, Düsseldorf	100.0000
Midland-Guardian Co., Amelia, Ohio	100.0000
Midwest Enterprises, Inc., Miami, Florida	100.0000
Modern Life Insurance Company of Arizona, Inc., Phoenix, Arizona	100.0000

Company and registered seat	% share of capital
MR Beteiligungen 1. GmbH, Munich[3]	100.0000
MR Beteiligungen 19. GmbH, Munich	100.0000
MR Beteiligungen EUR AG & Co. KG, Grünwald[2]	100.0000
MR Beteiligungen GBP AG & Co. KG, Grünwald[2]	100.0000
MR Beteiligungen USD AG & Co. KG, Grünwald[2]	100.0000
MR RENT-Investment GmbH, Munich	100.0000
MR Solar GmbH & Co. KG, Nuremberg	100.0000
MR SOLAR SAS DER WELIVIT SOLAR ITALIA SRL, Bolzano	100.0000
MSP Underwriting Ltd., London	100.0000
MTU Moje Towarzystwo Ubezpieczeniowe S. A., Sopot	100.0000
MU068 MR Placem (FCP), Paris[4]	100.0000
Münchener Rück do Brasil Resseguradora S.A., São Paulo	100.0000
Munich American Holding Corporation, Wilmington, Delaware	100.0000
Munich American Reassurance Company, Atlanta, Georgia	100.0000
Munich Atlanta Financial Corporation, Atlanta, Georgia	100.0000
Munich Health Holding AG, Munich[3]	100.0000
Munich Health North America, Inc., Wilmington, Delaware	100.0000
Munich Holdings Ltd., Toronto	100.0000
Munich Holdings of Australasia Pty. Ltd., Sydney	100.0000
Munich Life Management Corporation Ltd., Toronto	100.0000
Munich Mauritius Reinsurance Co. Ltd., Port Louis	100.0000
Munich Re America Corporation, Wilmington, Delaware	100.0000
Munich Re Capital Limited, London	100.0000
Munich Re Capital Markets New York, Inc., Wilmington, Delaware	100.0000
Munich Re Holding Company (UK) Ltd., London	100.0000
Munich Re of Malta Holding Limited, Floriana	99.9999
Munich Re of Malta p.l.c., Floriana	99.9999
Munich Re Stop Loss, Inc., Wilmington, Delaware	100.0000
Munich Re Underwriting Limited, London	100.0000
Munich Reinsurance America, Inc., Wilmington, Delaware	100.0000
Munich Reinsurance Company Life Reinsurance Eastern Europe/Central Asia, Moscow	100.0000
Munich Reinsurance Company of Africa Ltd, Johannesburg	100.0000
Munich Reinsurance Company of Australasia Ltd, Sydney	100.0000
Munich Reinsurance Company of Canada, Toronto	100.0000
Munichre General Services Limited, London	100.0000
Munichre Life Services Limited, London	100.0000
N.M.U. (Holdings) Limited, Leeds	100.0000
Neckermann Lebensversicherung AG, Fürth	100.0000
Neckermann Versicherung AG, Nuremberg	100.0000
New Reinsurance Company Ltd., Zurich	100.0000
Nightingale Legal Services ltd., Colchester	100.0000
NMU Group Limited, London	100.0000
Northern Marine Underwriters Limited, Leeds	100.0000

Company and registered seat	% share of capital
OIK Mediclin, Wiesbaden[4]	66.6672
Olympic Health Management Services Inc., Bellingham, Washington	100.0000
Olympic Health Management Systems, Inc., Bellingham, Washington	100.0000
Ouachita Life Insurance Company, Jonesboro, Arkansas	100.0000
P.A.N. GmbH & Co. KG, Grünwald[2]	99.0000
Princeton Eagle Holding (Bermuda) Limited, Hamilton, Bermuda	100.0000
Princeton Eagle Insurance Company Limited, Hamilton Bermuda	100.0000
Princeton Eagle West (Holding) Inc., Wilmington, Delaware	100.0000
Princeton Eagle West Insurance Company Ltd., Hamilton, Bermuda	100.0000
Queensley Holdings Limited, Singapore[4]	100.0000
QVH Beteiligungs GmbH, Nuremberg	100.0000
Renaissance Hotel Realbesitz GmbH, Vienna	60.0000
Roanoke International Brokers Limited, London	100.0000
Roanoke Real Estate Holdings Inc., Schaumburg, Illinois	100.0000
Roanoke Trade Services Inc., Schaumburg, Illinois	100.0000
San Marino Life Impresa sammarinese di assicurazione sulla vita S.p.A., San Marino	100.0000
Seminaris Hotel- und Kongreßstätten-Betriebsgesellschaft mbH, Lüneburg	75.0000
Solomon Associates Limited, London	100.0000
Sopockie Towarzystwo Ubezpieczen Ergo Hestia Spolka Akcyjna, Sopot	100.0000
Sopockie Towarzystwo Ubezpieczen na Zycie Ergo Hestia Spolka Akcyjna, Sopot	100.0000
Southern Pioneer Life Insurance Company, Jonesboro, Arkansas	100.0000
Specialty Insurance Services Corp., Amelia, Ohio	100.0000
Sterling Life Insurance Company, Bellingham, Washington	100.0000
TELA Aktiengesellschaft, Munich	100.0000
Temple Insurance Company, Toronto	100.0000
The Atlas Insurance Agency, Inc., Amelia, Ohio	100.0000
The Boiler Inspection and Insurance Company of Canada, Toronto	100.0000
The Hartford Steam Boiler Inspection and Insurance Company of Connecticut, Hartford, Connecticut	100.0000
The Hartford Steam Boiler Inspection and Insurance Company, Hartford, Connecticut	100.0000
The Midland Company, Cincinnati, Ohio	100.0000
The Polytechnic Club, Inc., Hartford	100.0000
The Princeton Excess and Surplus Lines Insurance Company, Wilmington, Delaware	100.0000
The Roanoke Companies Inc., Schaumburg, Illinois	100.0000
Union Beteiligungsholding GmbH, Vienna	100.0000
Union Life Insurance Company, Jonesboro, Arkansas	100.0000
Unión Médica la Fuencisla, S.A., Compañia de Seguros, Saragossa	100.0000
Van Arkel Gerechtsdeurwaarders B.V., Leiden	79.9000

Company and registered seat	% share of capital
Venus Vermögensverwaltungsgesellschaft mbH, Munich	100.0000
VHDK Beteiligungsgesellschaft mbH, Düsseldorf	100.0000
VICTORIA General Insurance Company S.A., Athens	99.9999
VICTORIA Grundstücksverwaltungs-Gesellschaft GbR, Düsseldorf	100.0000
VICTORIA Internacional de Portugal SGPS S.A., Lisbon	100.0000
VICTORIA Investment Properties Two L.P., Atlanta	100.0000
VICTORIA Italy Property GmbH, Düsseldorf	100.0000
VICTORIA Lebensversicherung Aktiengesellschaft, Düsseldorf	100.0000
VICTORIA Life Insurance Company S.A., Thessaloniki	100.0000
Victoria Osiguranje d.d, Zagreb	74.9000
VICTORIA Pensionskasse AG, Düsseldorf	100.0000
Victoria US Holdings, Inc., Wilmington, Delaware	100.0000
VICTORIA US Property Investment GmbH, Düsseldorf	100.0000
VICTORIA US Property Zwei GmbH, Düsseldorf	100.0000
VICTORIA Vierte Beteiligungsgesellschaft mbH, Düsseldorf	100.0000
Victoria Vierter Bauabschnitt GmbH & Co. KG, Düsseldorf	100.0000
Victoria Zivotno Osiguranje d.d, Zagreb	74.9000
VICTORIA-Seguros de Vida, S.A., Lisbon	100.0000
VICTORIA-Seguros S.A., Lisbon	100.0000
VICTORIA-VOLKSBANKEN Eletbiztosító Zrt., Budapest	74.8000
VICTORIA-VOLKSBANKEN Poist´ovna, a.s., Bratislava	74.8000
VICTORIA-VOLKSBANKEN Biztosító Zrt., Budapest	74.8000
VICTORIA-VOLKSBANKEN pojišt´ovna, a.s., Prague	74.5373
VICTORIA-VOLKSBANKEN Versicherungsaktiengesellschaft, Vienna	74.6269
Vorsorge Lebensversicherung Aktiengesellschaft, Düsseldorf	100.0000
Vorsorge Luxemburg Lebensversicherung S.A., Munsbach	100.0000
Watkins Syndicate Hong Kong Limited, Hong Kong	67.0000
Watkins Syndicate Middle East Limited, Dubai	100.0000
Watkins Syndicate Singapore Pte. Limited, Singapore	100.0000
WFB Stockholm Management AB, Stockholm[4]	50.0000
wse Solarpark Spanien 1 GmbH & Co. KG, Fürth	75.1243
Non-consolidated subsidiaries	
"PORT HEDLAND" GmbH & Co. KG, Hamburg	99.3284
"PORT LINCOLN" GmbH & Co. KG, Hamburg	99.3744
"PORT WILLIAMS" GmbH & Co. KG, Hamburg	99.3134
A.L.I.C.E. Software Lda., Lisbon	100.0000
Acalter 140014 S.L., Playa del Inglés	100.0000
Agenzia Chianti S.r.l., Milan	100.0000
Aitesacho 5005 S.L., Playa del Inglés	100.0000
Albulzaga 8008 S.L., Playa del Inglés	100.0000
Aleama 150015 S.L., Playa del Inglés	100.0000
ALICE Software Espana S.L., Madrid	100.0000
Allfinanz Inc., Wilmington, Delaware	100.0000
Allfinanz KK, Tokyo	100.0000
Allfinanz PTY, Sydney	100.0000

