

Munich Reinsurance Company Annual Report 2008



Münchener Rück
Munich Re Group

$$du) = \int_a^b \left(\frac{\partial u}{\partial x}(t) + \frac{\partial u}{\partial y}(t) \right)$$
$$\sum_{k=0}^n \frac{f^{(k)}(0)}{k!} h^k + \frac{f^{(n+1)}(0)}{(n+1)!} h^{n+1}$$

Key figures

Munich Reinsurance Company

	€m	2008	2007	2006
Gross premiums written		16,495	17,562	17,847
Investments		70,763	72,080	73,781
Net technical provisions		53,252	55,289	58,747
Shareholders' equity		9,782	9,306	11,155
Profit/loss for the year		2,987	1,443	1,695
Dividend		1,074	1,124	988
Dividend per share in €		5.50	5.50	4.50
Share price at 31 December in € ¹		111.00	132.94	130.42
Market capitalisation at 31 December		22,910	28,966	29,942

¹ Source: Datastream



Knowledge at work – that is how Munich Re sees its operations. We concentrate our know-how on our core business: risks and their management. This year's annual report provides interesting insights into the Munich Re Group's different fields of business. More at www.munichre.com.

Munich Reinsurance Company

Report on the 129th year of business

1 January to 31 December 2008

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

Report of the Supervisory Board



Dr. Hans-Jürgen Schinzler
Chairman of the Supervisory Board

Ladies and gentlemen,

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

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

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

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

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

Focal points of the meetings of the full Supervisory Board

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

Focal points at the meetings of the full Supervisory Board were the quarterly financial statements and the annual result for 2008. We naturally also discussed the Company financial statements and the Group financial statements for the previous financial year and prepared the motions for resolution by the 2008 Annual General Meeting. At each meeting, we obtained detailed reports

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

Work of the committees

The composition of the committees of the Supervisory Board (Personnel Committee, Audit Committee, Standing Committee, Nomination Committee and Conference Committee) is shown in the overview on page 93. Dr. Albrecht Schmidt as Chairman of the Audit Committee, and I as Chairman of the other committees, provided detailed information on the committees' work at all meetings of the full Supervisory Board. Overall, committee work once again took up more time in the year under review.

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

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

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

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

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

**Corporate governance
and declaration of conformity**

Good corporate governance is of particular concern to us. We thus welcome the fact that the Board of Management has further clarified the Munich Re Code of Conduct and thereby clearly documented the conduct expected of all staff. The new version of the German Corporate Governance Code has necessitated the amendment of the Supervisory Board's rules of procedure with regard to responsibility for the system governing the Board of Management's remuneration. In keeping with the normal schedule, the Standing Committee monitored the efficiency of our Supervisory Board activities and presented the results to the full Supervisory Board for discussion. Further information on these topics and on corporate governance in general is available in the joint report of the Board of Management and Supervisory Board on page 40.

In November 2008, the Board of Management and Supervisory Board submitted their annual declaration of conformity with the German Corporate Governance Code as per Section 161 of the German Stock Companies Act, which can be read on page 43 of this report and on the Company's website.

Changes on the Board of Management

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

Company and Group financial statements

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

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

Words of thanks to the Board of Management and employees

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

Munich, 13 March 2009

For the Supervisory Board



Dr. Hans-Jürgen Schinzler
Chairman

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Munich Reinsurance Company

Structure of Munich Reinsurance Company

As a professional reinsurer, Munich Reinsurance Company operates worldwide in all classes of insurance and offers a full range of products – from traditional reinsurance to innovative solutions for risk assumption. It is the parent company of the Munich Re Group, whose business encompasses reinsurance, primary insurance and asset management.

We conduct our business directly from our headquarters and also via a large number of branches. Since 2005, “unified control” within the meaning of the German Stock Companies Act has existed between Munich Reinsurance Company and the ERGO Insurance Group. The relevant statutory regulations and a Group directive govern the distribution of responsibilities and competencies for key decisions between Group management and ERGO.

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

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

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

The operative divisions are also responsible for our business units abroad, including our subsidiaries.

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

Our Europe and Latin America Division is responsible for the property-casualty business of our clients from Europe (except Germany) and Latin America. In order to simplify organisational structures within the Munich Re Group, we merged Münchener Rück Italia into Munich Reinsurance Company with effect from 1 January 2009.

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

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

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

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

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

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

The reinsurance group at a glance¹

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

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

Important tools of corporate management

Our corporate management is defined by the Group perspective, of which Munich Reinsurance Company is a significant part. Since our fields of business are managed on a Group-wide basis, it is difficult to extract the Company from this overall concept. A description of the Munich Re Group's management system and its implications for the Company's key performance indicators is therefore provided below.

Munich Re's value-based management philosophy

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

What we aim to achieve **Starting point 2008**

In the past year, the business of insurance companies was strongly impacted by the financial crisis, and the Munich Re Group also felt the effects. As a result of the financial market turmoil in 2008, our return on risk-adjusted capital, which stood at 6.9%, fell clearly short of our general target of 15% after tax over the full cycle (a definition of RORAC is provided on page 14). The main reason for this was the return of 3.4% (5.2%) on our investments, which was lower than the long-term average. This is the ratio of the investment result of €5.8bn to the average market value of the investment portfolio at the balance sheet and quarterly reporting dates, totalling €172bn. With the Munich Re Group's absolute consolidated profit declining to €1.5bn, the return on equity or RoE fell to 6.7% in terms of the average value of IFRS equity at the year-end and quarterly reporting dates. Compared with our competitors, however, the Munich Re Group has weathered the financial crisis well thanks to our especially robust capitalisation and balanced investment policy. This fact is reflected in particular in the development of our share price, which has sustained significantly lower losses than those of our competitors.

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

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

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

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

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

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

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

Risk-based Group return target for the financial year 2009

Given the financial crisis and the clear signs of a worldwide recession, it is difficult to define guidelines for our future entrepreneurial success. Nevertheless, the targets we have set ourselves for 2009 are ambitious against the background of the crisis. Whether we achieve them is naturally highly uncertain in such a situation. For this purpose, we are again employing a risk-based performance measure which we have used for external communication since 2006: return on risk-adjusted capital (RORAC). We derive this target by placing the profit achieved or aimed at, expressed in euros, in relation to the necessary risk capital, the amount of which we determine using our internal risk model and publish once a year. Information on the internal risk model is provided on page 61. We thus take into account the economic standards currently underlying (at least to some extent) the requirements of supervisory authorities and rating agencies – standards that are set to play a decisive role in future.

RORAC is defined as follows:

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

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

At what level should the RORAC target be set?

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

What assumptions is this target based on?

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

Embedded values as additional performance indicators

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

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

Our targets – Ambitious but attainable

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

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

What do these Group targets mean for Munich Reinsurance Company?

In underwriting, we are proceeding on the assumption that with the solid quality of our business, we can achieve a combined ratio of 97% or better, on the basis of a major-loss burden from natural catastrophes of 6.5% of our net earned premiums. As far as the investment result is concerned, we are unlikely to achieve a return of 4.5% (our long-term target) owing to the uncertainties on the financial markets. The imponderables resulting from the financial crisis and recession mean that a serious projection of the annual profit for 2009 is not possible.

Binding standards for underwriting and pricing

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

Parameters

General parameters

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

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

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

Economic parameters

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

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

In the first half of 2008, the global environment was characterised by price increases for commodities, especially oil, and foodstuffs. In the wake of this, inflation rates in most industrial nations rose to the highest levels for many years. This development reversed in the second half of 2008. Owing to the global economic slowdown, a reduction in inflationary pressure was observable. Nevertheless, seen over the course of the year, rates of inflation in the USA and the eurozone increased compared with the previous year. Extensive government rescue packages were launched in response to the problems of the international financial markets. Furthermore, the central banks of the largest economies slashed their key interest rates. The US Federal Reserve,

for example, reduced its reference interest rate from 4.25% at the start of the year to 0–0.25% at the end of 2008. The European Central Bank lowered its reference interest rate from 4.0% to 2.5%, and the Bank of England cut its key interest rate from 5.5% to 2.0%.

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

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

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

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

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

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

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

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

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

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

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

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

In general, development of the insurance markets was supported by the still robust economy up to mid-2008. This applied especially to markets in emerging economies. In China and India, for example, the figures up to and including October show that dynamic premium growth continued. Some European markets also displayed positive growth dynamics; in Spain, for example, total premiums in the first three quarters were up by around 6% year on year. In France, on the other hand, premium income showed a downward trend, at least in life insurance (-11% year on year, up to and including November).

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

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

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

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

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

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

Overview and key figures

Munich Reinsurance Company's business performed satisfactorily overall in the year under review.

In the financial year 2008, the Company wrote gross premiums totalling €16.5bn (17.6bn), a year-on-year decline of 6.1% which was mainly attributable to negative currency translation effects. Approximately €11.4bn or 69% of premium was written in foreign currency, of which 27% was in US dollars and 14% in pounds sterling, with some 85% (80%) of our premium income coming from business with non-German clients. We continued to adhere strictly to our underwriting policy of risk-adequate prices, terms and conditions.

Our technical result before claims equalisation provisions showed a loss of €266m in 2008, whereas in the previous year we had recorded a profit of €785m. The main reasons for the negative result are a strengthening of reserves for medical malpractice claims in Israel, for motor liability claims in Germany as a consequence of unexpectedly high losses reported in 2008, and for workers' compensation business in the loss portfolio taken over from our US subsidiary Munich Re America. We had to cope with further burdens on the result owing to the amendment in the recognition of changes in fair value for unit-linked life insurance business with guaranteed death benefits. In particular the development on the capital markets contributed to the related increase in provisions for future policy benefits. At €1.3bn, claims costs for major losses were also approximately 28% higher than in the previous year (€1.0bn), but were still within the long-term average. Particularly worthy of mention among the natural catastrophe losses are Hurricanes Gustav and Ike in the USA and the Caribbean, for which we incurred expenditure of around €367m. Extensive damage was also wreaked by a series of severe weather events in Queensland, Australia, in January and February 2008, which caused losses in the region's coal-mining industry. In addition, monsoon-like rains in February led to heavy flooding. Taken together, these loss events gave rise to claims expenditure of around €120m. The biggest man-made loss was an explosion at a sugar refinery in the USA, for which our claims costs totalled €70m.

The combined ratio, which reflects the relation of claims and costs to net earned premiums, came to 102.4% (95.9%).

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

Major losses over €10m (net) ¹						
	€m	2008	2007	2006	2005	2004
Major losses total		1,286	1,006	605	2,972	1,046
Thereof natural catastrophes		622	537	158	2,467	675

¹ Previous years adjusted owing to an increase in the threshold for major losses.

Whereas in the previous year our good result enabled us to allocate €1,122m to the claims equalisation provision and similar provisions, in the year under review these provisions were reduced by €786m. We were obliged to carry out this reduction due to the transfer of natural hazards risks from the provision for natural hazards to the claims equalisation provision. In connection with this transfer, the natural hazards provision of €964m was reversed, which in turn was reflected in an increased allocation to the claims equalisation provision.

After the change in claims equalisation provisions, our technical result showed a profit of €520m, whereas in the previous year we had recorded a loss of €337m.

Our investment result totalled €4,029m, a further improvement of €336m compared with the previous year – despite the financial market crisis. This is chiefly due to the special dividend payment of €947m by ERGO Versicherungsgruppe AG. Some €463m (799m) of the investment result is incorporated in the technical result as interest on technical provisions.

Munich Reinsurance Company's return on investment (including deposits retained on assumed reinsurance) thus rose to a gratifying 5.6% (5.1%) in the financial year.

Munich Reinsurance Company's results						
	€m	2008	2007	2006	2005	2004
Technical result		520	-337	-122	-1,706	-507
Investment result without interest on technical provisions		3,566	2,894	2,339	1,391	1,887
Other result		-439	-465	-301	-278	-505
Taxes		-660	-649	-221	-399	-98
Profit/loss for the year		2,987	1,443	1,695	-992	777
Net retained profits		1,567	1,198	1,033	712	459

In the financial year 2008, we posted a profit for the year of €2,987m. After the transfer of €1,493m to our revenue reserves and consideration of the profit carried forward, net retained profits totalled €1,567m. Of this amount, €1,074m has been earmarked for payment of a dividend of €5.50, and €432m for allocation to the revenue reserves.

Events after the balance sheet date

Under the share buy-back programme decided on by the Munich Re Board of Management in the second quarter of 2008, we repurchased a further 450,000 Munich Re shares with a volume of €46m after the balance sheet date up to 2 March 2009.

Classes of business

In **life reinsurance**, we recorded a decrease in premium volume in the year under review, mainly owing to the scheduled reduction of large-volume reinsurance treaties and negative currency translation effects.

However, we expect fundamental growth impulses for our new business in future from such developments as the restructuring of the European solvency regime (Solvency II), the continuing privatisation trends in old-age and disability provision, the need for asset protection and the dynamic expansion of the insurance markets in Asia and Eastern Europe. In Germany, "Riester" and

“basic” pension products were the main sales drivers for German life insurers in 2008. All in all, however, life insurance sales in Germany were rather sluggish.

Our new business could not fully compensate for the scheduled reduction of large-volume quota share treaties with low result contributions. The cutback in large-volume treaties has been concluded for the present, which gives us reason to expect a rise in premium income for 2009. The trend towards cover for disability risks continued in new business.

Given its extremely rapid economic development and the corresponding expansion in its life insurance industry, Asia has gained significantly in importance. It is one of the prime growth regions for the Company's life reinsurance. In 2008, we continued to expand our involvement in the region and made selected investments with a view to benefiting even more strongly in the long run from the business opportunities present.

Our result in life reinsurance was unsatisfactory owing to the decrease in interest on technical provisions and to losses in American business with financial guarantees that suffered from declining values on the stock markets. We anticipate that growth will be above average in the coming years, partly due to our initiatives in Asia, but that it will be at least temporarily curbed because of the global recession.

In **health reinsurance**, we posted an increase in premium volume in the year under review, mainly owing to the expansion of client relationships in the Gulf region.

For German statutory health insurance, the past year was dominated by preparations for the new health fund, leading to a reorganisation of financing in this field as from 1 January 2009. It is against this background that the government introduced, as announced, the new insolvency code for statutory health insurers. There have been first signs that the statutory health insurers are likely to have a greater need for risk protection. Private health insurance too is beginning to show an increasing demand for reinsurance against large losses and catastrophe losses as new advances in medicine are made. As things stand at present, it is likely that the introduction of the new insurance supervision principles (Solvency II) will lead to a differentiated view of overall risk management and a greater need for customised reinsurance solutions, which in turn will promote even closer ties with clients.

In the Gulf states, our business model combining reinsurance and risk management through our managed care service organisation MedNet continued to show robust growth. There are also privatisation trends in other Gulf states, promising further high growth in the medium to long term.

Even if we were unable to emulate the previous year's result, it was nevertheless still satisfying. Thanks to our growth initiatives in the Gulf region, we expect the result to improve again in the coming years.

In **accident reinsurance**, we recorded a decrease in premium volume in the year under review, primarily attributable to the reduction of a large-volume quota share treaty.

