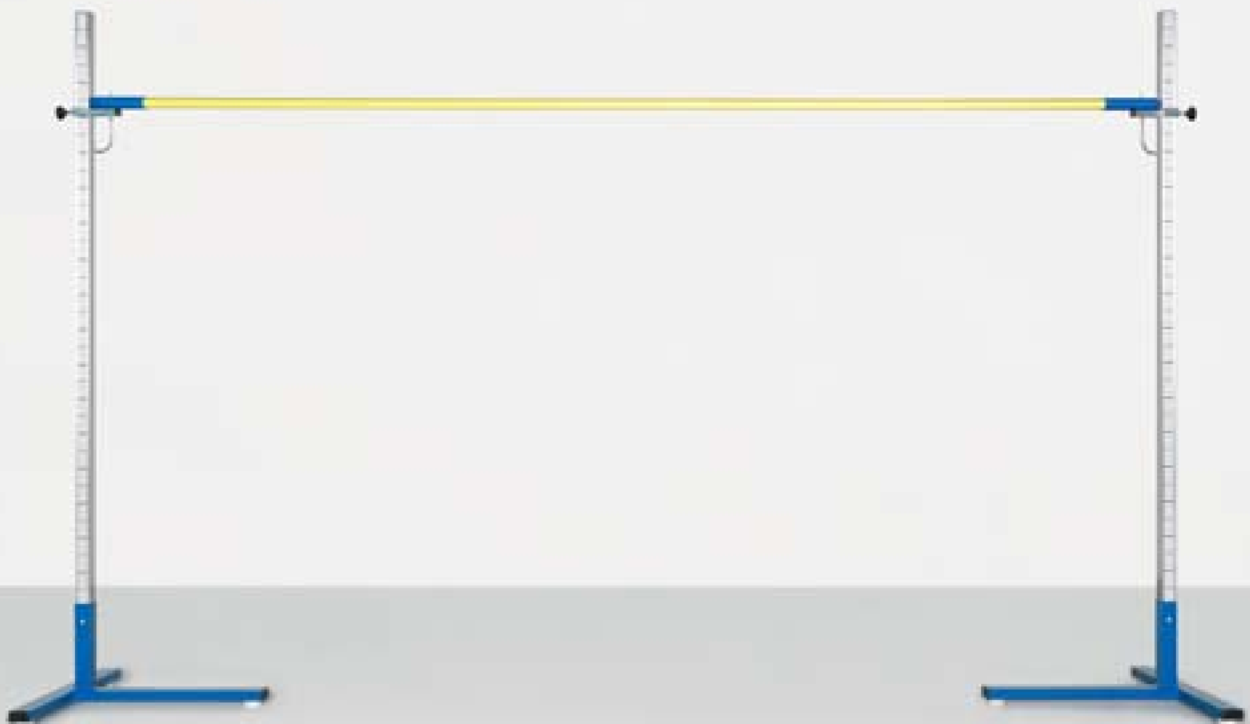
Munich Reinsurance Company
Annual Report 2007

Münchener Rück
Munich Re Group



Key figures

Munich Reinsurance Company			
€m	2007	2006	2005
Gross premiums written	17,562	17,847	19,167
Investments	72,080	73,781	78,326
Net technical provisions	55,289	58,747	63,653
Shareholders' equity	9,306	11,155	10,417
Profit/loss for the year	1,443	1,695	–992
Dividend	1,124	988	707
Dividend per share in €	5.50	4.50	3.10
Share price at 31 December in €[1]	132.94	130.42	114.38
Market capitalisation at 31 December	28,966	29,942	26,259

[1] Source: Datastream

The joy of winning – Five articles in the Munich Re Group Annual Report illustrate the intelligence and technique behind Munich Re's record-breaking performances, its fitness in competition, its boldness and resolve in developing innovative solutions, and its will to succeed: www.munichre.com

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1 January to 31 December 2007