Company and registered seat	% share of capital
Allfinanz Software Services GmbH, Grünwald	100.0000
Amladeza 7007 S.L., Playa del Inglés	100.0000
Arridabra 130013 S.L., Playa del Inglés	100.0000
ARTES Assekuranzservice GmbH, Düsseldorf	100.0000
ArztPartner almeda AG, Munich	100.0000
Associated Asset Management Corporation B.V., Hertogenbosch	51.0000
B&D Acquisition B.V., Amsterdam	80.0000
B&D Business solutions B.V., Utrecht	100.0000
Badozoc 1001 S.L., Playa del Inglés	100.0000
Baqueda 7007 S.L., Playa del Inglés	100.0000
Beaufort Dedicated No.3 Ltd, London	100.0000
Beaufort Dedicated No.4 Ltd, London	100.0000
Beaufort Dedicated No.6 Ltd, London	100.0000
Beaufort Underwriting Services Limited, London	100.0000
Becher & Carlson South Africa Ltd., Johannesburg	51.0000
Bell & Clements Trustees Ltd, London	100.0000
Bell & Clements Underwriting Managers Ltd, London	100.0000
Beteiligung HMM Hamburg-Mannheimer Erste Bürogebäude-Verwaltungsgesellschaft mbH, Hamburg	100.0000
Beteiligung HMM Hamburg-Mannheimer Zweite Bürogebäude-Verwaltungsgesellschaft mbH, Hamburg	100.0000
BioEnergie Elbe-Elster GmbH & Co. KG, Elsterwerda	100.0000
BioEnergie Verwaltungs-GmbH, Elsterwerda	100.0000
Blitz 01-807 GmbH, Munich	100.0000
Bobasbe 6006 S.L., Playa del Inglés	100.0000
Botedazo 8008 S.L., Playa del Inglés	100.0000
Callopio 5005 S.L., Playa del Inglés	100.0000
Camcichu 9009 S.L., Playa del Inglés	100.0000
CAPITAL PLAZA Holding GmbH, Düsseldorf	100.0000
Caracuel Solar Catorce S.L., Antequera	100.0000
Caracuel Solar Cinco S.L., Antequera	100.0000
Caracuel Solar Cuatro S.L., Antequera	100.0000
Caracuel Solar Dieciocho S.L., Antequera	100.0000
Caracuel Solar Dieciseis S.L., Antequera	100.0000
Caracuel Solar Diecisiete S.L., Antequera	100.0000
Caracuel Solar Diez S.L., Antequera	100.0000
Caracuel Solar Doce S.L., Antequera	100.0000
Caracuel Solar Dos S.L., Antequera	100.0000
Caracuel Solar Nueve S.L., Antequera	100.0000
Caracuel Solar Ocho S.L., Antequera	100.0000
Caracuel Solar Once S.L., Antequera	100.0000
Caracuel Solar Quince S.L., Antequera	100.0000
Caracuel Solar Seis S.L., Antequera	100.0000
Caracuel Solar Siete S.L., Antequera	100.0000
Caracuel Solar Trece S.L., Antequera	100.0000
Caracuel Solar Tres S.L., Antequera	100.0000
Caracuel Solar Uno S.L., Antequera	100.0000
CarePlus Gesellschaft für Versorgungsmanagement mbH, Cologne	100.0000
Chobocuga 150015 S.L., Playa del Inglés	100.0000
Ciborum GmbH, Munich	100.0000
CLAIMWEB S.p.A., Milan	100.0000
cliMondo GmbH, Cologne	100.0000
Copper Leaf Research, Bingham Farms, Michigan	100.0000

Company and registered seat	% share of capital
Corion Pty Limited, Sydney	100.0000
Cotatrillo 100010 S.L., Playa del Inglés	100.0000
D.A.S. Prozessfinanzierung AG, Munich	100.0000
DAS Consultancy & Detachering Rotterdam B.V., Rotterdam	65.0200
DAS Incasso Arnhem B.V., Arnheim	100.0000
DAS Incasso Den Bosch B.V., s-Hertogenbosch	87.5000
DAS Incasso Rotterdam B.V., Rotterdam	80.0000
DAS Legal Protection Pty. Ltd., Sydney	100.0000
De Wit Vissers Incasso Holding B.V., Breda	95.0000
Diana Vermögensverwaltungs AG, Munich	100.0000
DKV – Beta Vermögensverwaltungs GmbH, Cologne	100.0000
DKV Immobilien GmbH & Co. KG, Cologne	100.0000
DKV Immobilienverwaltungs GmbH, Cologne	100.0000
DKV Pflegedienste & Residenzen GmbH, Cologne	100.0000
DKV Residenz am Tibusplatz gGmbH, Münster	100.0000
DKV Servicios, S.A., Saragossa	100.0000
DKV-Residenz in der Contrescarpe GmbH, Bremen	100.0000
DRA Debt Recovery Angency B.V., s-Gravenhage	100.0000
Economic Data Research B.V., Leidschendam	100.0000
Economic Data Resources B.V., Leidschendam	100.0000
EDR Acquisition B.V., Amsterdam	80.0000
EDR Credit Services B.V., s-Gravenhage	100.0000
ERGO Alpha GmbH, Düsseldorf	100.0000
ERGO Asia Management Pte. Ltd., Singapore	100.0000
ERGO Bilisim Teknolojisi Limited Sirketi, Istanbul	100.0000
ERGO Business Solutions s.r.l., Bucharest	100.0000
ERGO GmbH, Herisau	100.0000
ERGO Gourmet GmbH, Düsseldorf	100.0000
ERGO Immobilien-GmbH 1. DKV & Co. KG, Kreien	100.0000
ERGO Immobilien-GmbH 15. Victoria & Co. KG, Kreien	100.0000
ERGO Immobilien-GmbH 2. DKV & Co. KG, Kreien	100.0000
ERGO Immobilien-GmbH 3. DKV & Co. KG, Kreien	100.0000
ERGO Immobilien-GmbH 4. DKV & Co. KG, Kreien	100.0000
ERGO Immobilien-GmbH 6. Hamburg-Mannheimer & Co. KG, Kreien	100.0000
ERGO Immobilien-GmbH 7. Hamburg-Mannheimer & Co. KG, Kreien	100.0000
ERGO Immobilien-Verwaltungs-GmbH, Kreien	100.0000
ERGO Insurance Service GmbH, Vienna	99.6000
ERGO Neunte Beteiligungsgesellschaft mbH, Düsseldorf	100.0000
ERGO PORTFÖY YÖNETIMI A.S., Istanbul	100.0000
ERGO Private Capital GmbH, Düsseldorf	100.0000
ERGO Private Capital Zweite GmbH & Co. KG, Düsseldorf	100.0000
ERGO Sigorta ve Emeklilik Satis Aracilik Hizmetleri Limited Sirketi, Istanbul	100.0000
ERGO Specialty GmbH, Hamburg	100.0000
ERGO Trust Erste Beteiligungsgesellschaft mbH, Munich	100.0000
ERGO Versicherungs- und Finanzierungs-Vermittlung GmbH, Hamburg	100.0000
ERIN Sigorta Aracilik Hizmetleri Limited Sirketi, Istanbul	99.9950
ERV (China) Travel Service and Consulting Ltd., Beijing	100.0000
ERV Seyahat Sigorta Aracilik Hizmetleri ve Danismanlik Ltd.Sti., Istanbul	99.0000

Company and registered seat	% share of capital
Esoleme 120012 S.L., Playa del Inglés	100.0000
Etics, s.r.o., Prague	100.0000
Etoblete 160016 S.L., Playa del Inglés	100.0000
Etogibon 100010 S.L., Playa del Inglés	100.0000
Etolede 6006 S.L., Playa del Inglés	100.0000
EUREKA GmbH, Düsseldorf	99.9999
Euro Alarm Assistance Prague, Prague	100.0000
Euro-Center (Cyprus) Ltd., Larnaca	100.0000
Euro-Center (Thailand) Co. Ltd., Bangkok	100.0000
Euro-Center Cape Town (Pty.) Ltd., Cape Town	100.0000
Euro-Center China (HK) Co., Ltd., Beijing	100.0000
Euro-Center Holding A/S, Copenhagen	83.3330
Euro-Center Ltda., Rio de Janeiro	100.0000
Euro-Center S.A., Malaga	100.0000
Euro-Center USA, Inc., New York	100.0000
Euro-Center Yerel Yardim, Istanbul	100.0000
Euro-Center, S.A., Palma de Mallorca	100.0000
Europäische (UK) Ltd., London	100.0000
European Assistance Holding GmbH, Munich	100.0000
Evaluación Médica TUW, S.L., Barcelona	90.7508
EVV Logistik Management GmbH, Düsseldorf	100.0000
Exolvo GmbH, Hamburg	100.0000
First Marine Financial Services, Amelia, Ohio	100.0000
Forst Ebnath AG, Ebnath	96.7315
Gamaponti 140014 S.L., Playa del Inglés	100.0000
Gastronomie Service Gesellschaft Überseering 35 GmbH, Hamburg	100.0000
GBG Vogelsanger Straße GmbH, Cologne	94.0000
GEMEDA Gesellschaft für medizinische Datenerfassung und Auswertung sowie Serviceleistungen für freie Berufe mbH, Cologne	100.0000
Genius II Vermögensverwaltungsgesellschaft mbH, Munich	100.0000
Gerechtsdeurwaarderskantoor Sturm & Van Vuuren B.V., Nieuwegein	100.0000
Gerechtsdeurwaarderskantoor Van der Meijde B.V., The Hague	100.0000
goDentis – Gesellschaft für Innovation in der Zahnheilkunde mbH, Cologne	100.0000
goMedus Gesellschaft für Qualität in der Medizin mbH, Cologne	100.0000
goMedus GmbH & Co. KG, Cologne	100.0000
Grancan Sunline S.L., Playa del Inglés	100.0000
Great Lakes Marine Insurance Agency Pty Ltd, Sydney	100.0000
Great Lakes Re Management Company (Belgium) S.A., Brussels	100.0000
Guanzu 2002 S.L., Playa del Inglés	100.0000
Hamburger Hof Management GmbH, Hamburg	100.0000
Hamburg-Mannheimer ForsikringService A/S, Copenhagen	100.0000
Hamburg-Mannheimer Rechtsschutz Schaden-Service GmbH, Hamburg	100.0000
Hamburg-Mannheimer spol s.r.o., Prague	100.0000
Hartford Steam Boiler Colombia Ltda., Bogota, Colombia	100.0000
Health OÜ, Tallinn	100.0000