Although the result improved compared with the previous year, it was still negative and below expectations. The main reason for this poor performance was the need for further reserve strengthening to take account of longer run-off periods and higher medical costs in workers' compensation business in the loss portfolio for accident years 2001 and prior taken over from our US subsidiary Munich Re America in 2005.

In **liability reinsurance**, premium volume declined chiefly because of the reduction of a major proportional quota share treaty and negative currency translation effects. Market players' risk awareness was high, leading to realistic estimates of potential losses and therefore to risk-adequate prices. We consistently adhered to our profit-oriented pricing and underwriting discipline and withdrew from unprofitable business.

The result deteriorated compared with the previous year, reflecting a strengthening of reserves for medical malpractice claims in Israel.

We recorded a decline in premium volume in **motor reinsurance**, mainly because of the adverse developments in primary insurance premiums, the reduction of a major proportional quota share treaty, higher cedant retentions and negative currency translation effects. The pressure on rates persisted on a broad front in Germany and the USA, causing us to systematically withdraw from business where our requirements with regard to risk-adequate prices, terms and conditions could not be realised.

The lower result compared with the previous year was essentially due to the reserve strengthening for motor liability claims in Germany as a consequence of unexpectedly high losses reported in 2008. We will continue to participate very selectively in proportional business, provided it offers sufficient profitability on a sustained basis.

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

The result, however, was down on 2007, owing to higher claims costs for major losses arising from several natural catastrophes.

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

The price erosion of recent years persisted in aviation, where it spread to covers for small aircraft. As a consequence, we withdrew from underpriced business. Since the non-proportional reinsurance of aviation risks remains very profitable, however, we expanded our business in this area as planned.

Space business developed very favourably in 2008. Although the major-loss burden in the previous year did not result in a reduction of overcapacity, it did give rise to appreciable price increases. These parameters consolidated our position as market leader, improved the quality of premiums and led us to acquire increased shares in selected risks.

The result in aviation reinsurance was slightly up on the previous year, largely because of reduced major-loss experience in space business.

In **fire reinsurance**, premium income reduced year on year mainly owing to the termination of intercompany retrocession business and negative currency translation effects. As in the past, we systematically refrained from writing business that did not meet our requirements for risk-adequate prices, terms and conditions.

The result was still very pleasing, even though it declined significantly compared with 2007, chiefly due to the steep increase in expenditure for major losses compared with the previous year, the largest single loss being Hurricane Ike in the USA and the Caribbean.

In **engineering reinsurance** (machinery, EAR, CAR, EEI, etc.) premiums rose, partly as a consequence of business growth in the Middle East and a reorganisation and increase of reinsurance cessions in Germany.

In 2008, we were able to slightly surpass the previous year's already very good result.

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

Premium volume in these classes was higher than in 2007. We further extended 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 applied our vast experience and expertise in this business to other regions with a high potential for profitable growth.

The combined technical result of these classes improved marginally year on year, due essentially to the reduced expenditure for major claims.

Premium volume in credit reinsurance grew modestly in 2008, but the result declined significantly owing to higher, recession-related claims costs compared with the previous year.

	Gross premiums written		Underwriting result before claims equalisation provision and similar provisions		
	€m	2008	2007	2008	2007
Life		4,050	4,848	34	306
Health		884	820	14	51
Accident		379	455	-339	-398
Liability ¹		1,443	1,534	-338	-140
Motor		1,968	2,184	-296	-90
Marine ¹		1,000	1,048	43	160
Aviation		519	471	38	10
Fire		3,055	3,179	328	670
Engineering		1,298	1,196	127	110
Other		1,899	1,828	123	106
Non-life combined		12,445	12,714	-301	479
Total		16,495	17,562	-266	785

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

Claims equalisation provision and similar provisions

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

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

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

The balance-sheet item "claims equalisation provision and similar provisions" declined by €786m to €8,744m (9,530m) in the financial year 2008. This significant reduction was mainly due to the transfer of natural hazards risks from the provision for natural hazards to the statutory claims equalisation provision. This measure was taken because the conditions for establishing an explicit provision for natural hazards risks no longer exist given our improved natural hazards risk management. Previously, the provision for natural hazards had been included in the provisions for major risks. The reversal amounting to €964m in the provision for natural hazard risks and the associated additional coverage of these risks under the claims equalisation provision nominally results in an increased allocation to the latter. This allocation, however, is restricted by statutory limits. Altogether, we strengthened the statutory claims equalisation provision by €170m (754m), mainly in marine, credit and bonding, and other classes of business. In the financial year, the Company also allocated €13m (18m) to the provision for terrorism risks and reduced the provision for pharmaceutical product liability risks and the provision for nuclear risks by €1m (+4m) and €4m (+6m) respectively.

Investments

Investment principles Our investment strategy naturally also considers supervisory requirements aimed at ensuring optimum security and profitability, with sufficient liquidity at all times, and an appropriate mix and spread. We continue to satisfy all applicable accounting and taxation requirements. We invest only in assets from which we expect an appropriate return, our asset managers paying strict attention to the risk tolerance. As far as possible we reduce currency risks by matching our expected liabilities with assets in correlated currencies. We also take care that the maturities of our fixed-interest securities are aligned with those of our liabilities. The methods we use to control investment risks are described in detail in the risk report. Our investment strategy is committed to the principle of sustainability. We aim to invest at least 80% of the market value of our investments in assets that are included in a sustainability index or satisfy generally recognised sustainability criteria. Since mid-2007, we have used the services of oekom research, an independent rating agency for sustainability, to advise us in this area. Our sustainability criteria for corporate and bank bonds have been considerably tightened as a result.

Liquidity **Liquidity** is ensured at all times by means of detailed liquidity planning. As a rule, the Company generates significant liquidity from its premium income, from regular investment income and from investments that mature. We also attach great importance to the creditworthiness and fungibility of our investments.

Investment mix						
	€m	31.12.2008	31.12.2007	31.12.2006	31.12.2005	31.12.2004
Land, land rights and buildings, including buildings on third-party land		863	824	981	1,005	1,037
Investments in affiliated companies and associates		23,675	21,831	12,293	12,054	13,015
Loans to affiliated companies and participating interests		2,002	703	247	211	1,236
Shares, investment certificates and other non-fixed-interest securities		5,163	7,839	14,590	15,385	12,927
Bearer bonds and other fixed-interest securities		21,707	21,419	21,915	19,266	17,937
Other investments		815	919	458	522	502
Total		54,225	53,535	50,484	48,443	46,654

Development and structure of investments The carrying amount of the Company's investments (excluding deposits retained on assumed reinsurance) rose by 1.3% to €54.2bn in the financial year 2008. The following items involved significant changes:

Land, land rights and buildings, including buildings on third-party land Our real estate investments are geared to generating an appropriate yield from regular income and growth in value, which requires continually monitoring existing properties and property funds with regard to their long-term profitability, and their location- and property-specific risks. Following the sale of a German real-estate package comprising residential and commercial properties that we concluded in 2007, our concentration on property in Germany is no longer as strong as it was in past decades.

Investments in affiliated companies and participating interests	Carrying amounts increased by €1,844m. The investment holding companies founded in the previous year, which are the owners of special funds for fixed-interest securities, brought in a further €721m in the 2008 financial year. A capital increase of €1,078m was carried out at Munich American Holding Corporation for the acquisition of The Midland Company, Sterling Life Insurance Company and Olympic Health Management Systems.
Loans to affiliated companies and participating interests	The increase in carrying amounts totalling €1.3bn was mainly due to the granting of loans to ERGO Versicherungsgruppe AG.
Shares, investment certificates and other non-fixed-interest securities	The portfolio reduction by €2.7bn is attributable to a significant decrease in the equity portfolio, the bulk of which comprises shares in European companies. This was due on the one hand to our selective equity portfolio cut-backs in the course of 2008, in which we sold hedged items on a large scale, and on the other hand to sharp setbacks in share prices on the stock exchanges.
Bearer bonds and other fixed-interest securities	At €21.7bn, investments in fixed-interest securities were virtually unchanged compared with the previous year (€21.4bn). A slight expansion of our portfolio was counteracted by negative currency translation effects.

Our balanced investment policy is reflected in our portfolio of fixed-interest securities: some 77% are government bonds or similarly secure instruments for which public institutions are liable and which we continued to expand in the financial year. Additionally, around 5% of our investments are in securities and debt instruments with top-quality collateralisation, mainly German pfand-briefs. Since the start of the year, we have also cautiously expanded our portfolio of credit-exposed fixed-interest securities, particularly asset-backed securities, mortgage-backed securities and corporate bonds. We took advantage of the considerable widening of risk spreads in comparison to government bonds to restructure our portfolio accordingly and earn higher interest income, thus building up our portfolio of corporate bonds selectively as the year progressed. These accounted for around 8% at the reporting date. Our portfolio of fixed-interest investments has an excellent rating structure. As at 31 December 2008, approximately 99% of our fixed-interest securities were investment-grade and 97% were rated "A" or better.

Valuation reserves In accordance with Section 54 of the German Accounting Regulations for Insurance Companies, investments recognised at nominal value are included in the off-balance-sheet valuation reserves as well as investments at amortised cost. Our off-balance-sheet valuation reserves, i.e. the difference between the fair value of our investments and their book value, decreased by €5.0bn compared with the previous year. A detailed breakdown of the reserves is provided in the notes on page 81.

Valuation reserves						
	€m	31.12.2008	31.12.2007	31.12.2006	31.12.2005	31.12.2004
Real estate		1,303	1,309	1,632	1,509	1,655
Equity investments		3,878	9,009	8,884	7,683	4,565
Fixed interest securities ¹		829	697	531	844	583
Total		6,010	11,015	11,047	10,036	6,803

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

The valuation reserves of our equity investments have receded significantly on account of realised capital gains and the negative development of the market.

Result We succeeded in improving our investment result in the financial year 2008 by €336m compared with the previous year.

High burdens from write-downs were offset by ERGO Versicherungsgruppe AG's special dividend payment of €947m. In order to reduce our risk from equity investments, we cut back the proportion of equities in our investment portfolio further and realised considerable gains on disposals.

Investment result						
	€m	2008	2007	2006	2005	2004
Regular income		3,751	3,797	3,166	2,873	2,616
Write-ups/write-downs		-643	-319	-152	-1,948	-555
Net realised capital gains		1,647	1,028	981	1,846	950
Other income/expenses		-726	-813	-687	-216	-125
Total		4,029	3,693	3,308	2,555	2,886

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

Breakdown of investments by type						
	€m	2008	2007	2006	2005	2004
Real estate		35	32	70	48	73
Investments in affiliated companies and participating interests		1,350	285	265	-104	-632
Loans to affiliated companies and participating interests		73	9	6	-1,234	87
Shares, investment certificates and other non-fixed-interest securities		1,507	1,835	1,489	1,570	1,504
Bearer bonds and other fixed-interest securities		724	793	576	930	845
Other investments		340	739	902	1,345	1,009
Total		4,029	3,693	3,308	2,555	2,886

Financial position

Analysis of our capital structure Investments on the assets side of the balance sheet serve mainly to cover technical provisions (71.1% of the balance sheet total). Equity (13.1% of the balance sheet total) and subordinated bonds classified as strategic debt (6.4%) are the most important sources of funds.

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

Strategic debt has not changed significantly compared with the previous year. A detailed analysis of the structuring of this type of funding is provided in the section on strategic debt on page 33.

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

Despite the share buy-back, our equity has risen by €476, owing to the high profit for the year.

Since we are an international (re)insurance group, some of our financial resources are subject to restraints on disposal. Supervisory authorities in some countries, for example, require foreign reinsurers to establish premium and reserve deposits with primary insurers. At the reporting date, this affected investments with a volume of €7.1bn (7.2bn).

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

To configure our asset management as effectively as possible, we also use derivative financial instruments, which are described on page 79 f. of the notes to the financial statements.

Capital management

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

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

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

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

Our internal risk model plays a central role in capital management. We use it to analyse how certain risk scenarios affect segment results and investments. Further information on the internal risk model is provided on page 61.

Equity In the year under review, our equity increased by €476m to €9,782m, or by 5.1% compared with the previous year,

Within the framework of the share buy-back programmes announced in May 2007 and May 2008, we bought back shares to the value of approximately €1,387m in 2008, which we offset against retained earnings. €1,124m of the net retained profits for the previous year was distributed as a dividend to shareholders.

These withdrawals compare with a profit for the financial year 2008 of €2,987m. To strengthen our equity, a total of €1,493m from the profit for the financial year has been allocated to the revenue reserves. Of the remainder totalling €1,567m, €1,074m has been earmarked for the dividend payment and another €432m for allocation to the revenue reserves.

Equity						
	€m	31.12.2008	31.12.2007	31.12.2006	31.12.2005	31.12.2004
Equity		9,782	9,306	11,155	10,417	11,866

Information in accordance with Section 289 para. 4 of the German Commercial Code and explanatory report of the Board of Management

Composition of the issued capital

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

Restrictions on voting rights or the transfer of shares

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

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

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

Shareholdings exceeding 10% of the voting rights

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

Shares with special control rights

There are no shares with special control rights.

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

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

Powers of the Board of Management to issue or buy back shares

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

The Annual General Meeting of 17 April 2008 authorised the Company, pursuant to Section 71 para. 1 item 8 of the German Stock Companies Act, to buy back shares until 16 October 2009 up to a total amount of 10% of the share capital at the time of the Annual General Meeting resolution (€587,725,396.48). The shares acquired plus other own shares in the possession of the Company or attributable to the Company in accordance with Section 71a ff. of the German Stock Companies Act may at no time amount to more than 10% of the share capital. The shares may, in accordance with the provisions of the authorisation, be acquired in various ways: via the stock exchange, via a public purchase offer to all shareholders, via a solicitation to all shareholders to submit offers (request to sell) or via a public offer to all shareholders of the Company to exchange Munich Re shares for shares in another listed company as defined in Section 3 para. 2 of the German Stock Companies Act. In so doing, it may buy back shares amounting to a maximum of 5% of the share capital using derivatives in the form of put options, call options or a combination of the two. The Board of Management is authorised to use shares thus acquired for all legally admissible purposes, in particular those specified in the authorisation, whilst excluding subscription rights; among other things, the Board of Management is empowered under Section 71 para. 1 item 8 sentence 6 of the German Stock Companies Act to retire the shares without requiring further approval from the Annual General Meeting.

The Annual General Meeting of 28 April 2005 authorised the Board of Management to issue, with the consent of the Supervisory Board, convertible bonds or bonds with warrants on one or more occasions up to 27 April 2010 for a maximum nominal amount of €3bn with or without a limited maturity period. Shareholders are generally entitled to a subscription right in respect of these bonds, but the Board of Management is authorised, with the consent of the Supervisory Board, to exclude this subscription right in the cases specified in the authorisation. The holders of such bonds may be granted conversion or

option rights in respect of new shares issued by the Company up to a maximum amount of €100m of the share capital, in accordance with the respective bond or warrant conditions; as a precautionary measure, capital of €100m was conditionally authorised under Article 4 para. 4 of the Articles of Association.

The Annual General Meeting of 11 June 2003 also empowered the Board of Management in the event of a capital increase at any time up to 11 June 2008 from the capital authorised for this purpose, with the consent of the Supervisory Board, to attach one bearer warrant to each of the new shares to which the shareholders have a subscription right when the capital authorised for this purpose is issued. No use was made of this authorisation up to the end of its term.

Under Article 4 para. 1 of the Articles of Association, the Board of Management is authorised, with the consent of the Supervisory Board, to increase the Company's share capital at any time up to 25 May 2009 by an amount of up to €280m by issuing new shares against cash or non-cash contribution (Authorised Capital Increase 2004). In accordance with the above-mentioned provisions of the Articles of Association, it may exclude subscription rights.

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

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

Further information and explanations relating to items 6 to 9 of Article 289 para. 4 of the German Commercial Code may be found in the corporate governance report on page 40 ff.

Strategic debt We define as strategic debt all financial instruments with the character of outside financing that do not have a direct link with our operative business. It supplements our equity and is essentially designed to reduce the cost of capital and ensure that we have sufficient liquidity at all times. Munich Reinsurance Company classifies its subordinated bonds as strategic debt.

Strategic debt		€m	31.12.2008
Euro subordinated bond, €3,000m, 6.75%, 2003 (2013/2023) ¹			3,000
Pound-sterling subordinated bond, £300m, 7.625%, 2003 (2018/2028) ¹			310
Euro subordinated bond, €1,500m, 5.767%, 2007 (2017/perpetual) ¹			1,500
Total			4,810

¹ Earliest possible call date.

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

The subordinated bond with a volume of €1.5bn issued in June 2007 is a perpetual bond, but callable by us for the first time on 12 June 2017.

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

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

Analysis of the cash flow Munich Reinsurance Company's cash flow is strongly influenced by our business. We generally first collect the premiums for the risks assumed and do not make payments until later, in the event of a loss. The cash flow statements of insurance companies are therefore of limited relevance.

The **cash inflows from operating activities** remained clearly positive. The main reasons for this were a substantial surplus in regular income from investments in relation to regular expenditure for investments, along with a strong reduction in accounts receivable and deposits retained on assumed reinsurance resulting from our business relations with clients.

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

Munich Reinsurance Company's share buy-back programme and dividend payment for the past financial year resulted in **cash outflows for financing activities**.

In the year under review, cash – which encompasses cash with banks, cheques and cash in hand – fell by €183m to €159m overall.

Other success factors

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

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

Clients and client relationships

Munich Reinsurance Company works together with over 4,000 corporate clients – traditional insurers and captives – from more than 160 countries.

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

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

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

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

Our client portal connect.munichre usefully augments our client management. Here cedants and business partners can access services, analysis and quotation tools, and knowledge from all our divisional units, globally and round the clock. In this way, connect.munichre both supports primary insurers in their daily business and presents a direct and secure interface to Munich Re. With its interactive features, it supplements our services and rounds off personal client relationships. We are currently refining our client platform to gear its contents even more closely to the target group.

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

Research and development

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

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

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

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

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

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

Staff

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

Facts and figures In 2008, an average of 3,649 (3,628) staff were employed with the Company, representing an increase of 0.6%.

In connection with Changing Gear, we have restructured our Human Resources Division. We are aiming for a more pronounced performance culture throughout the Company. We have therefore introduced a new performance management system, bringing together individual tools for the agreement of objectives, performance appraisals, salary structuring and career planning, and have consistently improved incentive systems. We attach great importance to the development and further training of our staff, in order to maintain their knowledge edge. Our objective is "to lead through knowledge". Consequently, our leadership monitoring, in which all staff regularly assess their managers, is also designed to help ensure that learning and talent management are realised as central tasks of management.

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

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

In 2008, an average of 37 (37) trainees were employed at the Company. In addition, three candidates commenced the Master of Science course we have integrated into our training programme.

Corporate responsibility

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

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

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

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

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

Even if we, as a service provider, place comparatively little burden on the environment, we take our ecological responsibility seriously. We are working constantly on reducing our consumption of resources. We therefore aim to make our activities at our Munich location climate-neutral by 2009. To this end, we are pursuing a threefold strategy: increasing the energy efficiency of our office buildings, using electricity from renewable energy sources, and compensating for unavoidable emissions through the purchase and retirement of emission credits. Nevertheless, our overall objective is to achieve carbon neutrality as far as possible with our own projects and internal measures.

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

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

Security and availability

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

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

Corporate governance report

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

How we view corporate governance

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

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

What rules apply to Munich Re?

Due to its international organisation, the Munich Re Group has to consider corporate governance rules in different national legal systems. Clearly, we observe not only the respective national standards but also internationally recognised best practices. In Germany, where Munich Re has its headquarters, corporate governance rules are laid down above all in the German Stock Companies Act, the German Co-Determination Act and the German Corporate Governance Code. The latter, which entered into force in 2002 and has since been amended several times, contains the main legal rules that must be observed by German listed companies. In addition, it includes recommendations and proposals based on nationally and internationally recognised standards of good and responsible management. Every year, Munich Re's Board of Management and Supervisory Board publish a declaration stating how far the Code's recommendations have been complied with. The 2008 declaration of conformity can be found on page 43.

Corporate legal structure

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

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

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

The German Stock Companies Act contains special regulations on amendments to the Articles of Association where increases and reductions in share capital are concerned (Sections 182–240 of the Act). Under these regulations, all resolutions on capital measures are generally to be made by the Annual General Meeting. Within a self-determined scope, however, the Annual General Meeting can authorise the Board of Management to initiate certain (capital) measures (see page 32 for the authorisations relating to Munich Re). In all such cases, a resolution of the Annual General Meeting is required that has been adopted by at least a three-quarter majority of the share capital represented in the vote. Where these resolutions are concerned, Munich Re's

Articles of Association again do not provide for other (i.e. higher) majorities or further requirements.

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

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

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

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

Munich Re's Board of Management had eight members in the 2008 financial year. An overview of its composition can be found on page 91. Additional information on individual members of the Board of Management is available on our website. Pursuant to Article 16 of the Articles of Association, the Board of Management must comprise a minimum of two persons; beyond this, the number of members is determined by the Supervisory Board. The Board of Management has had two committees since 1 January 2006 – one for Group operations and one for reinsurance operations – in order to enhance the efficiency of its work. Rules of procedure issued by the Supervisory Board regulate the work of the Board of Management, in particular the allocation of responsibilities between the individual Board members, matters reserved for the full Board of Management, and the required majority for Board of Management resolutions.

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

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

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

Pursuant to Article 4 of the Articles of Association, Munich Re's Board of Management is authorised to implement certain capital measures (Authorised Capital Increases 2004 and 2006, Contingent Capital Increase 2003 I and 2005). Furthermore, by resolution of the Annual General Meeting of 17 April 2008, the Board of Management is authorised to buy back and use the Company's own shares – and to do so to a limited degree by using derivatives. The complete wording of the resolution adopted on agenda items 5 and 6 can be accessed on our website at any time. The Board of Management availed itself of this authorisation by its resolution of 6 May 2008. By 31 December 2008, a total of approximately 8.4 million shares had been purchased for an overall price of around €942m. As part of the 2007/2008 share buy-back programme,

around 3.4 million own shares were acquired in 2008 for an overall price of approximately €444m. These shares have already been retired.

Collaboration between Board of Management and Supervisory Board

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

Supervisory Board

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

In compliance with the law and the Company's Articles of Association, Munich Re's Supervisory Board has a total of 20 members. Half are elected representatives of the employees, and half representatives of the shareholders, elected by the Annual General Meeting. Supervisory Board resolutions on the nomination of candidates for election to the Supervisory Board at the Annual General Meeting only require the majority of votes cast by the Supervisory Board members representing the shareholders. An overview of the members of the Supervisory Board can be found on page 92. Additional information on individual members of the Supervisory Board (shareholder representatives) is available on our website.

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

Annual General Meeting

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

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

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

Based on our underwriting guidelines, our reinsurance agreements generally include a clause that grants both parties to the agreement a right of extraordinary cancellation in the event that “the other party merges with another company or its ownership and control undergoes a material change”. Such or similar clauses are typical of the industry. Munich Re’s long-term incentive plans provide for special exercise conditions in the event of a change of control.

Corporate governance topics in 2008

At its meeting on 10 November 2008, the Supervisory Board decided that in future the Supervisory Board (and not, as previously, the Personnel Committee) will determine the system used for the Board of Management’s remuneration, along with the key elements of relevant contracts.

In the past year, the Supervisory Board again performed an efficiency audit. The main focus was on the content and scope of reports from the Board of Management to the Supervisory Board and the work of the Supervisory Board and its committees. Despite a number of suggestions for improvement, both areas were assessed as consistently positive and efficient.

Recommendations and proposals of the German Corporate Governance Code

In November 2008, the Board of Management and the Supervisory Board published the following declaration of conformity, in accordance with Section 161 of the German Stock Companies Act:

“Münchener Rückversicherungs-Gesellschaft Aktiengesellschaft in München fulfils all the recommendations of the German Corporate Governance Code of 6 June 2008 (published on 8 August 2008) and will continue to do so in future. Since the last declaration of conformity in November 2007, Münchener Rückversicherungs-Gesellschaft Aktiengesellschaft in München has fulfilled all the recommendations of the German Corporate Governance Code of 14 June 2007 (published on 20 July 2007).”

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

Remuneration report

Structure of the remuneration system for the Board of Management

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

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

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

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

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

Fixed components [Basic remuneration](#)

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

[Remuneration in kind/fringe benefits](#)

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

Variable components [Short-term compensation component – Annual bonus](#)

This compensation component is based on different categories of objectives. The targets and scaling for Group, corporate and divisional objectives are geared to particular indicators; individual objectives form the basis for the achievement of personal targets. The key indicator used for the Group objective is "return on risk-adjusted capital – RORAC", which is comprised of key figures from external accounting, and from other key portfolio and performance data. Information on the definition of RORAC is provided on page 14. We use the performance measures embodied in value-based management for the corporate and divisional objectives.

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

[Medium- and long-term compensation component – Medium-term bonus](#)

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

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

[Share-price-based compensation component – Long-term incentive plan](#)

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

Whether the stock appreciation rights can be exercised and, if so, when, is not certain at the time they are granted. The exercising and proceeds depend on the development of the share price and the exercise price and date. The amount of income is limited. Up to now, stock appreciation rights have only been exercised under the plans set up in 1999 and 2003 to 2005. Further information on the long-term incentive plans can be found on page 88 ff. of the notes to the consolidated financial statements.

Weighting of remuneration components

In the case of 100% achievement of objectives (annual bonus, medium-term bonus) and based on the imputed value of the share-price-linked compensation (long-term incentive plan) at the granting date, the weightings of the individual components in terms of total remuneration are as follows: basic remuneration approx. 25%, annual bonus approx. 35%, medium-term bonus approx. 20%, and long-term incentive plan approx. 20%. Annual bonus, medium-term bonus and long-term incentive plan together form a well-balanced and economic, i.e. strongly risk-based incentive system, ensuring that the targets set for the members of the Board of Management do not have undesirable effects.

In accordance with the recommendations of the German Corporate Governance Code, the monetary remuneration of the Board members thus comprises fixed and variable components.

The total remuneration is set at an appropriate level by the Supervisory Board's Personnel Committee and reviewed at regular intervals, also taking into consideration data from peer-group companies. Criteria for the appropriateness of compensation are in particular the respective Board member's duties, the Board member's personal performance, the performance of the Board as a whole and the financial situation, performance and future prospects of Munich Re. New Board members are generally placed at a level which allows sufficient potential for development in the first three years.

Continued payment of remuneration in the case of incapacity to work

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

Other remuneration

In the case of seats held on other boards, remuneration for board memberships must be paid over to the Company or is deducted in the course of regular compensation computation. Excepted from this is remuneration for memberships explicitly recognised by the Company as personal. No such memberships exist at present. In the event of a change of control, the members of the Board of Management have no contractual entitlement to payments. As far as the share-price-based remuneration is concerned, the conditions merely provide for special exercise options in the event of a change of control. Details of this are provided in the notes to the financial statements on page 89.

Pension

Up to and including 2008, the members of the Board of Management are members of a defined benefit plan under which they will receive a fixed pension whose amount depends on their basic remuneration and years of service on the Board. The pension level starts at 30% and can reach a maximum of 60% of annual basic remuneration.

Benefits on termination of employment		
Benefit	Precondition	Benefit amount
Occupational pension		
	<ul style="list-style-type: none"> - Reaching the age of 60; at the latest, turning 65 	<ul style="list-style-type: none"> - For six months, previous monthly basic remuneration (only for Board members appointed prior to 2006) - Defined benefit of between 30% and 60% of annual basic remuneration - Reduced for other income earned from third parties before reaching the age of 65
Disability pension		
Contract ends owing to non-extension or revocation of Board member's appointment due to permanent incapacity to work	<ul style="list-style-type: none"> - The Board member is incapacitated for longer than 12 months and will probably be permanently unable to fully perform duties of office 	<ul style="list-style-type: none"> - For six months, previous monthly basic remuneration (only for Board members appointed prior to 2006) - Defined benefit of between 30% and 60% of annual basic remuneration - Reduced for other income earned from third parties before reaching the age of 65
Reduced occupational pension on early retirement		
Contract ends owing to non-extension or revocation of Board member's appointment, but not due to <ul style="list-style-type: none"> - gross violation of duties - the Board member giving notice 	<ul style="list-style-type: none"> - Older than 50 - More than ten years' service with the Company - Board member's appointment extended at least once 	<ul style="list-style-type: none"> - For six months, previous monthly basic remuneration (only for Board members appointed prior to 2006) - Defined benefit of between 30% and 60% of annual basic remuneration - Reduced by 2% for each year or part thereof short of 65th birthday - Reduced for other income earned from third parties before reaching the age of 65
Vested benefits for occupational pension, disability pension and surviving dependants		
Benefits drawn under entitlements a) and b) on <ul style="list-style-type: none"> - reaching the age of 65 - incapacity to work - death of Board member 		
a) Entitlement under the German Employers' Retirement Benefits Act	Entitlement to vested benefits <ul style="list-style-type: none"> - Leaving the Board before reaching the age of 60 - At least five years' service with the Company 	<ul style="list-style-type: none"> - Defined benefit of between 30% and 60% of annual basic remuneration - The vested benefits are a proportion of the occupational pension, based on the ratio of actual service with the Company to the period the Board member would have worked for the Company altogether until 65th birthday
b) Improved entitlement Contract ends owing to non-extension of Board member's appointment (by the Company), but not due to <ul style="list-style-type: none"> - gross violation of duties - the Board member giving notice 	Entitlement to vested benefits <ul style="list-style-type: none"> - Leaving the Board before reaching the age of 60 - At least ten years' service with the Company 	<ul style="list-style-type: none"> - For six months after leaving the Board, previous monthly basic remuneration (only for Board members appointed prior to 2006) - Defined benefit of between 30% and 60% of annual basic remuneration - Reduced by 2% for each year or part thereof short of 65th birthday