Company and registered seat	% share of capital
Hestia Advanced Risk Solutions Sp. z.o.o., Sopot	100.0000
Hestia Kontakt Sp. z o.o., Sopot	100.0000
Hestia Loss Control Sp. z o.o., Sopot	100.0000
HMI Sp. z o.o., Warsaw	100.0000
Horbach GmbH, Düsseldorf	70.1000
HSB Associates, Inc, New York	100.0000
HSB Inspection Quality, Limited , Oldham	100.0000
HSB Investment Corporation, Hartford, Connecticut	100.0000
HSB Reliability Technologies LLC, Wilmington, Delaware	100.0000
HSB Ventures, Inc., Wilmington, Delaware	100.0000
Humanity B.V., s-Gravenhage	100.0000
Ideenkapital Client Service GmbH, Düsseldorf	100.0000
Ideenkapital erste Investoren Service GmbH, Düsseldorf	100.0000
Ideenkapital Fonds Treuhand GmbH, Düsseldorf	100.0000
Ideenkapital Media Treuhand GmbH, Düsseldorf	100.0000
IDEENKAPITAL Metropolen Europa Verwaltungsgesellschaft mbH, Düsseldorf	100.0000
IDEENKAPITAL PRORENDITA EINS Treuhandgesellschaft mbH, Düsseldorf	100.0000
IDEENKAPITAL Schiffsfonds Treuhand GmbH, Düsseldorf	100.0000
Ideenkapital Treuhand GmbH, Düsseldorf	100.0000
Ideenkapital Treuhand US Real Estate eins GmbH, Düsseldorf	100.0000
IK Einkauf Objektmanagement GmbH, Düsseldorf	100.0000
IK Einkauf Objektverwaltungsgesellschaft mbH, Düsseldorf	100.0000
IK Einkaufsmärkte Deutschland Verwaltungsgesellschaft mbH, Düsseldorf	100.0000
IK European Real Estate Verwaltungsgesellschaft mbH, Düsseldorf	100.0000
IK FE Fonds Management GmbH, Düsseldorf	100.0000
IK FE Management GmbH, Düsseldorf	100.0000
IK InfrastrukturInvest Verwaltungsgesellschaft mbH, Düsseldorf	100.0000
IK Objekt Bensheim GmbH, Düsseldorf	100.0000
IK Objekt Frankfurt Theodor-Heuss-Allee GmbH, Düsseldorf	100.0000
IK Pflegezentrum Uelzen Verwaltungs-GmbH, Düsseldorf	100.0000
IK Premium GmbH, Düsseldorf	100.0000
IK Property Eins Verwaltungsgesellschaft mbH, Hamburg	100.0000
IK Property Treuhand GmbH, Düsseldorf	100.0000
IK US Portfolio Invest DREI Verwaltungs-GmbH, Düsseldorf	100.0000
IK US Portfolio Invest Verwaltungs-GmbH, Düsseldorf	100.0000
IK US Portfolio Invest ZWEI Verwaltungs-GmbH, Düsseldorf	100.0000
InterAssistance Gesellschaft für Dienstleistungen mit beschränkter Haftung, Munich	100.0000
ISVICRE SIGORTA KIBRIS LIMITED, Istanbul	51.0000
Jupiter Vermögensverwaltungsgesellschaft mbH, Munich	100.0000
Juventus Vermögensverwaltungs AG, Hamburg	100.0000
K & P Objekt Hamburg Hamburger Straße GmbH, Düsseldorf	100.0000

Company and registered seat	% share of capital
K & P Objekt München Hufelandstraße GmbH, Düsseldorf	100.0000
KQV Solarpark Franken 1 GmbH & Co. KG, Fürth	100.0000
Larus Vermögensverwaltungsgesellschaft mbH, Munich	100.0000
LAVG Zuid B.V., Breda	100.0000
Legal Net GmbH, Munich	100.0000
Longial Versicherungsmakler GmbH, Düsseldorf	100.0000
m:editerran Power der welivit Solar Italia GmbH & Co. KG, Bolzano	100.0000
m:editerran POWER GmbH & Co. KG, Nuremberg	100.0000
MAM Munich Asset Management GmbH, Munich	100.0000
Marbury Agency, Inc., Amelia, Ohio	100.0000
MAYFAIR Financing GmbH, Munich	100.0000
MAYFAIR Holding GmbH & Co. Singapur KG, Düsseldorf	71.4285
MAYFAIR Holding GmbH, Düsseldorf	100.0000
MEAG Hong Kong Limited, Hong Kong	100.0000
MEAG Luxembourg S.à r.l., Luxemburg	100.0000
MEAG Property Management GmbH, Munich	100.0000
MEAG Real Estate Erste Beteiligungsgesellschaft, Munich	100.0000
Mechanical & Materials Engineering, Wilmington, Delaware	100.0000
Mediastream Consulting GmbH, Grünwald	100.0000
Mediastream Dritte Film GmbH, Grünwald	100.0000
Mediastream Film GmbH, Grünwald	100.0000
Mediastream Vierte Medien GmbH, Grünwald	100.0000
Mediastream Zweite Film GmbH, Grünwald	100.0000
MedNet Europa GmbH, Munich	100.0000
MedNet International Offshore SAL, Beirut	99.6700
MedWell Gesundheits-AG, Cologne	100.0000
miCura Pflegedienste Berlin GmbH, Berlin	100.0000
miCura Pflegedienste Bremen GmbH, Bremen	100.0000
miCura Pflegedienste Dachau GmbH, Dachau	51.0000
miCura Pflegedienste Düsseldorf GmbH, Düsseldorf	100.0000
miCura Pflegedienste GmbH, Cologne	100.0000
miCura Pflegedienste Hamburg GmbH, Hamburg	90.0000
miCura Pflegedienste Krefeld GmbH, Krefeld	100.0000
miCura Pflegedienste München GmbH, Munich	100.0000
miCura Pflegedienste München Ost GmbH, Munich	65.0000
miCura Pflegedienste Münster GmbH, Münster	100.0000
miCura Pflegedienste Nürnberg GmbH, Nuremberg	51.0000
MR Beteiligungen 14. GmbH, Munich	100.0000
MR Beteiligungen 15. GmbH, Munich	100.0000
MR Beteiligungen 16. GmbH, Munich	100.0000
MR Beteiligungen 17. GmbH, Munich	100.0000
MR Beteiligungen 18. GmbH, Munich	100.0000
MR Beteiligungen AG, Grünwald	100.0000
MR ERGO Beteiligungen GmbH, Munich	100.0000
MR Parkview Holding Coporation, Wilmington, Delaware	100.0000
MR Solar Beneixama GmbH, Nuremberg	100.0000
Muenchener Hellas Reinsurance Services S.A., Athens	99.5000
Multiasistencia Europea, S.A., Madrid	100.0000
Münchener Consultora Internacional S.R.L., Santiago de Chile	100.0000
Münchener de Argentina Servicios Técnicos S. R. L., Buenos Aires	100.0000
Münchener de Colombia S.A. Corredores de Reaseguros, Santa Fe de Bogota D.C.	100.0000
Münchener de Mexico S. A., Mexico	100.0000
Münchener de Venezuela C.A. Intermediaria de Reaseguros, Caracas	100.0000
Münchener Ecoconsult GmbH, Munich	100.0000
Münchener Finanzgruppe AG Beteiligungen, Munich	100.0000
Münchener Vermögensverwaltung GmbH, Munich	100.0000
Munich Canada Systems Corporation, Toronto	100.0000
Munich Columbia Square Corp., Wilmington, Delaware	100.0000
Munich Health Daman Holding Ltd., Abu Dhabi	51.0000
Munich Management Pte. Ltd., Singapore	100.0000
Munich Re America Brokers, Inc., Wilmington, Delaware	100.0000
Munich Re America Management Ltd., London	100.0000
Munich Re America Services Inc., Wilmington, Delaware	100.0000
Munich Re Capital Markets GmbH, Munich	100.0000
Munich Re General (UK) plc, London	100.0000
Munich Re India Services Private Limited, Mumbai	100.0000
Munich Re Japan Services K. K., Tokyo	100.0000
Munich Re Life and Health (UK) Plc., London	100.0000
Munich Re Polska Services Sp. Z.o.o., Warsaw	100.0000
Munich Re Underwriting Agents (DIFC) Limited, Dubai	100.0000
Munich-American Global Services (Munich) GmbH, Munich	100.0000
Munich-American Risk Partners GmbH, Munich	100.0000
Munich-Canada Management Corp. Ltd., Toronto	100.0000
MunichFinancialGroup AG Holding, Munich	100.0000
MunichFinancialGroup GmbH, Munich	100.0000
MunichFinancialServices AG Holding, Munich	100.0000
Munichre New Zealand Service Limited, Auckland	100.0000
Munichre Service Limited, Hong Kong	100.0000
Naretoblera 170017 S.L., Playa del Inglés	100.0000
Nerruze 120012 S.L., Playa del Inglés	100.0000
Nicamballo 1001 S.L., Playa del Inglés	100.0000
OHM Services of Texas, Inc., Bellingham, Washington	100.0000
Olbodeca 4004 S.L., Playa del Inglés	100.0000
One State Street Intermediaries, Hartford, Connecticut	100.0000
Oracuet 160016 S.L., Playa del Inglés	100.0000
Oragulno 9009 S.L., Playa del Inglés	100.0000
Oraunte 130013 S.L., Playa del Inglés	100.0000
Orrazipo 110011 S.L., Playa del Inglés	100.0000
Otusleme 3003 S.L., Playa del Inglés	100.0000
P.A.N. Verwaltungs GmbH, Grünwald[2]	99.0000
PLATINIA Verwaltungs-GmbH, Munich	100.0000
PRORENDITA DREI Verwaltungsgesellschaft mbH, Hamburg	100.0000
PRORENDITA EINS Verwaltungsgesellschaft mbH, Hamburg	100.0000
PRORENDITA Fünf Verwaltungsgesellschaft mbH, Hamburg	100.0000
PRORENDITA VIER Verwaltungsgesellschaft mbH, Hamburg	100.0000