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

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

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

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

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

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

Total remuneration of the Board of Management

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

Remuneration of individual Board members in accordance with DRS 17

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

Name	Financial year	Basic remuneration	Remuneration in kind and fringe benefits	Annual bonus ¹	Medium-term bonus 2006–2008 ²	Value of stock appreciation rights granted ⁴	Total	Number of stock appreciation rights
		€	€	€	€	€	€	
Dr. Nikolaus von Bomhard	2008	885,000	36,863	349,370	2,040,000	871,232	4,182,465	31,820
	2007	864,000	51,878	1,588,650	–	666,000	3,170,528	21,442
Dr. Ludger Arnoldussen	2008	350,000	40,225	178,220	450,000	344,550	1,362,995	12,584
	2007	300,000	39,647	479,640	–	240,000	1,059,287	7,727
Dr. Thomas Blunck	2008	400,000	29,879	277,970	780,000	393,779	1,881,628	14,382
	2007	350,000	28,026	509,110	–	280,000	1,167,136	9,015
Georg Daschner	2008	450,000	33,549	305,550	1,020,000	443,008	2,252,107	16,180
	2007	450,000	33,133	752,220	–	360,000	1,595,353	11,590
Dr. Torsten Jeworrek	2008	570,000	35,372	434,434	1,260,000	561,126	2,860,932	20,494
	2007	550,000	33,538	1,007,930	–	440,000	2,031,468	14,166
Dr. Peter Röder ³	2008	300,000	23,901	141,855	90,000	295,348	851,104	10,787
	2007	75,000	4,029	124,425	–	60,000	263,454	1,932
Dr. Jörg Schneider	2008	625,000	42,402	392,875	1,440,000	615,283	3,115,560	22,472
	2007	600,000	41,958	1,134,000	–	480,000	2,255,958	15,454
Dr. Wolfgang Strassl	2008	400,000	19,225	386,610	780,000	393,779	1,979,614	14,382
	2007	350,000	14,508	603,190	–	280,000	1,247,698	9,015
Total	2008	3,980,000	261,416	2,466,884	7,860,000	3,918,105	18,486,405	143,101
	2007	3,539,000	246,717	6,199,165	–	2,806,000	12,790,882	90,341

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

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

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

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

The share-priced-based compensation component is accounted for at fair value at the granting date. Details of the fair value are provided in the notes to the financial statements on page 88 f. Whether the variable components will actually be paid out to the Board members and, if so, how high the sums will be, is not yet certain and will depend on the degree to which individual objectives are achieved, and on the exercise conditions of the long-term incentive plans. Munich Re shares have been acquired to cover future obligations arising from the long-term incentive plans as from 2003, so that the expenses resulting from a growth in value of the stock appreciation rights are neutralised by an increase in the value of the share portfolio.

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

Mr. Phelan, who retired on 31 December 2007, received the following amounts in 2008 for 2007: remuneration in kind and fringe benefits (including travel expenses from Princeton to Munich) of €63,646.74, and an annual bonus payment of €352,520.00.

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

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

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

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

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

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

Pension entitlements Personnel expenses of –T€157 (+T€6,898) were incurred in the financial year to finance the pension entitlements of active members of the Board of Management. The following pension commitments result for the individual members of the Board of Management:

Pension entitlements			
Name		Pension commitments as at 31 December	Personnel expenses for provisions
		€	€
Dr. Nikolaus von Bomhard	2008	407,100	–177,198
	2007	380,160	896,366
Dr. Ludger Arnoldussen	2008	157,500	286,643
	2007	150,000	2,061,126
Dr. Thomas Blunck	2008	120,000	–33,085
	2007	105,000	1,122,450
Georg Daschner	2008	180,000	83,894
	2007	180,000	–175,117
Dr. Torsten Jeworrek	2008	171,000	–67,205
	2007	165,000	540,010
Dr. Peter Röder	2008	90,000	–102,093
	2007	90,000	1,080,444
Dr. Jörg Schneider	2008	275,000	–111,474
	2007	252,000	882,692
Dr. Wolfgang Strassl	2008	120,000	–36,287
	2007	105,000	489,744
Total	2008	1,520,600	–156,805
	2007	1,427,160	6,897,715

Total remuneration of the Supervisory Board

The current rules applicable to the remuneration of the Supervisory Board provide for a fixed remuneration component of T€45 and a variable result-related remuneration component. The remuneration of members of the Supervisory Board in the year under review totalled T€1,504 (1,960). The variable remuneration amounted to T€290 (774).

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

The Company has to be notified promptly of the acquisition or sale of Company shares or financial instruments based on these by members of its Board of Management and Supervisory Board and by certain persons closely related to or connected with them. This notification must take place for acquisition and sales transactions equal to or exceeding €5,000 in a single calendar year. Under Section 10 para. 1 of the German Securities Prospectus Act, Munich Re is obliged to publish information of this kind on its website without delay as well as in an annual document.

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

Risk report

Risk governance and risk management system

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

This risk report reflects the German Accounting Standard DRS 5-20.

Risk management organisation, roles and responsibilities

Risk management: Remit and objectives

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

Risk management: Organisational structure

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

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

Risk management: Risk governance

The Chief Risk Officer is a permanent member of the Group Committee of the Board of Management, the body responsible for decisions in matters concerning the whole Group. Risk topics are routinely dealt with at this level by the Group Risk Committee, whose members comprise the Group Committee plus other specialists from insurance and reinsurance. We take a similar approach at business-field level. For reinsurance, a dedicated risk committee – the Global Underwriting and Risk Committee (GURC) – has been formed from within the ranks of the Reinsurance Committee.

Risk management: Determining the risk strategy

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

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

Implementation of strategy and the risk management cycle

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

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

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

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

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

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

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

Control and monitoring systems

In mid-2008, we launched a project geared to harmonising and coordinating the various control and monitoring systems more closely, in order to satisfy future legal requirements. This refinement of our integrated internal control system will take some time and will continue to occupy us (cf. outlook section on page 64).

Our **investments** are continually monitored on the basis of various key risk and earnings figures as part of an early-warning system. This process is designed to ensure that we do not take any inappropriate risks and fulfil our equity capital requirements.

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

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

Risk reporting Internal risk reporting provides management with regular information on the risk situation as regards the individual risk categories (ongoing). This ensures that faint signals and negative trends are identified in sufficient time for countermeasures to be taken. IRM is responsible for the risk reporting, whilst Reinsurance Accounting attends to related annual-report requirements deriving from the accounting standards applied.

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

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

Significant risks We classify risks as significant if their implications are serious enough to endanger the viability of the Company. Bearing in mind the relevant risk tolerance, we have applied this definition consistently to the individual business units. The assessment of whether a risk is significant for a unit within the meaning of this definition is carried out in the risk management unit IRM. This involves taking particular account of how the risks affect our main criteria of financial strength and earnings volatility.

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

Underwriting risk: Property-casualty insurance

This is defined as the risk that insured losses in property-casualty business may be higher than our expectations.

Binding underwriting guidelines and limits and clear underwriting authorities in the Company regulate who is authorised and accountable for concluding reinsurance contracts.

In addition, Corporate Underwriting draws up best-practice standards based on risk and performance analyses. These define how underwriters model individual risk types and which underwriting methods are to be applied. In underwriting reviews, we check compliance with the underwriting guidelines and analyse to what extent actual underwriting conforms to best practice in the respective unit.

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

Combined ratio for the last ten years

	%	2008	2007	2006	2005 ³	2004	2003	2002 ²	2001 ¹	2000	1999
Including natural catastrophes		102.4	95.9	97.9	117.0	96.4	93.8	108.3	127.4	115.7	120.6
Excluding natural catastrophes ⁴		97.1	91.5	96.6	97.5	91.2	92.3	105.0	126.2	111.9	107.1

¹ Thereof World Trade Center 15.9%.

² Thereof World Trade Center 3.5%.

³ Thereof effect of assuming discounted claims provisions from Munich Re America: 8.7%.

⁴ Previous years adjusted owing to an increase in the threshold for major losses.

Underwriting risk: Life and health insurance

The underwriting risk in this case is defined as the risk that insured benefits payable in life or health business may be higher than expected.

In life reinsurance the biometric risk and the lapse risk are especially relevant. The calculation of technical provisions is based on "biometric" actuarial assumptions, for instance on assumptions with regard to mortality and disablement, which also take future trends into account and are regularly adjusted to reflect new knowledge. In primary insurance, the assumptions are determined by the requirements of the supervisory authorities or institutes of actuaries, depending on the specific national regulations, and for our reinsurance business they include appropriate safety margins determined by our actuaries.

An example is the longevity risk, which plays an especially significant role in annuity insurance contracts. Lapse risks can be reduced in reinsurance by means of suitable product and contract design. We estimate the residual lapse risk by means of product-specific portfolio analyses and take this into account in our pricing.

For our life reinsurance business, our embedded value disclosure provides details of the sensitivities for the business in force and the new business written, e.g. in relation to changes in mortality, morbidity, lapse rates, expenses, interest rates, and equity and property market value changes. The disclosure follows the Additional Guidance on European Embedded Value Disclosures as published by the CFO Forum, an international organisation of the Chief Risk Officers of large insurance companies, in September 2005.

The remarks on underwriting guidelines and limits and on our corporate underwriting (see "property-casualty") also apply to life and health business.

The most significant risk for life reinsurance is the risk of future mortality being less favourable than that assumed in our valuation bases.

Market risk

Munich Re defines market risk as the risk of economic losses resulting from changes on the capital markets. Relevant here are, inter alia, the equity risk, the interest-rate risk, the property risk and the currency risk. Market price fluctuations affect investments and liabilities.

We deal with market risks by means of suitable limit and early-warning systems and through our asset-liability management. We limit the deviations in current investments from those investments that are economically required to cover underwriting liabilities (referred to as the replicating portfolio). Furthermore, we take account of risk-relevant restrictions for investments under German Commercial Code and/or IFRS accounting.

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

The following sensitivity analyses for market risks serve to estimate potential changes in the value of investments under hypothetically possible market scenarios. The review is based on the Company's investments excluding participations in insurance companies, holding and service companies as at 31 December 2008.

The changes in share price assumed in these scenarios, $\pm 10\%$ and $\pm 20\%$ respectively, a corresponding shift in the interest rate curve of ± 100 and ± 200 basis points (BP) respectively, and a fluctuation in exchange rates of $\pm 10\%$, would produce the following changes in the market value of the investments:

Market risk – Share prices	
Change in share prices	Change in market value of investments sensitive to share prices
Increase of 20%	€0.422bn
Increase of 10%	€0.211bn
Decrease of 10%	-€0.211bn
Decrease of 20%	-€0.422bn
Market values at 31 December 2008	€2.108bn

Market risk – Interest rates	
Change in interest rates	Change in market value of investments sensitive to interest rates
Increase of 200 BP	-€3.054bn
Increase of 100 BP	-€1.667bn
Decrease of 100 BP	€1.947bn
Decrease of 200 BP	€4.175bn
Market values at 31 December 2008	€35.796bn

Market risk – Exchange rates	
Change in exchange rates	Change in market value of investments sensitive to exchange rates
Increase of 10%	€1.902bn
Decrease of 10%	-€1.902bn
Market values at 31 December 2008	€19.350bn

A breakdown of investments is available on page 26.

Credit risk

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

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

In order to monitor and control our counterparty default risks, we have implemented a cross-balance-sheet counterparty limit system. The limits per individual counterparty (a group of companies or country) are based on its financial situation and the risk tolerance defined by the Board of Management. The limit per counterparty is broken down for the reinsurance segments, and for the underwriting and investment sides. The recording of the exposure is based on the estimated financial loss in the event of default by the counterparty, after realisation of collateral (loss given default – LGD). These factors are estimated on the basis of historical evaluations and expert opinions.

Our sophisticated limit system and our well-established administration systems have served us well overall, also in turbulent market situations like those experienced in 2008, and enable us to manage our investments efficiently and successfully.

In the area of retrocession, we control the default risk through the Retro Security Committee, which monitors the quality of our potential retrocessionaires independently based on various criteria, and issues appropriate limits. With this system, we achieve a broad spread of our cessions in the reinsurance market.

The credit exposure of capital market placements, such as our catastrophe bond, is generally reduced by depositing first-class collateral or integrating suitable hedging mechanisms. We have adapted these measures on the basis of the experience gained in the course of the financial crisis in the year under review.

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

As at 31 December 2008, our **accounts receivable on ceded business** were split between the following ratings (based on those of Standard & Poor's):

Ratings of accounts receivable	
	€m
AAA	4.0
AA	13.0
A	100.3
BBB or lower	0.1
Without external rating	15.0

€44.0m of all our receivables on underwriting business at the balance sheet date were outstanding for more than 90 days.

The average defaults of the last three years taken together amount to €3.4m.

Operational risk

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

We minimise such risks through systematic application of specific risk management measures. It is our declared corporate aim, which we consistently pursue, to sensitise employees to possible risks and to establish an appropriate risk culture. This encompasses the willingness to learn from mistakes and to recognise and grasp these as opportunities for improvement.

In our management of operational risks, we also focus on the following topics:

Risks in information technology

These risks are identified and limited by IRM's security and emergency planning team.

Risks involving human resources

Targeted personnel marketing measures, staff potential assessment and development schemes, and systematic succession planning are designed to reduce the risk of shortages in qualified staff. Modern management tools and adequate monetary and non-monetary incentives ensure a high level of motivation.

Liquidity risk

Munich Re defines liquidity risk as the risk of not being in a position to meet our financial obligations when they are due.

Detailed **liquidity planning** ensures that we are able to make the necessary payments at all times. Liquidity risks may also arise because the actual payout structure of our liabilities differs from that assumed in our asset-liability management (e.g. due to a lengthening or acceleration of claim payments in a line of business or region).

Our risk management system considers liquidity risks in the same way as, for example, market risks. As a rule, they are integrated in our system of rules and limits, which is updated annually. To this end, IRM has developed a range of scenarios from which the limits and procedures are derived. IRM proposes the general regulations, procedures and limits for approval by the Board of Management. On this basis, liquidity risks are managed in the first instance on a decentralised basis, depending on the underlying scenario, with aggregation provided by our liquidity management departments, which report regularly to the Board committees responsible. These departments are monitored by the units responsible for asset-liability management, which – depending on the selected scenario – also functions as liquidity risk manager for risks requiring an overall perspective.

Strategic risk

Munich Re defines strategic risk as the risk of making wrong business decisions, implementing decisions poorly, or being unable to adapt to changes in our operating environment.

We counter this risk through the activities of our Strategy Committee, which discusses strategic planning and significant strategic issues and decisions, and regularly monitors their realisation. The Strategy Committee comprises members of the Group Committee, and thus the CRO, plus the CEOs of the business fields and the Head of Group Development. As a result, strategic decision-making processes are intermeshed with risk management. IRM is additionally involved in the operational business planning and in the processes for mergers and acquisitions.

Reputational risk

The reputational risk is the risk of a loss resulting from damage to the Group's public image or its reputation among clients, shareholders or other parties such as the supervisory authorities.

We monitor the reputational risk through the identification processes we have established in various internal units (e.g. Group Communications). As soon as such a risk is identified, further procedure is decided on by a Reputational Risk Committee set up specifically for this purpose. This prevents risks from arising out of business transacted. The Committee is made up of experts from various units and is headed by the Compliance Officer. Our code of conduct formulates the main rules and principles for legally correct and responsible behaviour by employees. How Munich Re is perceived in public depends essentially on each and every member of staff. By stipulating high ethical and legal standards, we protect the reputation of the Company and the Group.

Overview of risk situation

We assess our risk situation on the basis of qualitative and quantitative factors. This assessment is carried out by central risk management. Throughout the entire period under review, the Company's risk situation was manageable and under control. In the interests of our clients and shareholders, our carefully implemented, modern risk management processes combined with our solid level of capitalisation ensured the solvency and viability of the Company at all times. In addition to the underwriting and capital market risks inherent in our business model, which we consciously take and can therefore assess very well (see below), there are a large number of other risks to which Munich Re – like every other company – is exposed. The incidence of these risks is not planned and their occurrence probability and impact are mostly difficult to estimate. We therefore attach great importance to closely monitoring our environment and our own Company to identify such risks in good time and to take suitable measures to avert loss or damage.

Internal risk model

For a quantitative assessment of the overall risk situation, we use our internal model, whose design follows a bottom-up approach. We have selected the financial year as the period for evaluating risk capital requirements at Group level. Risks within this period are covered by risk-based capital derived from our risk tolerance. All risks beyond the annual timeline are accounted for by the costs of holding risk-based capital over time. In so doing, we follow the "cost of capital" approach.

In determining the risk capital, we examine the risk segments "underwriting", "market", "credit" and "operational risks". Within underwriting risks, we distinguish between property-casualty and life and health risks. Further subcategories are applied to these risk types – for example, for the property-casualty reinsurance segment, we distinguish between natural catastrophe risks, other accumulation losses (such as terrorism or "liability catastrophes"), large losses and basic losses. Those risks are first modelled separately. In a further step, the risks are aggregated using a combination of empirical and judgemental techniques that allow for the risks of so-called "tail dependencies" (e.g. the risk that extreme events happen at the same time in different lines of business, geographies, and risk types) and the overall risk is thereby quantified.

Regulatory and rating-agency capital requirements

Munich Reinsurance Company meets the regulatory solvency requirements stipulating a specified minimum capitalisation supplemented by the criteria of specific ratings from the major rating agencies.

More information is given in the "Financial position" section.

Selected risk complexes

Overarching accumulation risks Effects of the financial crisis

A current example of overarching accumulations is the impact of the financial crisis. The starting point for this now global problem was the subprime loan crisis emanating from the US markets that provided mortgage loans to borrowers with low credit ratings. The crisis has had overarching effects because it impacts not only the capital market side but also the underwriting side of our activities.

On the insurance side, current indications are that the Company is potentially exposed mainly via the liability classes D&O and professional indemnity (PI). Specifically, there is the prospect of liability arising out of alleged misconduct in the form of inadequate advice, mismanagement or negligence on the part of sales organisations, banks or other financial intermediaries. Even if courts ultimately do not award damages, any defence costs covered under insurance policies could be considerable. Since such lawsuits are typically very prolonged, it will take several years before there is final clarity regarding the extent of the losses. At the turn of the year 2008/2009, we had received isolated provisional notifications from our liability reinsurance clients. We took these into account through allocations to IBNR reserves. A prolonged, deep recession can lead to a marked rise in claims in this area.

The upheavals on the international financial markets resulting from the financial crisis already led to setbacks in the most significant economies in 2008, with the related rise in insolvency rates leading to higher claims costs in credit reinsurance. A further increase is to be expected in the course of 2009, particularly in the case of a prolonged recession. In the renewals at 1 January, we have taken account of this development through adjustments in our underwriting policy and in our terms and conditions.

Munich Re has not written reinsurance of financial guarantee companies in the USA (so-called credit enhancement business) since 2003. In 2008, we were able to significantly reduce the remaining liabilities through negotiations with cedants. The decrease in liabilities did not adversely affect our result and is a further step in reducing risk positions. We do not expect any significant losses from the remaining liabilities, which are in the low three-digit million range.

On the investment side, the subprime crisis gave rise to major increases in the risk spreads on the equity and bond markets in 2008. We took advantage of this adjustment and invested a small amount in securities with subprime exposure. The market value of this exposure totalled around €180m as at 31 December 2008. With the subprime crisis developing into a global financial crisis, other investments of the Company were impacted by losses. In this context, we made a write-down of €105m against a receivable from Lehman Brothers owing to the risk of default. As a reaction to the continuing financial crisis, we took various measures in our credit risk management in 2008 to reduce our exposures in particular sectors and markets. Since the start of 2008, for instance, we have consistently reduced our equity exposure, especially through hedging activities. All in all, it can be said that although our exposure in the acute cases of the crisis has been relatively small, the Company has not been able to fully avoid the repercussions of the developments on the global capital markets.

Pandemic

A further example of an overarching accumulation risk is a major pandemic. Like other companies in the insurance industry, Munich Re is exposed in this case to risks from a marked increase in mortality and morbidity and from disruptions in the capital markets. We counter this risk by analysing our overall exposure in detail (scenario analysis), defining suitable limits, and optimising our risk structure by transferring risk – e.g. through the launch of the pandemic bond programme Nathan.

- Risk of change “climate change”** Whilst we are in a position to adequately assess the known risks in our portfolio, the growing complexity and dynamism of the environment in which we operate means that we must also remain vigilant with respect to the detection and representation of new or emerging risks. We follow a multidisciplinary approach, using and combining the experience and expertise of geoscientists, biologists, specialist underwriters, lawyers, economists, sociologists and actuaries. Climate change represents one of the greatest risks of change for the insurance industry. In Munich Re’s Corporate Climate Centre, we analyse and evaluate the related risks for all divisional units and for asset management. But climate change also opens up many business opportunities. Applying the knowledge of this topic we have accumulated over decades, we exploit these opportunities – through new insurance products for innovative energy technologies, for example, or through our Kyoto Multi Risk Policy.
- Risk of change “emerging risks”** Within our early-warning system, in accordance with the German Law on Corporate Control and Transparency, we also consider “emerging risks”. These are risks that may have unidentified effects on our risk portfolio due to changes in risk factors (e.g. legal, socio-political, scientific and technological), where the degree of uncertainty as regards the extent of damage and occurrence probability is by nature very high. We identify trends and faint signals in many ways: this includes systematic trend research in Group Development, using Munich Re’s knowledge management, and regular structured “emerging risks” surveys. Cooperation with external partners complements our internal early-warning system. One example is our collaboration with the US RAND Institute for Civil Justice on the issue of mass litigation.
- Legal and supervisory risks** In April of 2004, New York State Attorney General Eliot Spitzer started an investigation into the use of Placement or Market Service Agreements (PSAs) in the insurance industry. Several other US state regulators subsequently commenced similar probes into this matter, as have regulators of other countries. We received requests to provide information in connection with these investigations and are cooperating fully with the authorities. Entities of the Munich Re organisation, together with several other insurers and brokers, have been named defendants in several PSA-related class actions by US policyholders. Munich Re denies any wrongdoing and will defend itself against the accusations in the appropriate manner.

After the federal legislative procedure for the US Fairness in Asbestos Injury Resolution Act founded in February 2006, several US states adopted legislation initiatives (tort reform) which may have a positive effect on the settling of asbestos claims. Following revelations about questionable asbestos-related disease diagnoses and resultant lawsuits, various investigation committees are at work. Similar questionable practices that have come to light in silicosis lawsuits are also relevant for US asbestos claims. These developments indicate that the legal situation in the USA is moving in a positive direction. However, it is too early to say whether and to what extent this will have favourable implications for future loss development in the insurance industry. We are currently still being affected by late-reported claims – in some cases for high amounts – for asbestos-related diseases and similar liability complexes. In addition, the recent elections in the US have led to a Democratic Congressional majority and a Democratic Presidency. Traditionally, the Democratic Party has adopted pro-consumer and pro-plaintiff legislation, which may counterbalance the positive state reforms.

As a result of our global activities, we are subject to a large number of supervisory regulations in different countries. These may give rise to legal and regulatory risks. In late 2004, the US Securities and Exchange Commission (SEC) and the Office of the New York State Attorney General initiated inquiries of Munich Re with respect to “certain loss mitigation insurance products”. Subsequently, a number of other authorities in the USA and elsewhere made both formal and informal requests for similar information from Munich Re and some of its subsidiaries. We are fully cooperating with these inquiries.

Since January 2008, the Spanish antitrust authority (Comisión Nacional de la Competencia) has been investigating various primary insurers and reinsurers on the grounds of suspected collusion restricting competition in Spanish decennial liability business – compulsory insurance for guarantee claims in respect of contract works. Munich Re’s Spanish branch (Münchener Rückversicherungs-Gesellschaft, Sucursal España y Portugal) is affected by this investigation and is cooperating fully with the antitrust authorities.

Outlook

Back in September, in response to the emerging economic crisis, we conducted a Group-wide project to examine the impact of a recession on insurance business, in order to identify suitable control measures. This analysis included all divisional units and the Munich Re Group’s experience during the 1929–33 economic crisis. The historical analysis showed that Munich Re only suffered a very small decline in profits, because there are countervailing effects in insurance, e.g. in the property-casualty sector. A mild recession in the industrialised nations in 2009 can be expected to result in a short-term reduction in Munich Re’s profit but also in opportunities from a change in the competitive situation. In a prolonged, deep recession, however, we anticipate material effects, especially in credit reinsurance and special lines of property-casualty business, and also in investments. Reinsurance is currently experiencing a heightened interest in major transactions that often contain substantial credit risks, commit liquidity reserves, or exhibit systemic risks in the current market environment. The identification and exact risk assessment of such transactions represent a considerable additional challenge for risk management. Our divisional units have been sensitised by IRM to the significance of underwriting policy and pricing policy in this market phase.

The future regulatory requirements for risk management have become more transparent as a result of the progress made in the European Union's Solvency II project, particularly the publication of the draft Solvency II directive in mid-2007 (updated version in 2008). Munich Re supports these developments, which accord with our internal risk management approaches in all the main elements. Agreement on the directive between the European Council and the European Parliament is still pending.

In 2008, Munich Re adopted a concept for an integrated internal control system (ICS) to systematise and harmonise the Munich Re Group's existing risk management and its risk-control and steering functions. The Group-wide project set up to implement the ICS is based on existing ICS elements. It is taking account of new statutory and supervisory requirements as well as internal rules and principles, with a view to identifying, evaluating, controlling and managing risks even more efficiently and effectively. The ICS is thus a significant component of our corporate governance. In addition to the ICS, other statutory and supervisory requirements resulting from Section 64a of the German Insurance Control Act and the German Minimum Requirements for Risk Management are being identified and addressed.

Summary

In accordance with the prescribed process, Munich Re's Board committees explicitly defined the risk appetite for significant risk categories in the year under review and quantified it by means of specific figures. We determined and documented the risk appetite and communicated it throughout Munich Re. Risk exposures were regularly quantified and compared with the risk tolerance in 2008. Since risk exposure was always within this tolerance, we assess Munich Reinsurance Company's risk situation as manageable and under control.

Prospects

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

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

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

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

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

In **property-casualty reinsurance**, which is naturally cycle-dependent, Munich Re will maintain its clear, profit-oriented underwriting policy and accept risks only at commensurate prices, terms and conditions. During the renewals at 1 January 2009, market terms and conditions in most regions hardened and prices in some segments improved markedly. In a difficult environment, our financial solidity, acknowledged risk expertise, service and client-centric focus have increasingly enabled us to negotiate better prices and conditions with our clients than those obtained by a number of less well-positioned competitors.

At 1 January 2009, about two-thirds of our property-casualty reinsurance portfolio was up for renewal. The development of prices, terms and conditions varied greatly between classes of business and regions but generally followed a positive trend. Overall, we succeeded in halting the erosion of reinsurance prices that has taken place over the last few years and in improving our portfolio, partly through price increases for existing business and partly through attractive new business, but also by terminating business where prices were no longer sufficient.

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

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

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

If exchange rates develop steadily, our gross premium volume should rise moderately. Owing to the anticipated increase in demand for reinsurance as a substitute for equity and the shortages in capacity on the supply side, terms of trade should improve in 2009 – despite the weakened overall economy. In addition, we project that the growth markets will continue to develop favourably, albeit at a temporarily reduced rate. For property-casualty reinsurance, we anticipate a combined ratio of around 97% of our net earned premiums, based on an expected average major-loss burden from natural catastrophes of 6.5%, adjusted for shifts in the portfolio. The uncertainties involved in the estimate do not derive solely from the random incidence of major individual losses: a strong rise in losses due to the recession cannot be completely ruled out, particularly in highly exposed classes. Conversely, if market conditions continue to harden, experience is likely to be far more favourable.

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

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

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

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

As we expect further uncertainties on the stock markets, we are currently planning on the basis that our economic equity exposure will still be well below 5% at the end of 2009. Since an end to the financial crisis is not yet in sight, we will refrain in particular from investing in financial stocks.

As part of our balanced and still conservative investment policy, we have started to marginally reduce our considerable portfolio of government bonds and reinvest the capital in corporate bonds with a minimum rating of BBB-, but without increasing our exposure to the financial sector. Although we expect the current rating levels to deteriorate, we calculate that this development is already partially anticipated in the current risk spreads.

We also intend to maintain a conservative approach in managing interest-rate risks in 2009 and to largely gear the periods to maturity in our bond portfolios to match the periods of our liabilities.

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

Regular investment income will be significantly lower in 2009. This is partly because reinvestment returns have reached a very low level but also because the dividends paid on our already much smaller equity portfolio have tended to be much reduced. Moreover, 2008 benefited from ERGO AG's special dividend payment. Despite the selective and prudent expansion of our credit risk exposure, we do not intend to even remotely compensate for the losses in interest income from risk-free interest carriers by assuming higher investment risks. Depending on the further development of the financial markets, we cannot fully rule out the need for additional write-downs of equities and fixed-interest products with their corresponding implications for the result. Taking into account all gains and losses on disposals, write-ups and write-downs and expenses for the management of investments, however, we project that our return on investment will be distinctly below our long-term target of 4.5%.

These uncertainties mean that a serious projection of the annual profit for 2009 is not possible. The financial crisis and recession have in the meantime led to a fundamental change in the parameters for our share buy-back programme announced in May 2007, i.e. before the onset of the developments described here.