Company and registered seat	% share of capital
PRORENDITA ZWEI Verwaltungsgesellschaft mbH, Hamburg	100.0000
ProVictor Immobilien GmbH, Düsseldorf[7]	50.0000
ProVictor Property Fund IV Management, Inc., Atlanta	51.0000
ProVictor Property Fund V Management, Inc., Atlanta	51.0000
ProVictor Property Fund VI Management, Inc., Atlanta	51.0000
ProVictor US Corporation, Atlanta	100.0000
Ra-Hart Investment Company, Dallas, Texas	100.0000
Reaseguradora de las Américas S. A., Havana	100.0000
Roanoke International Insurance Agency Inc., Schaumburg, Illinois	100.0000
Roanoke Trade Insurance Inc., Schaumburg, Illinois	100.0000
Roanoke Trade Services of Texas Inc., Schaumburg, Illinois	100.0000
Romney Holdings Limited, Dublin	100.0000
Schloss Hohenkammer GmbH, Hohenkammer	100.0000
Schrömbgens & Stephan GmbH, Versicherungsmakler, Düsseldorf	100.0000
Seldac 1. Kommunaler-Rendite-Fonds GmbH & Co. KG, Düsseldorf	100.0000
Seldac 1. Verwaltungs-GmbH, Düsseldorf	100.0000
Silvanus Vermögensverwaltungsges.mbH, Munich	100.0000
Solarfonds Garmisch-Partenkirchen 2011 GmbH & Co. KG, Nuremberg	99.7500
Sopocki Instytut Ubezpieczen S.A., Sopot	100.0000
Sopockie Towarzystwo Doradcze Sp. z o.o., Sopot	100.0000
SOS International Reise-Notfallservice GmbH, Munich	100.0000
Stichting Aandelen Beheer D.A.S. Holding, Amsterdam	100.0000
Sydney Euro-Center Pty. Ltd., Sydney	100.0000
Synkronos Italia SRL, Milan	60.1000
TAS Assekuranz Service GmbH, Frankfurt/Main	100.0000
TAS Touristik Assekuranz Service International GmbH, Frankfurt/Main	100.0000
TAS Touristik Assekuranzmakler und Service GmbH, Frankfurt/Main	100.0000
Teginago 2002 S.L., Playa del Inglés	100.0000
Tenoslema 110011 S.L., Playa del Inglés	100.0000
TGR Biztosítás Többesügynöki Zrt., Budapest	100.0000
The National Senior Membership Group, Bellingham, Washington	100.0000
Three Lions Underwriting Ltd., London	100.0000
Tillobesta 180018 S.L., Playa del Inglés	100.0000
TIS Holdings Inc., Schaumburg, Illinois	100.0000
Titus AG, Düsseldorf	100.0000
Trade Insurance Services Inc, Schaumburg, Illinois	100.0000
Trusted Documents GmbH, Nuremberg	100.0000
US PROPERTIES VA Verwaltungs-GmbH, Düsseldorf	100.0000
Verwaltungsgesellschaft "PORT VICTORIA" GmbH, Hamburg	100.0000
VFG Vorsorge-Finanzierungsconsulting GmbH, Vienna	100.0000
VICTORIA Asien Immobilienbeteiligungs GmbH & Co. KG, Munich	100.0000
VICTORIA Asien Verwaltungs GmbH, Munich	100.0000
VICTORIA Erste Beteiligungsgesellschaft mbH, Düsseldorf	100.0000
VICTORIA Immobilien Management GmbH, Munich	100.0000
VICTORIA Immobilien-Fonds GmbH, Düsseldorf	100.0000

Company and registered seat	% share of capital
VICTORIA US Beteiligungsgesellschaft mbH, Munich	100.0000
Victoria Vierter Bauabschnitt Management GmbH, Düsseldorf	100.0000
Victoria VIP II, Inc., Wilmington, Delaware	100.0000
Viwis GmbH, Munich	100.0000
Vorsorge Service GmbH, Düsseldorf	100.0000
VV-Consulting Gesellschaft für Risikoanalyse, Vorsorgeberatung und Versicherungsvermittlung GmbH, Vienna	100.0000
VV-Immobilien Gesellschaft für Haus- und Grundbesitzverwaltung GmbH, Vienna	100.0000
welivit AG, Nuremberg	100.0000
welivit New Energy GmbH, Fürth	100.0000
welivit Solar España GmbH, Nuremberg	100.0000
Welivit Solar Italia s.r.l., Bolzano	100.0000
WISMA ATRIA Holding GmbH & Co. Singapur KG, Düsseldorf	65.0000
WNE Solarfonds Süddeutschland 2 GmbH & Co. KG, Nuremberg	100.0000
Wohnungsgesellschaft Brela mbH, Hamburg	100.0000
Zacobu 110011 S.L., Playa del Inglés	100.0000
Zacuba 6006 S.L., Playa del Inglés	100.0000
Zacubacon 150015 S.L., Playa del Inglés	100.0000
Zafacesbe 120012 S.L., Playa del Inglés	100.0000
Zagacobl 180018 S.L., Playa del Inglés	100.0000
Zapaceba 170017 S.L., Playa del Inglés	100.0000
Zapacubi 8008 S.L., Playa del Inglés	100.0000
Zarzucolumbu 100010 S.L., Playa del Inglés	100.0000
Zetaza 4004 S.L., Playa del Inglés	100.0000
Zicobucar 140014 S.L., Playa del Inglés	100.0000
Zucaelo 130013 S.L., Playa del Inglés	100.0000
Zucampobi 3003 S.L., Playa del Inglés	100.0000
Zucarrobiso 2002 S.L., Playa del Inglés	100.0000
Zucobaco 7007 S.L., Playa del Inglés	100.0000
Zulazor 3003 S.L., Playa del Inglés	100.0000
Zumbicobi 5005 S.L., Playa del Inglés	100.0000
Zumcasba 1001 S.L., Playa del Inglés	100.0000
Zuncabu 4004 S.L., Playa del Inglés	100.0000
Zuncolubomcasa 9009 S.L., Playa del Inglés	100.0000
Associates accounted for using the equity method	
13th & F associates Limited Partnership, Washington D.C.[9]	80.0000
Apollo Munich Health Insurance Co. Ltd., Hyderabad	25.0600
BHS tabletop AG, Selb[1] (MC €46m)	28.9134
Bloemers Holding B. V., Rotterdam	22.7273
Consorcio Internacional de Aseguradores de Crédito, S.A. Madrid[5]	19.4982
Consortia Versicherungs-Beteiligungsgesellschaft mbH, Nuremberg	33.7027
D.A.S. Difesa Automobilistica Sinistri, S.p.A. di Assicurazione, Verona	49.9920
DAMAN – National Health Insurance Company, Abu Dhabi	20.0000
Dovull SPV GmbH & Co. KG, Frankfurt a.M.	20.0597

Company and registered seat	% share of capital
Europai Utazasi Biztosito Rt., Budapest	26.0000
Europäische Reiseversicherungs-Aktiengesellschaft, Vienna	25.0100
Global Aerospace Underwriting Managers Ltd., London	40.0000
HDFC ERGO General Insurance Company Ltd., Mumbai	26.0000
HighTech Beteiligungen GmbH und Co. KG, Düsseldorf	23.1000
KarstadtQuelle Finanz Service GmbH, Düsseldorf	50.0000
MCAF Verwaltungs-GmbH & Co.KG, Düsseldorf	50.0000
MDP Ventures I L.L.C., New York	50.0000
MEAG Pacific Star Holdings Ltd., Hong Kong	50.0000
MEDICLIN Aktiengesellschaft, Offenburg[1] (MC €201m)	35.0042
MEGA 4 GbR, Berlin	34.2569
Middlesea Insurance p.l.c, Floriana[1, 5] (MC €26m)	19.9000
Millennium Entertainment Partners II L.P., New York	42.2992
Millennium Entertainment Partners L.P., New York	27.5400
Millennium Partners LLC, New York	25.3387
PICC Asset Management Company Ltd., Shanghai[5]	19.0000
PICC Health Insurance Company Limited, Beijing[5]	6.3333
Property Finance France S.A., Luxembourg	45.4605
Rendite Partner Gesellschaft für Vermögens-verwaltung mbH, Frankfurt a.M.	33.3333
RP Vilbeler Fondsgesellschaft mbH, Frankfurt a.M.	40.0000
Sana Kliniken AG, Munich	21.7025
Saudi National Insurance Company B.S.C.(c), Manama	22.5000
Seaflower Health Ventures III L.P., Waltham	28.8434
SEBA Beteiligungsgesellschaft mbH, Nuremberg	48.9931
Star Growth GmbH & Co. Beteiligungs KG, Munich	48.2800
Storebrand Helseforsikring AS, Oslo	50.0000
Suramericana S.A., Medellin[5]	18.8669
TERTIANUM Besitzgesellschaft Berlin Passauer Strasse 5–7 mbH, Munich	25.0000
TERTIANUM Besitzgesellschaft Konstanz Markt-stätte 2–6 und Sigismundstrasse 5–9 mbH, Munich	25.0000
TERTIANUM Besitzgesellschaft München Jahnstrasse 45 mbH, Munich	33.3333
U.S. Property Fund IV GmbH & Co. KG, Munich	21.7286
U.S. Property Management II L.P., Atlanta	33.3333
U.S. Property Management III L.P., Atlanta	20.0000
Uelzener Lebensversicherungs-AG, Uelzen	23.9750
US PROPERTIES VA GmbH & Co. KG, Düsseldorf	41.1185
VICTORIA-VOLKSBANKEN Pensionskassen Aktiengesellschaft, Vienna	47.5028
VICTORIA-VOLKSBANKEN Vorsorgekasse AG, Vienna	50.0000
VV Immobilien GmbH & Co. United States KG, Munich	28.9514
VV Immobilien GmbH & Co. US City KG, Munich	23.0999
VV Immobilien Verwaltungs GmbH & Co. Zentraleuropa KG, Munich	20.4082
Associates accounted for at fair value	
"PORT ELISABETH" GmbH & Co. KG, Hamburg	31.9658
"PORT LOUIS" GmbH & Co. KG, Hamburg	26.4129
ACM-Compagnie Mercur AG, Bremen	50.0000
Agricultural Management Services S.r.l., Verona	33.3333