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

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Balance sheet as at 31 December 2008

Assets	Notes					Prev. year
		T€	T€	T€	T€	T€
A. Intangible assets	(1)				41,079	48,042
B. Investments	(2, 3)					
I. Land, land rights and buildings, including buildings on third-party land				863,291		823,957
II. Investments in affiliated companies and participating interests						
1. Shares in affiliated companies			23,481,291			21,640,569
2. Loans to affiliated companies			1,975,556			680,436
3. Participating interests			194,380			190,191
4. Loans to participating interests			25,860			22,984
				25,677,087		22,534,180
III. Other investments						
1. Shares, investment fund certificates and other non-fixed-interest securities			5,163,281			7,838,711
2. Bearer bonds and other fixed-interest securities			21,706,773			21,419,250
3. Loans secured on property			3,774			4,073
4. Other loans						
a) Registered bonds	3,597					3,420
b) Loans and promissory notes	278,572					-
c) Miscellaneous	128					148
			282,297			3,568
5. Deposits with banks			271,310			685,134
6. Miscellaneous investments			257,166			225,710
				27,684,601		30,176,446
IV. Deposits retained on assumed reinsurance				16,538,263		18,545,338
					70,763,242	72,079,921
C. Receivables						
I. Accounts receivable on reinsurance business				2,815,329		2,734,166
Thereof from						
- affiliated companies: T€644,739 (704,672)						
- participating interests: T€90,229 (11,332)						
II. Other receivables				623,962		597,962
Thereof from						
- affiliated companies: T€65,416 (128,281)						
					3,439,291	3,332,128
D. Other assets						
I. Tangible assets and inventories				31,047		35,516
II. Cash at bank, cheques and cash in hand				159,120		342,206
III. Own shares				28		29
					190,195	377,751
E. Deferred taxes					-	156,037
F. Other deferred items						
I. Accrued interest and rent				408,099		413,105
II. Miscellaneous deferred items				50,784		44,971
					458,883	458,076
Total assets					74,892,690	76,451,955

Equity and liabilities	Notes	Prev. year		
		T€	T€	T€
A. Equity	(4)			
I. Issued capital			587,725	587,725
II. Capital reserve			6,832,037	6,832,037
III. Revenue reserves			794,659	687,848
IV. Net retained profits			1,567,418	1,198,388
			9,781,839	9,305,998
B. Subordinated liabilities	(5)		4,810,286	4,908,469
C. Special reserve	(6)		344,948	363,700
D. Technical provisions	(7)			
I. Unearned premiums				
1. Gross amount		3,100,139		3,118,539
2. Less for retroceded business		162,998		158,119
			2,937,141	2,960,420
II. Provision for future policy benefits				
1. Gross amount		11,902,063		13,418,994
2. Less for retroceded business		119,640		493,049
			11,782,423	12,925,945
III. Provision for outstanding claims				
1. Gross amount		30,299,321		30,648,983
2. Less for retroceded business		1,110,557		1,494,180
			29,188,764	29,154,803
IV. Provision for premium refunds				
1. Gross amount		7,718		7,338
2. Less for retroceded business		-		-
			7,718	7,338
V. Claims equalisation provision and similar provisions			8,744,424	9,530,293
VI. Other technical provisions				
1. Gross amount		617,944		747,260
2. Less for retroceded business		26,075		37,005
			591,869	710,255
			53,252,339	55,289,054
E. Other accrued liabilities	(8)			
I. Provisions for employees' pensions and similar commitments			618,114	552,298
II. Provisions for tax			1,380,524	1,254,483
III. Other provisions			996,475	853,298
			2,995,113	2,660,079
F. Deposits retained on retroceded business			248,257	614,722
G. Other liabilities				
I. Accounts payable on reinsurance business			2,146,992	1,732,023
Thereof to				
– affiliated companies: T€846,615 (384,046)				
– participating interests: T€29,871 (4,360)				
II. Amounts due to banks	(9)		1,000,005	1,224,027
III. Miscellaneous liabilities			309,667	353,694
Thereof towards				
– affiliated companies: T€13,738 (11,447)				
Thereof from taxes: T€9,784 (32,360)				
Thereof for social security: T€15 (0)				
			3,456,664	3,309,744
H. Deferred items			3,244	189
Total equity and liabilities			74,892,690	76,451,955

Income statement for the financial year 2008

Items	Notes				Prev. year
		T€	T€	T€	T€
I. Technical account					
1. Earned premiums for own account					
a) Gross premiums written	(10)	16,494,559			17,561,618
b) Retroceded premiums		-917,500			-816,772
			15,577,059		16,744,846
c) Change in gross unearned premiums		-141,040			43,709
d) Change in retroceded share of unearned premiums		10,202			-76,770
			-130,838		-33,061
				15,446,221	16,711,785
2. Interest on technical provisions for own account	(11)			456,231	774,551
3. Other underwriting income for own account				4,035	13,447
4. Claims incurred for own account					
a) Claims paid					
aa) Gross amount		-11,478,776			-12,034,636
ab) Retroceded amount		859,855			994,320
			-10,618,921		-11,040,316
b) Change in provision for outstanding claims					
ba) Gross amount		-164,967			191,528
bb) Retroceded amount		-352,075			-437,724
			-517,042		-246,196
				-11,135,963	-11,286,512
5. Change in other technical provisions for own account					
a) Net provision for future policy benefits			-395,714		-399,383
b) Other net technical provisions			211		4,488
				-395,503	-394,895
6. Expenses for premium refunds for own account				-6,157	-3,572
7. Operating expenses for own account	(12, 16)				
a) Gross operating expenses			-4,770,785		-5,184,486
b) Less commission received on retroceded business			184,605		185,028
				-4,586,180	-4,999,458
8. Other underwriting expenses for own account				-49,001	-30,393
9. Subtotal	(10)			-266,317	784,953
10. Change in claims equalisation provision and similar provisions	(10)			785,870	-1,121,698
11. Underwriting result for own account	(10)			519,553	-336,745

Items	Notes					Prev. year
		T€	T€	T€	T€	T€
II. Non-technical account						
1. Investment income	(13)					
a) Dividends from participating interests Thereof from affiliated companies: T€1,358,451 (278,740)			1,365,483			285,403
b) Income from other investments Thereof from affiliated companies: T€359,210 (488,512)						
ba) Rents from land and buildings, including buildings on third-party land		104,872				106,597
bb) Income from other investments		2,280,866				3,405,550
			2,385,738			3,512,147
c) Income from write-ups			262,972			50,034
d) Realised gains on the disposal of investments			4,163,775			2,612,293
e) Income from profit-transfer agreements			3			–
f) Income from release of special reserve			18,752			–
				8,196,723		6,459,877
2. Investment expenses	(12, 14, 15, 16)					
a) Expenses for the management of investments, interest paid and other expenses for investments			–742,926			–449,230
b) Write-downs of investments			–906,039			–369,106
c) Realised losses on the disposal of investments			–2,516,931			–1,584,350
d) Expenses from loss transfers			–1,376			–943
e) Allocation to the special reserve			–			–363,700
				–4,167,272		–2,767,329
				4,029,451		3,692,548
3. Interest income on technical provisions				–462,983		–799,029
					3,566,468	2,893,519
4. Other income					538,803	434,787
5. Other expenses					–977,649	–900,073
6. Operating result before tax					3,647,175	2,091,488
7. Taxes on income				–656,666		–644,690
8. Other taxes				–3,833		–4,297
					–660,499	–648,987
9. Profit/loss for the year					2,986,676	1,442,501
10. Profit brought forward from previous year					74,079	44,707
11. Withdrawals from revenue reserves					1,386,527	2,303,245
12. Transfers to revenue reserves					–1,493,337	–288,820
13. Offset against shares bought back for retirement					–1,386,527	–2,303,245
14. Net retained profits					1,567,418	1,198,388

Notes to the financial statements

Recognition and measurement

- Accounting basis** The financial statements and management report have been prepared in accordance with the German Commercial Code (HGB) and the German Stock Companies Act (AktG), the German Statutory Order on Insurance Companies' Accounting (RechVersV) and the German Insurance Control Act (VAG), observing conservative accounting principles.
- Intangible assets** Intangible assets are measured at the acquisition cost less admissible straight-line amortisation or, where applicable, write-downs for impairment.
- Investments** Our real estate is valued at the acquisition or construction cost less depreciations admissible under German tax law, taking into account lower fair values where necessary.
- The carrying amount of shareholdings in affiliated companies and other participating interests is generally the acquisition cost, written down for impairments in value where applicable.
- Loans to affiliated companies and to participating interests, mortgage loans, registered bonds, and loans and promissory notes are generally recognised in the balance sheet at their nominal values. An exception are zero bonds, which are accounted for at amortised cost. The relevant premiums and discounts are shown as deferred items and placed to account pro rata temporis.
- Shares, investment fund certificates, bearer bonds, fixed-interest and non-fixed-interest securities, and other investments are valued at acquisition cost or at the market price at the balance sheet date, whichever is the lower. Investments with participating interests have been classified under Section 341b of the German Commercial Code but have been valued according to the strict lower of cost or market principle, despite the alternative valuation option provided for.
- Lower valuations from previous years are maintained for all our investments if the impairment in value is probably permanent. Where the market value at the balance sheet date was higher than the previous year's valuation, we have written back the value to the acquisition cost or the amortised cost.
- Receivables** Deposits retained on assumed reinsurance business, accounts receivable on reinsurance business and other receivables are recognised at the nominal values less any necessary adjustments of value.
- Other assets** Inventories are recognised at acquisition cost. Office furniture and equipment is valued at acquisition cost less admissible depreciations. The purchase price of low-value items is fully written off in the year of acquisition. Own shares are recognised at the lower of cost or fair value. Those earmarked for retirement are offset against the revenue reserves.
- Deferred taxes** Deferred taxes result from temporary differences between financial statement valuations and valuations prescribed for determining taxable income. In the financial year 2008, we reversed the provision for natural hazards and the deferred tax assets connected with this. Since then, we have no longer availed ourselves of the option under Section 274 para. 2 of the German Commercial Code to recognise deferred tax assets.

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

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

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

The actuarial assumptions used for their calculation include, in particular, assumptions relating to mortality, disablement, morbidity, interest rate development, lapses and costs. These are estimated on a realistic basis at the time the insurance contracts are concluded and they include adequate provision for adverse deviation to make allowance for the risks of change, error and random fluctuations. The actuarial assumptions are adjusted if, and only if, the original provisions for adverse deviation are no longer considered sufficient.

Provisions for outstanding claims are generally established in accordance with the amounts reported to us by our cedants. They are posted for payment obligations arising from reinsurance contracts where the size of the claim or the timing of the payment is still uncertain. Part of the provision is for known claims for which individually calculated provisions are posted. Another part is for expenses for claims which are not yet known (e.g. because they have not been reported yet or have not yet manifested themselves). A third class of provisions covers claims which are basically known but whose extent has turned out to be greater than originally foreseen. All these provisions include expenses for internal and external loss adjustment expenses. The provision for outstanding claims is based on estimates: the actual payments may be higher or lower. The amounts posted are the realistically estimated future amounts to be paid; they are calculated on the basis of past experience and assumptions about future developments (e.g. social, economic or technological parameters) and using appropriate actuarial methods. Future payment obligations are not discounted but recognised at the future settlement value.

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

The "other technical provisions" mainly comprise provisions for profit commission and the provision for anticipated losses. Provisions for anticipated losses are posted if, in a reinsurance portfolio, the future premiums plus the proportionate investment result will probably not be sufficient to cover the expected claims and costs. A provision for anticipated losses was posted for liability business in the financial year 2008.

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

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

In 2003, the Company established a contractual trust agreement in the form of a two-way trust for its unfunded company pension obligations. To finance these obligations, it is necessary for the trust assets to correspond to the present value of pension obligations. In the process, however, account has to be taken of the difference between the actuarial interest rate relevant for measuring the obligations and the return attainable on the investments. Therefore, the present value of the pension obligations is calculated using an actuarial interest rate equivalent to the expected investment return. Moreover, based on studies of the Company's portfolio of pensioners, the mortalities of the currently used Heubeck 2005 G tables were also modified.

The reserve amount is €278m (248m) higher than the reserve amount pursuant to Section 6a of the German Income Tax Act, applying an actuarial interest rate of 6%.

Except for the semi-retirement and anniversary provisions, which are measured using an actuarial interest rate of 6.5% and 6.0% respectively, the other provisions are posted in accordance with the probable requirements.

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

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

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

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

Foreign currency translation		
	31.12.2008	Prev. year
Australian dollar	1.99375	1.66515
Japanese yen	126.00800	136.33300
Canadian dollar	1.71600	1.44300
Pound sterling	0.96685	0.73445
South Korean won	1,750.84000	1,368.55000
US dollar	1.39005	1.46205

Notes to the balance sheet – Assets

(1), (2) Intangible assets and investments

	Carrying amount 31.12.2007	Currency translation	Additions	Reclassi- fications	Disposals	Write-ups	Write- downs	Carrying amount 31.12.2008
	T€	T€	T€	T€	T€	T€	T€	T€
(1) Intangible assets	48,042	–	4,848	–	–461	–	–11,350	41,079
(2) Investments								
Land, land rights and buildings, including buildings on third-party land	823,957	–	79,380	–	–	1,974	–42,020	863,291
Investments in affiliated companies and participating interests								
Shares in affiliated companies	21,640,569	–285,748	2,174,295	–	–24,682	6,925	–30,068	23,481,291
Loans to affiliated companies	680,436	–23	1,653,683	140	–358,680	–	–	1,975,556
Participating interests	190,191	–	34,295	–	–30,190	84	–	194,380
Loans to participating interests	22,984	–4,109	7,875	–140	–750	–	–	25,860
	22,534,180	–289,880	3,870,148	0	–414,302	7,009	–30,068	25,677,087
Other investments								
Shares, investment fund certificates and other non-fixed-interest securities	7,838,711	–89,772	10,723,836	–	–12,863,650	150	–445,994	5,163,281
Bearer bonds and other fixed-interest securities	21,419,250	–1,222,301	30,918,141	–	–29,103,287	78,582	–383,612	21,706,773
Loans secured on property	4,073	–	549	–	–848	–	–	3,774
Other loans								
Registered bonds	3,420	177	–	–	–	–	–	3,597
Loans and promissory notes	–	–	449,229	–	–170,657	–	–	278,572
Miscellaneous	148	–11	–	–	–9	–	–	128
Deposits with banks	685,134	–75,555	–	–	–338,269	–	–	271,310
Miscellaneous investments	225,710	–	1,907,903	–	–2,047,359	175,257	–4,345	257,166
	30,176,446	–1,387,462	43,999,658	–	–44,524,079	253,989	–833,951	27,684,601
Total investments (2)	53,534,583	–1,677,342	47,949,186	0	–44,938,381	262,972	–906,039	54,224,979
Total (1) + (2)	53,582,625	–1,677,342	47,954,034	0	–44,938,842	262,972	–917,389	54,266,058

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

The intangible assets consist mainly of purchased insurance portfolios and software.

The carrying amount of owner-occupied property totals €197m.

Of our total investments (excluding deposits retained on assumed reinsurance) with a carrying amount of €54,225m, an amount of €6,687m is deposited with ceding companies or foreign governments or in the custody of trustees nominated by us. In addition, investments of €459m are subject to a restraint on disposal and have been transferred to the custody of a trustee solely to safeguard pension commitments and the provision for comparable benefits.

To support Hypo Real Estate (HRE), the German federal government adopted a rescue package in 2008, backed by the Deutsche Bundesbank and also the German financial services industry. As part of this rescue package, the Bundesbank has granted liquidity assistance of €20bn, and a consortium of financial institutions has underwritten an HRE government-guaranteed bearer bond of €15bn with a maximum term up to the end of 2009. Munich Reinsurance Company's share of this amounts to €70.7m. In addition, the consortium has underwritten another bearer bond secured by assets of the HRE Group, also totalling €15bn. Munich Reinsurance Company's share here is €70.7m as well, of which €70.1m was immediately transferred to companies of the ERGO Group. Both the bonds are shown under "bearer bonds and other fixed-interest securities".

Derivatives	Balance sheet item	Carrying amount	Fair value	Notional principal amount
		T€	T€	T€
Equity and index risks				
Short equity forwards (hedging)	-	-	131,546	262,504
Short equity forwards	-	-	432,781	1,029,537
Equity/index futures	Other provisions	-1,444	3,655	85,036
Total return swaps (hedge fund certificates)	Other deferred items	47,831	-20,757	397,910
	Other provisions	-20,757		
Interest-rate risks				
Long interest-rate swaptions (hedging)	Other investments	246,236	246,236	1,352,650
Short interest-rate guarantees	Other provisions	-246,236	-246,236	-1,352,650
Interest-rate swaps	Other provisions	-4	8,549	798,552
Interest-rate currency swaps	Other provisions	-4,956	-4,956	374,087
Interest-rate swaps (subordinated bond)	-	-	119,930	1,500,000
Interest-rate futures	Other provisions	-2,387	-143	127,525
Inflation swaps	Other provisions	-6,593	-6,593	300,000
Bundfutures	Other provisions	-3,340	6,606	2,954,792
Currency risks				
Currency forwards	Other provisions	-34,452	-13,230	2,617,007
Other transactions				
Insurance derivatives I (swaps)	Other provisions	-1,701	30,327	1,086,446
Insurance derivatives II (cat bonds)	Other provisions	-3,698		
	Other deferred items	-1,871	-1,663	131,140
Insurance derivatives III (long options)	Other investments	2,350	2,350	127,898
Credit default swaps (long options)	Other investments	711	6,789	12,000
Credit default swaps (swaps)	Other provisions	-5,697	-3,183	501,000
Commodity swaps	Other provisions	-1,690	11,320	248,083

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

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

Beyond this, derivatives are used in isolated cases to hedge against risks assumed in underwriting business. These derivatives include, in particular, interest-rate swaps (interest-rate swaptions) to hedge against an interest-rate risk (interest-rate guarantee) in insurance contracts. Securitisation of insurance risks and their placement on the capital markets is gaining in importance as an instrument of risk transfer to supplement traditional reinsurance. Here, an underwriting risk is ceded by way of a retrocession contract (swap contract) to a special-purpose vehicle (Insurance derivatives I). The special-purpose vehicle covers potential liabilities arising from the contract by issuing insurance bonds (cat bonds). In addition, Munich Reinsurance Company itself has cat bonds in its portfolio. These in turn contain derivative components to be accounted for separately (Insurance derivatives II). The options on catastrophe and reinsurance risks (Insurance derivatives III) also serve a hedging purpose. A comparable underwriting-investment motive underlies the credit-default swaps and the commodity swaps.

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

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

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

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

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

Derivatives	Pricing method	Parameters	Pricing model
Equity and index risks			
Equity forwards	Theoretical price	Money-market interest rate Share price Dividend yield	Present-value method
Equity/index futures	Listed price	–	–
Total return swaps (hedge fund certificates)	Theoretical price	Market values of the funds Interest-rate curve	Present-value method
Interest-rate risks			
Swaptions/interest-rate guarantee	Theoretical price	At-the-money volatility matrix and skew Swap curve Money-market interest-rate curve	Black 76
Interest-rate swaps	Theoretical price	Swap curve Money-market interest-rate curve	Present-value method
Interest-rate currency swaps	Theoretical price	Swap curve Money-market interest-rate curve Currency spot rates	Present-value method
Interest-rate futures	Listed price	–	–
Inflation swaps	Theoretical price	Zero coupon inflation swap rates Interest-rate curve	Present-value method
Bundfutures	Listed price	–	–
Currency risks			
Currency forwards	Theoretical price	Currency spot rates Money-market interest-rate curve	Present-value method
Other transactions			
Insurance derivatives	Theoretical price	Market values of the cat bonds Interest-rate curve	Present-value method
Credit default swaps	Theoretical price	Credit spreads Recovery rates Interest-rate curve	Present-value method
Commodity swaps	Listed price	–	–

The fair value of investments (excluding deposits retained on assumed reinsurance) amounts to €60bn. The relevant carrying amount totals €54bn. This results in valuation reserves of €6bn for the financial year 2008.

The valuation reserves contain hidden losses of €32m for investment holding companies, of which €30m is apportionable to one company whose sole object is the holding of shares in a listed company. Owing to current

fluctuations on the capital markets, we regard a fair value based on the shares' stock market price as inappropriate. This is confirmed by the stock market price determined for these shares by the central reporting office of the German Insurance Association, which gives a fair value of the participating interest well above the book value. We have therefore refrained from making a write-down.

There are also hidden losses of €2m for another participating interest whose purpose is the holding of private equity funds. As it is currently assumed that repayments will be earned over the term of the umbrella fund which significantly exceed the amounts paid in, the current decrease in value is not regarded as permanent, so no write-down was made at the reporting date.

The valuation reserves also contain hidden losses of €27m for loans. No write-downs have been made, because the impairments in value are only temporary (the carrying amount corresponds to the loans' redemption amount).

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

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

	Carrying amounts		Fair values	Valuation reserves
	€m	31.12.2008	31.12.2008	31.12.2008
Investments – Fair values and valuation reserves				
Land, land rights and buildings, including buildings on third-party land		863	2,166	1,303
Investments in affiliated companies and participating interests				
Shares in affiliated companies		23,481	26,515	3,034
Loans to affiliated companies		1,976	2,012	36
Participating interests		194	213	19
Loans to participating interests		26	32	6
		25,677	28,772	3,095
Other investments				
Shares, investment fund certificates and other non-fixed-interest securities		5,163	5,988	825
Bearer bonds and other fixed-interest securities		21,707	22,490	783
Loans secured on property		4	4	0
Other loans		282	280	-2
Deposits with banks		272	272	0
Miscellaneous investments		257	263	6
		27,685	29,297	1,612
Total investments		54,225	60,235	6,010

(3) Information on shareholdings

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

Notes to the balance sheet – Equity and liabilities

(4) Equity

The total share capital of €587,725,396.48 at 31 December 2008 is divided into 206,403,804 registered no-par-value shares, each fully paid up and entitled to one vote.

The capital authorised for capital increases comprises the following items:

	€m	31.12.2008
Authorised Capital Increase 2004 (until 25 May 2009)		280
Authorised Capital Increase 2006 (until 18 April 2011)		5
Total		285

The contingent capital is as follows:

	€m	31.12.2008
To safeguard subscription rights from exercise of warrants (Contingent Capital Increase 2003 I)		35
To safeguard conversion rights or subscription rights from convertible bonds or bonds with warrants (Contingent Capital Increase 2005)		100
Total		135

The withdrawal from the revenue reserves amounts to €1,387m, whilst the allocation to the revenue reserves totals €1,493m. Net retained profits include a profit of €74m carried forward from the previous year.

By resolution of the Annual General Meeting on 26 April 2007, Munich Re was authorised to buy back shares amounting to a maximum of 10% of the share capital up to 25 October 2008. The Annual General Meeting on 17 April 2008 renewed this resolution, thereby authorising the Board of Management to buy back shares amounting to a maximum of 10% of the share capital up to 16 October 2009.

On 31 December 2008, a total of 10,748,453 Munich Re shares with a calculated nominal value of around €30.6m were held by Group companies. This represents 5.21% of the share capital.

On 4 May 2007 and 29 January 2008, Munich Re's Board of Management decided on a share buy-back programme, thus availing itself of the authorisation granted by the Annual General Meeting on 26 April 2007, in accordance with Section 71 para. 1 item 8 of the German Stock Companies Act. In the period from 10 May 2007 to 23 January 2008, 15,135,611 Munich Re shares were acquired via the stock exchange. The shares were then retired – 3,650,745 as at 26 June 2007 and 11,484,866 as at 9 April 2008 – in a simplified process, without reducing the share capital, by adjusting the proportion of the Company's share capital represented by each of the remaining no-par-value shares.

On 6 May 2008, Munich Re's Board of Management decided on a further share buy-back programme, thus availing itself of the authorisation granted by the Annual General Meeting on 17 April 2008, in accordance with Section 71 para. 1 item 8 of the German Stock Companies Act. The share buy-back was restricted to a total purchase price (excluding incidental expenses) of €1bn. There was also the possibility, within the framework of the authorisation granted by the Annual General Meeting on 26 April 2007 and 17 April 2008, to buy back shares

using derivatives. In the period from 8 May 2008 to 31 December 2008, including the exercise of put options (= 1,310,000 shares), a total of 8,434,680 shares were acquired at an average price of €111.74. The share buy-back is likely to be completed by the end of March 2009. Altogether, 11,840,105 shares were acquired in 2008 at an average price of €117.10.

In addition to the 224 shares remaining from the 2007 employee share programme, a total of 58,905 shares were purchased at an average price of €121.01 for the gratis shares granted to employees by Munich Reinsurance Company in 2008. After subscription of 58,846 shares by employees in 2008 and taking into account a subsequent issuing of 28 shares from the previous year's programme, a total of 255 shares remain.

For the employee share programme set up in 2008 by Europäische Reiseversicherung AG, 600 shares were acquired at an average price of €106.74. Of these, 401 were purchased by staff at an average price of €79.66 per share and 199 were sold at an average price of €109.75. No shares remain in the portfolio.

For the employee share programme set up in 2008 by Mercur Assistance Deutschland GmbH, 170 shares were acquired at an average price of €106.28. Of these, 165 were purchased by staff at an average price of €79.66 and five were sold at an average price of €114.65 per share. No shares remain in the portfolio.

For the employee share programme set up in 2008 by MEAG MUNICH ERGO AssetManagement GmbH, 2,246 shares were purchased at an average price of €94.77, which staff acquired at a price of €79.20 each. No shares remain in the portfolio.

In addition, one subsidiary holds 1,893,855 shares to safeguard stock appreciation rights granted to the Board of Management and top Munich Re executives since 1999. In 2008, a total of 420,000 shares were acquired for these programmes at an average price of €113.19, and 82,503 shares were sold at an average price of €115.66.

In the financial year 2008, companies of the ERGO Insurance Group acquired 8,412 shares at an average price of €108.20 each to cover future commitments from the long-term incentive plans launched since 2002 and sold 30,378 shares at a price of €107.14 each. Together with the remaining Munich Re shares acquired to safeguard the stock appreciation rights granted in 2002–2008, the ERGO Insurance Group had a total portfolio of 300,590 shares at 31 December 2008.

Europäische Reiseversicherung AG and Mercur Assistance Deutschland GmbH acquired no further Munich Re shares in 2008 to safeguard their long-term incentive plans. There were no shares in the portfolio at 31 December 2008.

MEAG MUNICH ERGO AssetManagement GmbH acquired 16,364 shares at €120.80 each and sold 3,311 shares at an average price of €102.13 in the financial year 2008 to safeguard obligations from its long-term incentive plan and thus has a portfolio of 119,073 Munich Re shares.

The acquisition costs of all Munich Re shares in the possession of Group companies at the end of the financial year totalled €1,180,742,532.89.

The Company has received the following notifications pursuant to Section 21 of the German Securities Trading Act regarding voting-right percentages (status at 31 December 2008):

In September 2006, AXA Investments Managers Deutschland GmbH, Frankfurt, notified us on behalf and as authorised agent of AXA S. A., Paris, France, in accordance with Section 21 ff. of the German Securities Trading Act, that on 13 September 2006 the latter's share of the voting rights in Munich Reinsurance Company had exceeded the threshold of 5% and totalled 5.59%. Of this, 5.59% was attributable to AXA S.A. in accordance with Section 21 para. 1 and Section 22 para. 1 item 6 in conjunction with Section 22 para. 1 sentence 2 of the German Securities Trading Act, and a further 4,800 votes in accordance with Section 22 para. 1 sentence 1 item 1 of the German Securities Trading Act.

In the past financial year 2008, Allianz SE, Munich, Germany, and Barclays Global Investors UK Holdings Ltd., London, England, each informed us in accordance with Section 21 para. 1 of the German Securities Trading Act that their share of the voting rights in our Company had fallen below the notifiable threshold of 3% of the voting rights.

(5) Subordinated liabilities

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

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

The remaining term of the subordinated liabilities with a total amount of €4,810m is more than five years.

Subordinated liabilities	
	€m
	31.12.2008
Euro subordinated bond, €3,000m, 6.75%, 2003 (2013/2023) ¹	3,000
Pound-sterling subordinated bond, £300m, 7.625%, 2003 (2018/2028) ¹	310
Euro subordinated bond, €1,500m, 5.767%, 2007 (2017/perpetual) ¹	1,500
Total	4,810

¹ (First callable date/Maturity date).

(6) Special reserve

The special reserve has been posted in accordance with Section 6 b of the German Income Tax Act.

(7) Technical provisions by class of business

	Unearned premiums	Provision for future policy benefits	Claims provision	Claims equalisation provision and similar provisions	Other provisions	Total	Reserves as % of net premiums
€m							
Life	490	10,471	905	10	465	12,341	328
Health	81	1,012	203	5	24	1,325	155
Accident	60	299	3,915	2	4	4,280	1,215
Liability	204	–	9,853	1,184	–8	11,233	793
Motor	406	–	5,669	495	29	6,599	346
Marine	204	–	1,131	468	5	1,808	190
Aviation	174	–	1,116	890	–1	2,179	464
Fire	530	–	3,288	3,345	53	7,216	254
Engineering	540	–	1,722	837	5	3,104	253
Other classes	248	–	1,387	1,508	24	3,167	176
Non-life combined	2,447	1,311	28,284	8,734	135	40,911	346
Total	2,937	11,782	29,189	8,744	600	53,252	342

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

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

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

	T€	31.12.2008	31.12.2007
Claims equalisation provision		8,395,207	8,225,001
Provision for major risks		349,217	341,161
Thereof:			
For nuclear facilities		72,015	76,092
For pharmaceutical products liability		70,442	71,048
For terrorism risks		206,760	194,021
Provision for natural hazards		–	964,131
Total		8,744,424	9,530,293

As the prerequisites for posting a provision for natural hazards in accordance with Section 341 h para. 2 of the German Commercial Code no longer apply in the case of the Company, we transferred the coverage of these risks from the provision for natural hazards to the claims equalisation provision and reversed the provision of €964m for natural hazards.

The other technical provisions include provisions of T€6,066 (0) for anticipated losses.

(8) Other accrued liabilities

We have agreed to pay pensions to nearly all our staff and their surviving dependants. These commitments are to be met partly by the company itself and partly by the Munich Re staff pension fund. There are pension provisions of T€98,331 for former members of the Board of Management or their surviving dependants.

The tax provisions contain deferred taxes of T€170,142.

The other provisions include, in particular, a provision of T€377,186 for unrealised currency gains.

For personnel expenses not yet payable on the balance sheet date, provisions of T€217,964 have been posted.

There is a provision of T€246,874 for an interest-rate guarantee granted under an individual contract. The risk from the interest-rate guarantee is fully covered by interest-rate swaptions (derivatives) on the assets side. There are also provisions of T€86,719 for anticipated losses from derivatives.