Company and registered seat	% share of capital
Assistance Partner GmbH & Co. KG, Munich	22.8000
Best Doctors, Health Resources and Technology, Inc., Boston[5]	6.7800
BF.direkt AG, Stuttgart	27.2000
carexpert Kfz-Sachverständigen GmbH, Walluf	25.0000
Central Point Insurance IT-Solutions GmbH, Vienna	20.0000
DKV Salute S.p.A., Milan[8]	100.0000
Fernkälte Geschäftsstadt Nord Gesellschaft bürgerlichen Rechts, Hamburg	35.8700
Finsure Investments (Private) Limited, Harare	24.5000
General Partner Victoria Limited, London	33.3333
Hannover Finanz-Umwelt Beteiligungsgesellschaft mbH, Hillerse	20.0000
Hartford Research LLC, Wilmington, Delaware	41.7500
IFFOXX AG, Rosenheim	28.0020
IK Objektgesellschaft Frankfurt Theodor-Heuss-Allee GmbH & Co. KG, Düsseldorf	47.4000
Janus Vermögensverwaltungsgesellschaft mbH, Munich	50.0000
K & P Objekt Hamburg Hamburger Straße Immobilienfonds GmbH & Co.KG, Düsseldorf	36.6889
LCM Logistic Center Management GmbH, Hamburg	50.0000
MCAF Management GmbH, Düsseldorf	50.0000
MSMR Parkview LLC, Dover, Delaware	38.4600
Newmed S.p.A., Milan[8]	100.0000
Perils AG, Zurich[5]	11.1100
POOL Sp. z o.o., Warsaw	33.7500
RehaCare GmbH, Munich	25.1000
Reisegarant, Vermittler von Insolvenzversicherungen mbH, Hamburg	24.0000
RM 2264 Vermögensverwaltungs GmbH, Munich	25.0000
Rumba GmbH & Co. KG, Munich	25.0000
Rural Affinity Insurance Agency Pty Limited, Sydney	50.0000
TEGG Corporation, Dover, Delaware	33,3400
Teko – Technisches Kontor für Versicherungen Gesellschaft mit beschränkter Haftung, Düsseldorf	30.0000
TERTIANUM Seniorenresidenz Betriebsgesellschaft München mbH, Munich	33.3333
TERTIANUM Seniorenresidenzen Betriebsgesellschaft mbH, Constance	25.0000
Trend Capital GmbH & Co. Solarfonds 2 KG, Mainz	34.4234
Triple IP B.V., Amsterdam	50.0000
Verwaltungsgesellschaft "PORT ELISABETH" mbH, Hamburg	50.0000
Verwaltungsgesellschaft "Port Hedland" mbH, Hamburg	50.0000
Verwaltungsgesellschaft "PORT KELANG" mbH, Hamburg	50.0000
Verwaltungsgesellschaft "Port Lincoln" mbH, Hamburg	50.0000
Verwaltungsgesellschaft "PORT LOUIS" mbH, Hamburg	50.0000
Verwaltungsgesellschaft "PORT MAUBERT" mbH, Hamburg	50.0000
Verwaltungsgesellschaft "PORT MELBOURNE" mbH, Hamburg	50.0000

Company and registered seat	% share of capital
Verwaltungsgesellschaft "PORT MENIER" mbH, Hamburg	50.0000
Verwaltungsgesellschaft "PORT MOODY" mbH, Hamburg	50.0000
Verwaltungsgesellschaft "PORT MORESBY" mbH, Hamburg	50.0000
Verwaltungsgesellschaft "PORT MOUTON" mbH, Hamburg	50.0000
Verwaltungsgesellschaft "PORT NELSON" mbH, Hamburg	50.0000
Verwaltungsgesellschaft "PORT RUSSEL" mbH, Hamburg	50.0000
Verwaltungsgesellschaft "PORT SAID" mbH, Hamburg	50.0000
Verwaltungsgesellschaft "PORT STANLEY" mbH, Hamburg	50.0000
Verwaltungsgesellschaft "PORT STEWART" mbH, Hamburg	50.0000
Verwaltungsgesellschaft "PORT UNION" mbH, Hamburg	50.0000
Verwaltungsgesellschaft "Port Williams" mbH, Hamburg	50.0000
VisEq GmbH, Grünwald	34.0000
Volksbanken-Versicherungsdienst GmbH, Vienna	25.2319
VV Immobilien GmbH & Co. GB KG, Düsseldorf	40.9241
VV Immobilien Verwaltungs GmbH, Munich	30.0000
VV Immobilien Verwaltungs und Beteiligungs GmbH, Munich	30.0000
VV-Consulting Többesügynöki Kft., Budapest	50.0000
WISMA ATRIA Holding GmbH, Düsseldorf	50.0000
Other shareholdings of 20% or more	
ARIES, Wilmington, Delaware[10] (equity: €3,219k; result for year: –€180k)	21.6000
Capital Dynamics Champion Ventures VI, L.P., Woodside[6] (equity: €26,496k; result for year: –€1,181k)	27.3354
FIA Timber Partners II L.P., Wilmington[6] (equity: €349k; result for year: –€228k)	23.0000
HRJ Capital Global Buy-Out III (U.S.), L.P., Woodside[11] (equity: €51,930k; result for year: €8,019k)	44.8071

Company and registered seat	% share of capital
Other shareholdings exceeding 5% of the voting rights in large companies as defined in the German Commercial Code	
Admiral Group plc, Cardiff	10.1756
Credit Guarantee Insurance Corporation, Johannesburg	7.1000
Extremus Versicherungs-Aktiengesellschaft, Cologne	16.0000
Jordan Insurance Co. p.l.c., Amman	10.0000
New National Assurance Company Ltd., Durban, South Africa	16.0000
Protektor Lebensversicherungs-AG, Berlin	10.7597
Swaziland Royal Insurance Corporation, Mbabane	16.0000

1 The market capitalisation (MC) of this company as at 31 December 2010.
2 This fully consolidated German subsidiary with the legal form of a partnership, as definded in Section 264a of the German Commercial Code, intends to fulfil the conditions required in Section 264b of the German Commercial Code and, in the financial year 2010, to avail itself of the relevant provision exempting it from preparing annual financial statements.
3 This fully consolidated German subsidiary intends to fulfil the conditions required in Section 264 para. 3 of the German Commercial Code and, in the financial year 2010, to avail itself of the relevant provision exempting it from preparing annual financial statements.
4 Control owing to the existence of a special purpose entity as per SIC 12 in which the main risks and rewards remain the Munich Re.
5 Significant influence owing to representation of Munich Re on the board of directors or equivalent governing body of the associate.
6 No significant influence, as there are no close links with Munich Re of the kind defined in IAS 28.7.
7 Control owing to majority of voting power.
8 No control because, under contractual agreements, decisions regarding the company's financial and operating policy are subject to the consent of a third party.
9 Only significant influence owing to reduced voting power.
10 No significant influence owing to reduced voting power.
11 No significant influence because under the articles of association, statutes or other agreement, all key decisions regarding the company's financial and operating policy are subject to a quorum which cannot be obtained by the majority shareholder without the non-controlling shareholders.

Drawn up and released for publication, Munich, 1 March 2011.

The Board of Management

Auditor's report

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

We have audited the consolidated financial statements prepared by the Münchener Rückversicherungs-Gesellschaft Aktiengesellschaft in München, Munich, comprising the consolidated balance sheet, the consolidated income statement, the statement of recognised income and expense, the Group statement of changes in equity, the consolidated cash flow statement and the notes to the consolidated financial statements, together with the Group management report for the business year from 1 January to 31 December 2010. The preparation of the consolidated financial statements and the Group management report in accordance with IFRS, as adopted by the EU, and the additional requirements of German commercial law pursuant to Section 315a para. 1 of the German Commercial Code (HGB) are the responsibility of the legal representatives of the Company. Our responsibility is to express an opinion on the consolidated financial statements and on the Group management report based on our audit.

We conducted our audit of the consolidated financial statements in accordance with Section 317 of the German Commercial Code and German generally accepted standards for the audit of financial statements promulgated by the German Institute of Certified Accountants (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the consolidated financial statements in accordance with the applicable financial reporting framework and in the Group management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the consolidated financial statements and the Group management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of those entities included in consolidation, the determination of entities to be included in consolidation, the accounting and consolidation principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements and Group management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the consolidated financial statements comply with IFRS, as adopted by the EU, and the additional requirements of German commercial law pursuant to Section 315a para. 1 of the German Commercial Code and give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with these requirements. The Group management report is consistent with the consolidated financial statements and as a whole provides a suitable view of the Group's position and suitably presents the opportunities and risks of future development.

Munich, 2 March 2011

KPMG Bayerische Treuhandgesellschaft Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft
Steuerberatungsgesellschaft

Klaus Becker	**Martin Berger**
Wirtschaftsprüfer	Wirtschaftsprüfer
(Certified public accountant)	(Certified public accountant)

Declaration of the Board of Management

"To the best of our knowledge, and in accordance with the applicable reporting principles, the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group, and the Group management report includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal opportunities and risks associated with the expected development of the Group."

Munich, 9 March 2011

General information

Glossary

Aa

Accumulation // The situation where a number of risks insured or reinsured with the same company may be affected simultaneously by a loss event.

Actuary // Qualified expert who analyses problems from the area of insurance, home loans, investments and pensions using methods of probability theory and financial mathematics, and develops solutions with due regard to legal and economic parameters.

Asset-liability management // Management of a business in a way that coordinates decisions on assets and liabilities. Specifically, it is the ongoing process of formulating, implementing, monitoring, and revising strategies related to assets and liabilities in an attempt to achieve financial objectives for a given set of risk tolerances and constraints.

Available financial resources // These comprise the economic equity (essentially the IFRS equity, adjusted for various factors) and the hybrid capital (subordinated bonds).

Bb

Bornhuetter-Ferguson method // Standard actuarial method used to estimate the reserves needed for future claims expenditure resulting from losses that have already occurred but are not yet sufficiently specific. With this method, the overall loss expected is determined on the basis of historical data on the run-off of losses in the portfolio and an independent assessment by the insurer. These parameters are given different weightings, depending on the information available on the status of the losses.

Cc

Capital Asset Pricing Model (CAPM) // Capital market model based on the portfolio theory, used to evaluate securities. The CAPM expands the portfolio theory to include the question of which part of a security's overall risk cannot be eliminated by means of risk diversification and explains how investment opportunities entailing risk are assessed in the capital markets. Accordingly, in efficient markets where prices already incorporate all the information, a greater return can only be achieved by assuming more risk.

Captive // An insurance company established as a subsidiary of one or more industrial/trading companies or groups mainly for the purpose of insuring the risks of these companies and their affiliates.

Catastrophe bond // Also referred to as "cat bonds" and "act of God bonds", catastrophe bonds are used to transfer (natural) catastrophe risks to the capital markets. The buyers of such bonds profit from a comparatively high coupon rate, but assume all or part of the (re)insurer's risk with regard to a (natural) catastrophe. If a catastrophe exceeds the predefined parametric trigger, some or all of the capital and interest is used to pay the (re)insurer's financial loss from the (natural) catastrophe instead of being repaid/credited to the buyers.

Cedant // Client of a reinsurance company.

Chain ladder method // Standard (multiplicative) actuarial method used to estimate the reserves needed for future claims expenditure on the assumption that the cumulative loss will rise by the same factor in all accident years. With this method, the overall loss expected is determined exclusively on the basis of historical data on the run-off of losses in the insurer's portfolio.

Claims equalisation provision // Provisions required by national regulations to smooth fluctuations in loss experience in future years. In IFRS accounting, they are recognised in equity.

Combined ratio // Percentage ratio of the sum of net claims expenses plus net operating expenses to net earned premiums. It corresponds to the sum of the loss ratio and the expense ratio.

Composite insurer // Insurer that writes both life and non-life business.

Convexity // A volatility measure to describe how a bond's price will change as interest rates rise or fall. As with duration, the concept of convexity is based on an estimate of the bond's present value. A customary bond with regular coupon payments and complete repayment of the principal on maturity will rise in price more strongly if interest rates decline than it will fall in price if interest rates rise. This phenomenon of convexity is caused by a change in the bond's duration when interest rates change. Falling interest rates result in an increase in the bond's duration and thus in its interest-rate sensitivity, so that if interest rates continue to fall, the price rise accelerates. In the case of rising interest rates, the converse occurs.

Credit default swaps (CDSs) // Capital market instruments used by investors to hedge against the risk of debtors defaulting. The size of the spread depends on the market's assessment of the default probability and therefore provides a good indicator of a company's or country's credit standing.

Credit Equivalent Exposure (CEE) // A reference figure used to combine and compare the credit exposure from various product types involving credit risk under a common counterparty limit. The CEE is calculated regardless of the likelihood of a counterparty's default and reflects the estimated loss amount in the event of a default.

Cycle management // Insurance, reinsurance and retrocession markets are subject to global and regional cycles that may have external (interest-rate development, economic development, major losses, etc.) and internal causes (price competition, premium calculation methods, etc.). Managing the cycle means continuously analysing its course, taking proactive strategic measures and ensuring risk-adequate terms (prices, scope of cover, and conditions) in every phase of the cycle.

Dd

Deferred acquisition costs // Costs incurred for the acquisition or the renewal of insurance policies (e.g. commission, cost of processing applications) which are capitalised and amortised over the term of the contracts.

Delta // Also referred to as delta factor. A measure of the change in the option price relative to a change in the value of an underlying asset by one unit. If, for example, an option has a delta of 2, the option price rises by 2% if the value of the underlying asset increases by 1%.

Deposits retained on assumed reinsurance and ceded business // Receivables which reinsurers have vis-à-vis their cedants for collateral (cash deposits) that has been retained by the cedants as a security to cover future reinsurance claims. The cedants show the retained funds as deposits withheld on ceded business.

Duration // The duration in years defines the average term of an interest-sensitive investment (or portfolio), whereas the modified duration (in per cent) indicates how much a bond's overall yield rises or falls when there is a change in interest rate in the market.

Ee

Economic capital buffer // The amount by which the available financial resources exceed the economic risk capital.

Economic risk capital (ERC) // The amount of economic equity that Munich Re needs, with a given risk appetite, to cover unexpected losses in the following year. In Munich Re's risk model, economic risk capital is calculated as 1.75 times value at risk for a 12-month time horizon with a confidence level of 99.5%.

Economic solvency ratio // Calculated by dividing the available financial resources (after dividend and share buy-backs) by the economic risk capital, this ratio is an expression of Munich Re's capital strength.

Embedded value // A valuation measure for long-term insurance business. Embedded value is the total of a company's equity (at market price) and the value of its in-force covered business. The latter is the present value of net future profits from the in-force covered business, established using actuarial methods and in accordance with the MCEV Principles. The value of in-force covered business additionally takes into account the explicitly determined cost of holding capital for the whole term of the portfolio.

Expense ratio // Percentage ratio of operating expenses to earned premiums.

Ff

Facultative reinsurance // The reinsurer assumes a share of selected individual risks. The primary insurer can offer an individual risk in reinsurance, which the reinsurer for its part can either accept or decline (cf. obligatory reinsurance).

Fair value // The amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing business partners in an arm's length transaction.

Gg

Gross/net // In insurance terminology, the terms gross and net mean before and after deduction of the portion attributable to business ceded in reinsurance.

Guaranteed interest // Interest rate to be paid out by the insurer on the savings component of the insurance premium under an endowment insurance policy. This minimum interest rate is contractually guaranteed.

Ii

IBNR reserve // Provision for claims that are not yet known to the insurer (IBNYR = incurred but not yet reported) but also for claims whose case reserves are not sufficient (IBNER = incurred but not enough reserved).

Income from technical interest // The amount earned by assumed insurance business from the mainly risk-free investment of the premium income.

Insurance pool // Risk community in which legally and economically independent insurers and reinsurers combine (or in some cases are required by the government) to create cover for particularly large or unbalanced risks. The participants undertake to write the risks defined in the pool contract only within the framework of the insurance pool and to transfer such risks to it in return for a commission. Every pool member participates in the pool's profit or loss in accordance with its predefined quota share. To spread the risk further, reinsurance covers are often ceded or taken out. Types of pool include coinsurance pools, where all members act as primary insurers, and reinsurance pools, where primary insurers write the risks and then divide these between the participating insurers via reinsurance.

Interest-rate curve // The interest-rate curve models the relationship between interest rates and the term of an investment (e.g. fixed-interest securities). As a rule, the interest rate increases the longer the term. This type of interest-rate curve is therefore referred to as rising (or normal). An interest-rate curve is defined as flat if the interest rate is independent of the term. Inverse (or declining) interest-rate curves are rare. They are produced when less interest is paid on long-term securities (bonds) than on short-term securities. The interest-rate curve is plotted on a graph.

Ll

Living benefits // Payments under life insurance products that are triggered not by the death of the insured person or the maturing of the policy but by the occurrence of other precisely defined insured events or developments. Typical representatives of such products are disability insurance, long term care insurance and critical illness insurance.

Longevity // The insurer's risk that an insured person lives longer than expected or that life expectancy within an insured portfolio rises as a whole.

Loss ratio // Percentage ratio of claims expenses to earned premiums.

Mm

Major loss // Loss which is of particular significance to insurers or reinsurers because its amount or other criteria are exceptional in relation to historical loss experience. A distinction is typically made between man-made major losses and major losses caused by natural catastrophes.

Managing general agency business // Business where the insurer transfers the underwriting authority for a specific portfolio to a managing general agent or managing general agency (MGA) that acts on its behalf. Depending on the arrangement involved, the agent/agency may be assigned additional responsibilities such as claims handling or administrative tasks.

Morbidity // The probability that an individual in a given group will develop a certain disease or disorder.

Mortality // The ratio of deaths to the entire population or to a particular age group. It is globally expressed in numbers or rates and set out in mortality tables.

Mortality table // Table developed using methods of probability theory for estimating the expected mortality of policyholders in a portfolio of life or health insurance contracts. It shows the probability of future mortality on a differentiated basis according to age and other factors, often taking into account demographic trends. Mortality tables with provision for adverse deviation are generally used for measuring technical provisions.

Nn

Net asset value // The value of all tangible and intangible assets of a company minus its liabilities. It reflects a company's fundamental value.

Net expenses for claims and benefits // These include the expenses for claims (claims payments and the change in the provision for outstanding claims), expenses for premium refunds and the change in the remaining technical provisions (provision for future policy benefits and other), in each case after deduction of the ceded share.