(9) Amounts due to banks

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

Notes to the income statement

(10) Reinsurance underwriting result by class of business

	Gross premiums written		Underwriting result before claims equalisation provisions and similar provisions		Change in claims equalisation provisions and similar provisions		Combined ratio in %	
	€m							
	2008	2007	2008	2007	2008	2007	2008	2007
Life	4,050	4,848	34	306	-2	-2	-	-
Health	884	820	14	51	-1	-1	98.4	93.3
Accident	379	454	-339	-398	0	-1	196.3	189.5
Liability ¹	1,443	1,534	-338	-140	3	-2	122.6	109.3
Motor	1,968	2,184	-296	-90	142	-135	116.2	104.2
Marine ¹	1,000	1,048	43	160	-138	-274	95.6	84.0
Aviation	519	471	38	10	3	222	91.7	97.7
Fire	3,055	3,179	328	670	962	-1,121	87.9	77.6
Engineering	1,298	1,196	127	110	21	169	89.7	90.1
Other classes	1,899	1,828	123	106	-204	23	93.0	93.6
Non-life combined	12,445	12,714	-301	479	788	-1,120	102.4	95.9
Total	16,495	17,562	-266	785	786	-1,122	-	-

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

(11) Interest on technical provisions

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

(12) Personnel expenses

The management expenses include the following personnel expenses:

	2008	Prev. year
	T€	T€
Wages and salaries	329,325	313,113
Social insurance contributions and voluntary assistance	66,001	56,812
Expenses for employees' pensions	67,507	0
Total	462,833	369,925

In 2007, owing to the increase in the actuarial interest rate, there was a positive balance on pensions, which was recognised under "other income". In 2008, a reduction in the actuarial interest rate produced an expense from pensions.

(13) Investment income

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

(14) Investment expenses

T€444,083 of the write-downs are apportionable to impairments as per Section 253 para. 2 sentence 3 of the German Commercial Code.

Special tax write-downs in accordance with Section 6 b of the German Income Tax Act account for T€18,752.

(15) Tax accounting influences

The result for the financial year was influenced by write-downs of T€18,752 allowed for under tax law and by the release of a special reserve of T€18,752 posted in accordance with Section 6 b of the German Income Tax Act. Allocations to the special reserve amounted to T€0 (363,700).

(16) Long-term incentive plans

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

The relevant initial share price for the stock appreciation rights is calculated from the average of closing prices for Munich Re shares in Frankfurt Xetra trading over the last three months prior to plan commencement. The initial price for the 2008 long-term incentive plan is €121.84. As a result of Munich Reinsurance Company's capital increase in the financial year 2003, the initial share prices for the stock appreciation rights issued up to then and the number of stock appreciation rights already granted were adjusted in accordance with the conditions.

In the year under review, a total of 448,117 stock appreciation rights were granted, 143,101 of these to Board of Management members. The future obligations arising from the long-term incentive plans are covered by Munich Re shares.

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

In the year under review, related provisions of €63.3m had to be posted; the personnel expenses totalled €10.6m. The weighted average share price for the stock appreciation rights exercised in 2008 was €118.43 for plan year 2003, €113.98 for plan year 2004, and €117.91 for plan year 2005. The intrinsic value of the exercisable stock appreciation rights at the balance sheet date amounted to €17.7m.

Munich Reinsurance Company's incentive plans 2001–2008

	Incentive Plan 2001	Incentive Plan 2002	Incentive Plan 2003	Incentive Plan 2004	Incentive Plan 2005	Incentive Plan 2006	Incentive Plan 2007	Incentive Plan 2008
Plan commencement	1.7.2001	1.7.2002	1.7.2003	1.7.2004	1.7.2005	1.7.2006	1.7.2007	1.7.2008
Plan end	30.6.2008	30.6.2009	30.6.2010	30.6.2011	30.6.2012	30.6.2013	30.6.2014	30.6.2015
Old initial share price	€320.47	€260.37	€86.24	–	–	–	–	–
New initial share price after 2003 capital increase	€304.80	€247.64	€82.02	€88.65	€88.10	€108.87	€134.07	€121.84
Intrinsic value 2008 for one right	–	–	€29.98	€23.35	€23.90	€3.13	–	–
Fair value 2008 for one right	–	€0.12	€33.87	€34.14	€37.07	€33.02	€29.84	€33.80
Number of rights on 31 December 2001	109,474	–	–	–	–	–	–	–
Additions	270	132,466	–	–	–	–	–	–
Exercised	–	–	–	–	–	–	–	–
Forfeited	443	–	–	–	–	–	–	–
Number of rights on 31 December 2002	109,301	132,466	–	–	–	–	–	–
Additions	5,319	6,696	439,581	–	–	–	–	–
Exercised	–	–	–	–	–	–	–	–
Forfeited	7,192	3,962	–	–	–	–	–	–
Number of rights on 31 December 2003	107,428	135,200	439,581	–	–	–	–	–
Additions	–	–	–	456,336	–	–	–	–
Exercised	–	–	–	–	–	–	–	–
Forfeited	600	748	2,354	–	–	–	–	–
Number of rights on 31 December 2004	106,828	134,452	437,227	456,336	–	–	–	–
Additions	–	–	320	1,697	485,527	–	–	–
Exercised	–	–	177,748	–	–	–	–	–
Forfeited	542	680	121	2,005	–	–	–	–
Number of rights on 31 December 2005	106,286	133,772	259,678	456,028	485,527	–	–	–
Additions	–	–	–	–	–	443,609	–	–
Exercised	–	–	63,942	119,363	–	–	–	–
Forfeited	–	–	–	–	–	1,019	–	–
Number of rights on 31 December 2006	106,286	133,772	195,736	336,665	485,527	442,590	–	–
Additions	–	–	–	–	–	6,123	341,737	–
Exercised	–	–	70,690	85,652	84,329	–	–	–
Forfeited	541	985	–	–	3,892	8,514	503	–
Number of rights on 31 December 2007	105,745	132,787	125,046	251,013	397,306	440,199	341,234	–
Additions	–	–	–	–	–	–	4,013	444,104
Exercised	–	–	40,045	31,582	31,716	–	–	–
Forfeited	105,745	–	–	1,069	–	5,388	5,848	3,063
Number of rights on 31 December 2008	–	132,787	85,001	218,362	365,590	434,811	339,399	441,041
Exercisable at year-end	–	132,787	85,001	218,362	365,590	434,811	–	–

Each stock appreciation right entitles the holder to draw in cash the difference between the Munich Re share price at the time when the right is exercised and the initial share price. The stock appreciation rights may only be exercised after a two-year vesting period and then only if the share price is at least 20% higher than the initial price. In addition, Munich Re shares must have outperformed the EURO STOXX 50 twice at the end of a three-month period during the term of the plan. The gross amount that may be obtained from the exercising of the stock appreciation rights is limited to an increase of 150% of the initial share price.

Stock appreciation rights not exercised on the last trading day of the plan term are exercised on the participant's behalf insofar as the prerequisites for this are met. If the prerequisites are not met, the stock appreciation rights are forfeited.

If another company acquires control of Munich Re or the Company's group of shareholders changes significantly due to a merger or comparable transaction or intended business combination ("change of control"), all plan participants may exercise their stock appreciation rights within 60 days after the change in control becomes effective, even if the prerequisites for exercising the rights are not yet met at that juncture.

(17) Remuneration report

The total remuneration of Munich Reinsurance Company's Board of Management amounted to €18.5m and that of the Supervisory Board to €1.5m. All other disclosures on the remuneration of and loans to Board members, share trading and shares held by the members of the Board of Management and the Supervisory Board, and the structure of the Board of Management's remuneration system can be found in the remuneration report on page 44.

Payments to retired members of the Board of Management or their surviving dependants totalled T€5,467.

Personnel expenses of T€9,670 were incurred for pension commitments to retired members of the Board of Management. As at 31 December 2008, the pension provisions and provisions for comparable benefits for former members of the Board of Management amounted to T€98,331.

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

(18) Boards of the Company**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

Life (until 31 December 2008)

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

Life (from 1 January 2009)

Supervisory Board

Chairman

[Dr. jur. Hans-Jürgen Schinzler](#)

Former Chairman of the Board of Management
of Munich Reinsurance Company

Deputy Chairman

[Herbert Bach](#)

Employee of Munich Reinsurance Company

[Hans-Georg Appel](#)

Employee of Munich Reinsurance Company

[Holger Emmert](#)

Employee of Munich Reinsurance Company

[Ulrich Hartmann](#)

Chairman of the Supervisory Board of E.ON AG

[Dr. rer. nat. Rainer Janßen](#)

Employee of Munich Reinsurance Company

[Prof. Dr. rer. nat. Dr.-Ing. E. h. Henning Kagermann](#)

Chairman of the Executive Board and Chief Executive Officer of SAP AG

[Prof. Dr. rer. nat. Drs. h. c. mult. Hubert Markl](#)

Former President of the Max Planck Society

[Wolfgang Mayrhuber](#)

Chairman of the Board of Management of Deutsche Lufthansa AG

[Kerstin Michl](#)

Employee of Munich Reinsurance Company

[Prof. Karel Van Miert](#)

Professor at the University of Nyenrode

[Ingrid Müller](#)

Employee of Munich Reinsurance Company

[Prof. Dr. jur. Dr.-Ing. E. h. Heinrich v. Pierer](#)

Former Chairman of the Supervisory Board of Siemens AG

[Dr.-Ing. e. h. Bernd Pischetsrieder](#)

Former Chairman of the Board of Management of Volkswagen AG

[Dr. rer. nat. Jürgen Schimetschek](#)

Employee of Munich Reinsurance Company

[Dr. jur. Dr. h. c. Albrecht Schmidt](#)

Former Chairman of the Supervisory Board of
Bayerische Hypo- und Vereinsbank AG

[Dr. phil. Ron Sommer](#)

Former Chairman of the Board of Management of Deutsche Telekom AG

[Wolfgang Stögbauer](#)

Employee of Munich Reinsurance Company

[Josef Süßl](#)

Employee of Munich Reinsurance Company

[Judy Vö](#)

Employee of Munich Reinsurance Company

Membership of the Supervisory Board Committees	Standing Committee
	Dr. Hans-Jürgen Schinzler (Chairman)
	Herbert Bach
	Dr. Bernd Pischetsrieder
	Dr. Albrecht Schmidt
	Josef Süßl
	Personnel Committee
	Dr. Hans-Jürgen Schinzler (Chairman)
	Herbert Bach
	Dr. Bernd Pischetsrieder
	Audit Committee
	Dr. Albrecht Schmidt (Chairman)
	Hans-Georg Appel
	Prof. Dr. Henning Kagermann
	Dr. Hans-Jürgen Schinzler
	Wolfgang Stögbauer
	Conference Committee
	Dr. Hans-Jürgen Schinzler (Chairman)
	Herbert Bach
	Dr. Bernd Pischetsrieder
	Judy Vó
	Nomination Committee
	Dr. Hans-Jürgen Schinzler (Chairman)
	Dr. Bernd Pischetsrieder
	Dr. Albrecht Schmidt

Other seats held by Board members

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

¹ Status: 31 December 2008

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

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

³ Status: 31 December 2008.

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

(19) Number of staff

The number of staff employed by the Company in Munich and at its offices abroad in the financial year 2008 averaged 3,649 (3,628).

(20) Auditor's fees

The following fees have been recognised as an expense in the financial year for the auditor of the financial statements pursuant to Section 319 para. 1 sentences 1 and 2 of the German Commercial Code:

	T€	2008
Audits of financial statements		1,582
Other assurance and appraisal services		402
Tax consultancy services		728
Other services		1,394
Total		4,106

With effect from 1 October 2008, KPMG Spain became part of KPMG Europe LLP. This makes KPMG Spain, along with KPMG LLP (UK), an affiliated company of KPMG Germany within the meaning of Section 271 para. 2 of the German Commercial Code. Consequently, KPMG Spain has been included in the auditor's fees to be disclosed.

The "other services" mainly involve support for a Group company in developing and implementing a data base as the foundation for a management information system and assistance in analysing various aspects in the development of a hedging platform.

(21) Contingent liabilities, other financial commitments

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

For a loan obligation of Munich Re America Corporation towards third parties, a guarantee of US\$ 250m has been given.

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

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

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

In isolated cases, we have given guarantees concerning the correctness of individual items warranted in the sales contract when selling investments.

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

To support Hypo Real Estate (HRE), the German federal government adopted a rescue package in 2008, backed by the Deutsche Bundesbank and also the German financial services industry. As part of this rescue package, Munich Reinsurance Company has assumed a reguarantee of €929,000 towards the Federal Republic of Germany.

There are other financial commitments amounting to €604m (€369m of these towards affiliated companies). They result mainly from commitments to inject capital into various investment funds, agency and leasing agreements, and initiated investment projects.

Information on open forward transactions can be found on page 79 of this annual report.

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

In November 2008, the Board of Management and Supervisory Board of Munich Reinsurance Company published an updated declaration of conformity with the German Corporate Governance Code as per Section 161 of the German Stock Companies Act and made this declaration permanently available to shareholders on the internet.

(23) Proposal for appropriation of profit

The net retained profits amount to €1,567,417,505.92. The Board of Management proposes that this amount be appropriated as follows: payment of a dividend of €5.50 on each share entitled to dividend and allocation of €432,196,583.92 to “other revenue reserves”, 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.

Munich, 3 March 2009

The Board of Management

Auditor's report

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

We have audited the financial statements prepared by the Münchener Rückversicherungs-Gesellschaft Aktiengesellschaft in München, Munich, comprising the balance sheet, the income statement, and the notes to the financial statements, together with the bookkeeping system and management report for the business year from 1 January to 31 December 2008. The maintenance of the books and records and the preparation of the annual financial statements and management report in accordance with German commercial law and supplementary provisions in the Articles of Association are the responsibility of the Company's Board of Management. Our responsibility is to express an opinion on the annual financial statements, together with the bookkeeping system, and the management report based on our audit.

We conducted our audit of the annual financial statements in accordance with Section 317 of the German Commercial Code and German generally accepted standards for the audit of financial statements promulgated by the German Institute of Certified Accountants (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the annual financial statements in accordance with the principles of proper accounting and in the management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Company and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the books and records, the annual financial statements and the management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the accounting principles used and significant estimates made by the Board of Management, as well as evaluating the overall presentation of the annual financial statements and management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, the annual financial statements give a true and fair view of the net assets, financial position and results of operations of Münchener Rückversicherungs-Gesellschaft Aktiengesellschaft in München in accordance with principles of proper accounting. The management report is consistent with the annual financial statements and as a whole provides a suitable view of the Company's position and suitably presents the opportunities and risks of future development.

Munich, 5 March 2009

KPMG Bayerische Treuhandgesellschaft Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

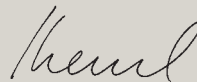
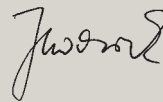
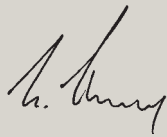
Klaus Becker
Wirtschaftsprüfer
(Certified public accountant)

Martin Berger
Wirtschaftsprüfer
(Certified public accountant)

Declaration of the Board of Management

"To the best of our knowledge, and in accordance with the applicable reporting principles, the financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company, and the management report includes a fair review of the development and performance of the business and the position of the Company, together with a description of the principal opportunities and risks associated with the expected development of the Company."

Munich, 13 March 2009



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Service for investors and analysts

If you have general questions on Munich Re shares, please use our shareholder hotline:
Tel.: 0 18 02/22 62 10
(Note for callers from Germany: 6 cents per call from a German fixed network, with varying prices from German mobile phone networks)
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Greenhouse gas emissions resulting from paper production for this annual report are offset through Munich Re's carbon-neutral strategy.



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