Net operating expenses // Commission, personnel costs and general expenses for the acquisition and ongoing administration of insurance contracts, less any commission reimbursed by reinsurers, including profit commission, plus expenses from amortisation of the present value of future profits (PVFP).

Non-proportional reinsurance // Under this form of reinsurance, the reinsurer assumes payment of the primary insurer's loss above a defined amount. The calculation of the reinsurance premium is based on claims experience with the type of business concerned.

Oo

Obligatory reinsurance // With this reinsurance, the primary insurer is obliged to cede all risks specified in the contract to the reinsurer within a certain scope. The reinsurer accepts these risks without assessing them on a case-by-case basis. Although obligatory reinsurance agreements contain agreed periods of notice, they are generally concluded for an unlimited duration. These treaties between insurers and reinsurers may therefore run for long periods (cf. facultative reinsurance).

Pp

Pandemic // The spread of a disease or – in the narrower sense – infectious disease across national borders and continents. Unlike an epidemic, which is a disease occurring in a limited area and time, a pandemic is not restricted to a certain geographical area.

Policyholders' bonuses // In life and health insurance, policyholders are entitled contractually and by law to an appropriate share of the surplus earned by their insurers. The amount of this bonus is fixed anew each year. As a rule, in life insurance these bonuses increase the benefit payable on maturity of the policy or on occurrence of the insured event; in health insurance, they are paid by way of premium refunds.

Premiums // The amount that has to be paid for the insurance cover provided by an insurer. It may be paid as a regular or single premium. Premiums written means all premium income that has become payable in the financial year. The portion of this premium income that constitutes payment for insurance cover in the financial year is referred to as earned premiums. In the case of products that are largely of an investment nature (e.g. financing treaties and unit-linked life insurance), it only includes – under IFRSs – the amount serving to cover the risk and costs. However, under statutory accounting rules in the insurance company's home country, premium income may also include the policyholders' savings premiums from unit-linked life insurance and capitalisation products.

Present value of future profits (PVFP) // When insurance companies or individual insurance portfolios are acquired, the present value of the expected earnings from the business acquired is capitalised as PVFP. This intangible asset arises in particular when life or health insurance companies are acquired.

Proportional reinsurance // Form of reinsurance in which the sum insured written by the primary insurer is divided proportionally between the primary insurer and the reinsurer, and the reinsurer is allocated a corresponding share of the premiums and claims.

Provision for future policy benefits // Technical provision calculated using actuarial methods to cover future benefits to which policyholders are entitled, especially in life, health and personal accident insurance. It amounts to the balance of the present value of future obligations less the present value of future premiums.

Provision for outstanding claims // Provision for claims that have already been incurred at the balance sheet date but have either not yet been reported or not yet been fully settled.

Provision for premium refund // Provision made for obligations involving bonuses and rebates – especially in life and health insurance – which are not yet payable at the balance sheet date; the amount posted is based on supervisory or contractual regulations. It also includes the policyholders' share of accumulated valuation differences between IASs/IFRSs and the German Commercial Code (provision for deferred premium refunds).

Public-private partnership (PPP) // Long-term arrangement between private companies and public bodies with the aim of providing public services in a more economical manner.

Rr

Reinsurance capacity // Amount of cover that a reinsurance company or the market as a whole can make available.

Renewals // Although obligatory reinsurance agreements contain agreed periods of notice, they are generally concluded for an unlimited duration. These treaties between insurers and reinsurers may therefore run for long periods. In such cases, the treaty conditions are usually adjusted in renewal negotiations each year, and the treaties renewed.

Replicating portfolio // A securities portfolio that reflects the payout structure of the technical provisions.

Retrocessionaire // Company that reinsures reinsurance business assumed by other insurance companies. Retrocession enables the reinsurer to lay off part of its risk to other insurance companies.

Risk exposure // Essentially, the extent of a risk in terms of its potential deviation from the expected value under certain probability assumptions; in connection with accounting, the term is also used to quantify the potential loss resulting for a company from certain assets.

Run-off triangle // Also known as "loss triangle", this is a tabular representation of claims-related data (such as payment, claims reserve, ultimate loss) in two, time-related dimensions. One of these is the calendar year, while the other is usually the accident year (year of the loss occurrence). Run-off triangles – as the basis for measuring claims reserves – make clear how the claims reserve changes over the course of time due to payments made and new estimates of the expected ultimate loss at the respective balance sheet date.

Ss

Scenario analysis // Type of analysis used to investigate how certain key figures (market values or carrying amounts) change in the event that predefined market developments occur. Scenario analyses usually take the form of average if-then analyses.

Solvency II // Project of the European Commission to fundamentally reform and harmonise European insurance supervisory regulations. Solvency II follows the three-pillar approach: minimum capital requirements (quantitative), supervisory review processes (qualitative) and market discipline (disclosure).

Stop-loss cover // Non-proportional reinsurance which triggers limited liability if the primary insurer's total loss burden for a specific duration of cover exceeds a predefined value.

Stress test // A special form of scenario analysis. The aim is to make a quantitative statement on the loss potential of portfolios in the event of extreme market fluctuations.

Tt

Tail dependencies // The result of risk drivers interacting in exceptional situations, i.e. different lines of business, geographies and risk types being affected by extreme events at the same time. Compared with a situation where the risks are assumed to be independent, this results in a lesser diversification effect, which is reflected in a higher capital requirement.

Technical provisions // Uncertain liabilities directly connected with insurance business. These provisions are made to ensure that obligations under insurance contracts can always be met.

Technical result // Balance of income and expenses apportionable to (re)insurance business. The technical result includes an interest component, the income from technical interest, which is reallocated from the non-technical result.

Uu

Ultimate loss // As calculated at the end of the calendar year under consideration, the ultimate loss for an accident year indicates the estimated aggregate claims expenditure that will have to be paid to finally settle the claim(s). It comprises the claims payments already made for the accident year in question and the remaining claims reserve posted for payments in future years. Since claims reserves are based on estimates, the ultimate loss changes from one calendar year to the next. Reference may therefore also be made to the ultimate loss position or the ultimate loss estimate.

Underwriter // Member of an insurance or reinsurance company that acts on behalf of his or her employer to negotiate, accept or reject the terms of a (re)insurance contract. They are responsible for ensuring the quality and reliability of risk-transfer solutions. Their job is to develop products that best reflect the characteristics of the risks and clients' needs.

Unearned premium // The portion of premium income in the financial year that is attributable to periods after the balance sheet date is accounted for in the technical provisions as unearned premiums.

Unit-linked life insurance // A type of life insurance with a savings component, where the benefits payable depend on the performance of the assets invested in a fund. The investment risk is borne by the policyholder.

Universal life // Contracts in life primary insurance where the amount of the premiums or benefits is not guaranteed or fixed, and the policyholder can vary the premium payments within certain limits.

Vv

Value at risk // Method of quantifying risk; measures the potential future losses that may not be exceeded within a specified period and with a specified probability.

Variable annuities // A special form of unit-linked life insurance where the investment risk is borne primarily by the policyholder but the insurer guarantees a minimum payment on occurrence of the insured event.

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Multi-year overview

		31.12.2010	31.12.2009	31.12.2008	31.12.2007	31.12.2006
Balance sheet						
Investments	€m	193,108	182,175	174,936	176,155	176,891
Equity	€m	23,028	22,278	21,107	25,294	26,292
Net technical provisions	€m	171,068	163,934	157,101	152,381	153,869
Balance sheet total	€m	236,358	223,412	215,362	214,268	215,872
Shares						
Dividend per share	€	6.25	5.75	5.50	5.50	4.50
Amount distributed	€m	1,118	1,072	1,073	1,124	988
Share price	€	113.45	108.67	111.00	132.94	130.42
Munich Re's market capitalisation	€bn	21.4	21.5	22.9	29.0	29.9
Other						
Combined ratio						
Reinsurance property-casualty	%	100.5	95.3	99.4	96.4	92.6
Primary insurance property-casualty	%	96.8	93.2	90.9	93.4	90.8
Munich Health	%	99.7	99.4	–	–	–
Number of staff		**46,915**	**47,249**	**44,209**	**38,634**	**37,210**

€m	2010	2009	2008	2007	2006
Gross premiums written	45,541	41,423	37,829	37,256	37,436
Net earned premiums	43,075	39,526	35,724	35,670	35,714
Income from technical interest	6,587	5,794	4,804	–	–
Net expenses for claims and benefits	36,583	32,392	28,716	30,469	29,780
Net operating expenses	11,114	10,181	9,056	8,878	8,834
Technical result	1,965	2,747	2,756	–	–
Investment result	8,642	7,883	5,916	9,253	8,972
Other operating income	807	688	707	723	669
Other operating expenses	849	803	741	726	864
Deduction of income from technical interest	-6,587	-5,794	-4,804	–	–
Non-technical result	2,013	1,974	1,078	–	–
Operating result	3,978	4,721	3,834	5,573	5,877
Other non-operating result	-454	-472	-347	-505	-396
Impairment losses of goodwill	109	117	175	11	4
Finance costs	293	304	361	333	310
Taxes on income	692	1,264	1,372	801	1,648
Consolidated result	2,430	2,564	1,579	3,923	3,519
Attributable to Munich Reinsurance Company equity holders	2,422	2,521	1,555	3,840	3,425
Attributable to non-controlling interests	8	43	24	83	94

€	2010	2009	2008	2007	2006
Earnings per share	**13.06**	**12.95**	**7.74**	**17.83**	**15.05**

Quarterly figures

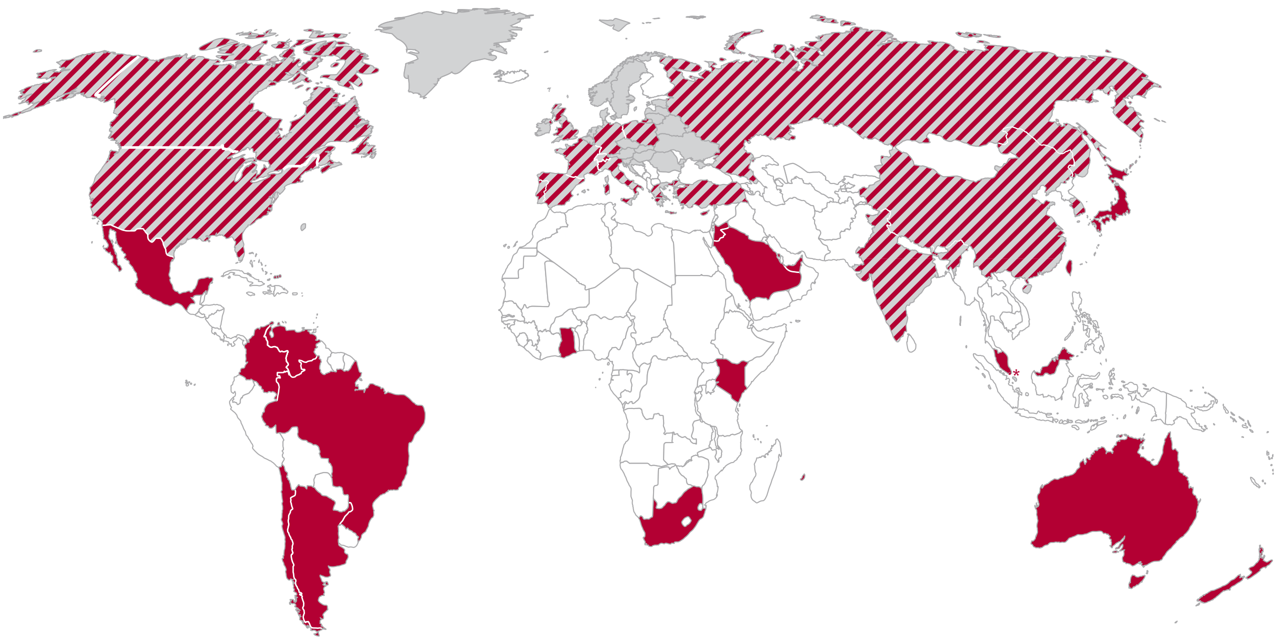
		31.12.2010	30.9.2010	30.6.2010	31.3.2010
Balance sheet					
Investments	€m	193,108	194,017	192,462	187,768
Equity	€m	23,028	24,136	23,749	23,190
Net technical provisions	€m	171,068	171,473	172,323	169,136
Balance sheet total	€m	236,358	237,265	237,322	230,475
Shares					
Share price	€	113.45	101.60	103.35	120.15
Munich Reinsurance Company's market capitalisation	€bn	21.4	19.1	19.5	23.7
Other					
Combined ratio					
Reinsurance property-casualty	%	100.5	102.1	106.4	109.2
Primary insurance property-casualty	%	96.8	95.6	96.6	98.7
Munich Health	%	99.7	99.6	100.4	101.3
Number of staff		**46,915**	**47,187**	**47,087**	**47,017**

€m	Total	Q4 2010	Q3 2010	Q2 2010	Q1 2010
Gross premiums written	**45,541**	**11,481**	**11,447**	**10,956**	**11,657**
1. Earned premiums					
Gross	44,955	11,630	11,367	11,348	10,610
Ceded	1,880	509	491	423	457
Net	43,075	11,121	10,876	10,925	10,153
2. Income from technical interest	6,587	1,276	1,823	1,661	1,827
3. Expenses for claims and benefits					
Gross	37,747	9,112	9,517	9,476	9,642
Ceded share	1,164	389	209	318	248
Net	36,583	8,723	9,308	9,158	9,394
4. Operating expenses					
Gross	11,545	3,269	2,714	2,977	2,585
Ceded share	431	98	108	88	137
Net	11,114	3,171	2,606	2,889	2,448
5. Technical result (1–4)	**1,965**	**503**	**785**	**539**	**138**
6. Investment result					
Investment income	13,666	3,072	3,364	3,856	3,374
Investment expenses	5,024	1,711	1,161	1,238	914
Total	8,642	1,361	2,203	2,618	2,460
Thereof:					
Income from associates accounted for using the equity method	51	–7	25	19	14
7. Other operating income	807	279	181	166	181
8. Other operating expenses	849	256	197	214	182
9. Deduction of income from technical interest	–6,587	–1,276	–1,823	–1,661	–1,827
10. Non-technical result (6–9)	**2,013**	**108**	**364**	**909**	**632**
11. Operating result	**3,978**	**611**	**1,149**	**1,448**	**770**
12. Other non-operating result	–454	–229	100	–182	–143
13. Impairment losses of goodwill	109	–	–	109	–
14. Finance costs	293	74	74	76	69
15. Taxes on income	692	–167	414	372	73
16. Consolidated result	**2,430**	**475**	**761**	**709**	**485**
Thereof:					
Attributable to Munich Reinsurance Company equity holders	2,422	467	764	709	482
Attributable to non-controlling interests	8	8	–3	–	3

€	Total	Q4 2010	Q3 2010	Q2 2010	Q1 2010
Earnings per share	**13.06**	**2.58**	**4.15**	**3.80**	**2.54**

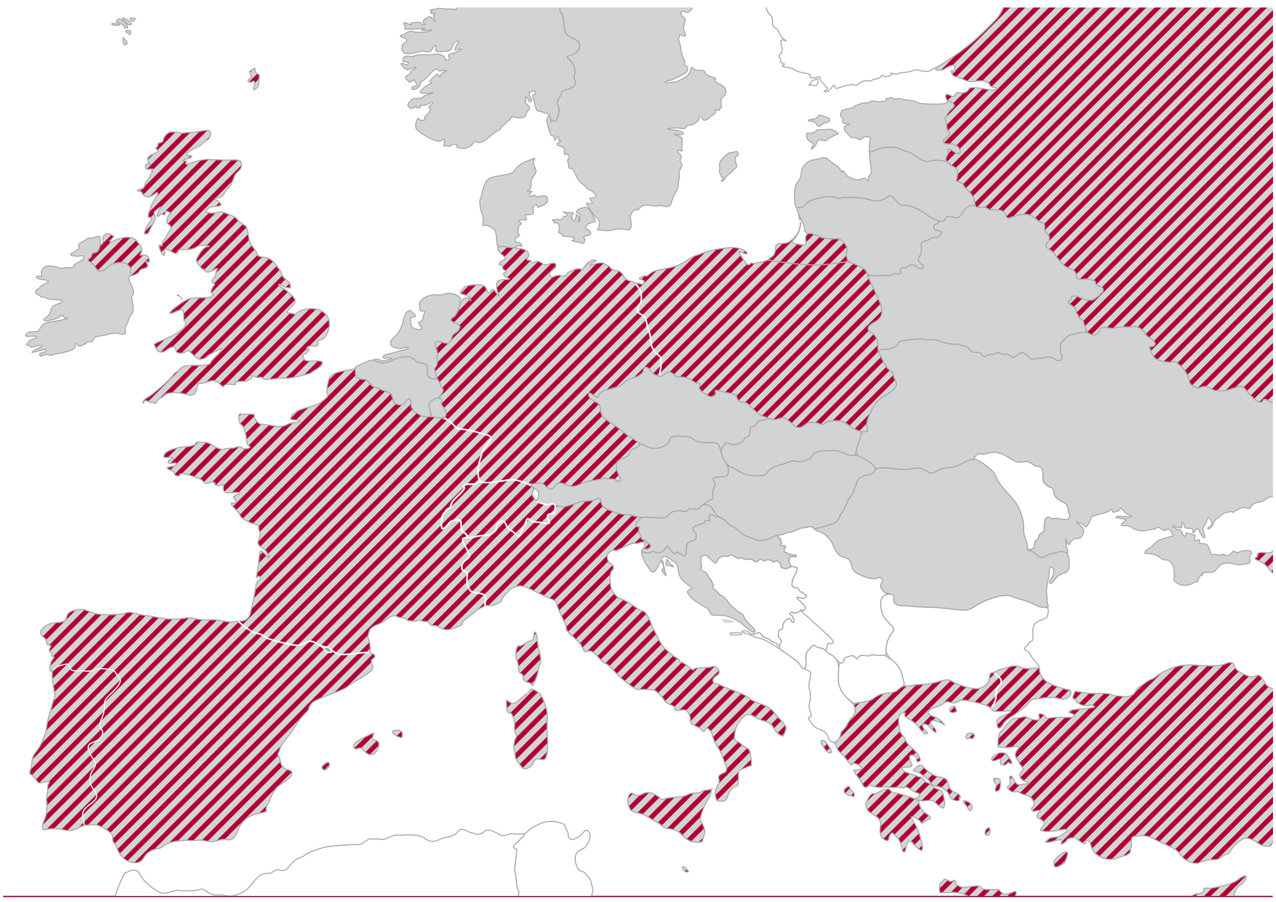
Munich Re's global presence[1]

Munich Re's presence – Worldwide



* Singapore

Munich Re's presence – Europe-wide



● Reinsurance ● Primary insurance ⧄ Reinsurance and primary insurance

[1] Including Munich Health's primary insurance and reinsurance activities in the health market as at 31 December 2010.

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Important dates 2011

// **20 April 2011**
Annual General Meeting
// **21 April 2011**
Dividend payment
// **9 May 2011**
Interim report as at 31 March 2011
// **4 August 2011**
Interim report as at 30 June 2011
// **4 August 2011**
Half-year press conference
// **8 November 2011**
Interim report as at 30 September 2011

Important dates 2012

// **13 March 2012**
Balance sheet press conference
for 2011 consolidated financial statements
// **26 April 2012**
Annual General Meeting
// **8 May 2012**
Interim report as at 31 March 2012
// **7 August 2012**
Interim report as at 30 June 2012
// **7 August 2012**
Half-year press conference
// **7 November 2012**
Interim report as at 30 September 2012