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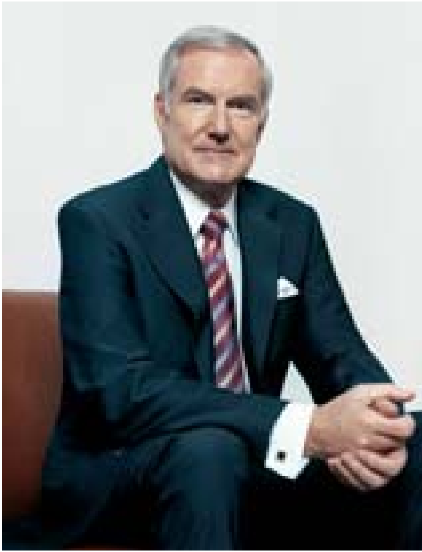
Note: The abbreviation T€ used in this report stands for thousand euros.

Report of the Supervisory Board



Dr. Hans-Jürgen Schinzler
Chairman of the Supervisory Board

Ladies and gentlemen,

In 2007, the Supervisory Board fulfilled all 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 Group and constantly monitored and supervised its management activities, which have become even more efficient since the introduction of the Board of Management committee structure in 2006.

The Board of Management consulted us in good time on all decisions of fundamental significance and informed us regularly and comprehensively about all important business transactions, thus satisfying its reporting obligations towards the Supervisory Board at all times. We discussed its written and oral reports thoroughly at our meetings. The Board of Management was open and cooperative in every respect as regards the Supervisory Board's suggestions and proposals for improvement. Collaboration was constructive and characterised by a spirit of trust.

The full Supervisory Board was briefed by the Board of Management even more intensively than hitherto between meetings, with prompt information on many current business topics in the Group, such as the impact of Windstorm Kyrill, the share buy-back, various acquisitions, the subordinated bond issued in the past financial year, and the changes on ERGO's Board of Management.

Throughout the year under review, Dr. von Bomhard and I remained in close contact regarding questions of strategy, planning, the Company's current business performance and risk management, and events of particular significance in the Group. 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

Four meetings of the Supervisory Board took place in 2007. Apart from one meeting, where two members were unable to attend, there was full attendance on each occasion. Once again, a representative of the German Federal Financial Supervisory Authority (BaFin) took part as a guest at two of the meetings. In addition, resolutions were twice adopted by written consent in lieu of a meeting.

Focal points at the meetings of the full Supervisory Board were the individual quarterly financial statements and the annual result for 2007. We obtained detailed reports on the Munich Re Group's performance, also compared with its competitors. The Group's strategic alignment and its further development were items debated several times in the financial year, and we engaged in a constructive exchange of ideas on these topics with the Board of Management. In keeping with the customary routine, the Board of Management presented the Group planning for 2008 and 2009 to us for discussion. It also reported to us regularly about the Group's risk situation and profitability,

enabling us to ascertain that integrated risk management and risk governance had been further refined. We were briefed by the Board of Management at each meeting about current topics and major losses affecting the Group. We continued to monitor the business situation of Munich Re America very closely. Other focal points of our work were compliance and anti-fraud, where the Board of Management gave us a wide-ranging overview of the preventive measures that Munich Re has taken to date. Besides this, we received ongoing information on the Changing Gear programme and the related change in corporate culture. The Supervisory Board welcomes this initiative of the Board of Management, which involves significant measures to boost efficiency and profitable growth and to increase the share price.

In preparing for the 2007 Annual General Meeting, we concerned ourselves inter alia with share buy-backs – for the first time also by means of derivatives – and the use of the shares acquired, as well as with amendments to the Articles of Association and with a domination and profit-transfer agreement with DKV International Health Holding AG. We naturally also discussed at length the Company financial statements and the Group financial statements for the previous financial year (2006). Beyond this, we dealt at our meetings with special topics from the Group primary insurance segment, such as ERGO in the light of industrialisation in the insurance sector, and with the question of how economic value can be created in insurance companies using investments.

Work of the committees

The composition of the committees of the Supervisory Board (Standing Committee, Personnel Committee, Audit Committee, Nomination Committee and Conference Committee) is shown in the overview on page 93.

The Standing Committee met three times in 2007, devoting itself mainly to the preparation of Supervisory Board meetings, topics of corporate governance, and reports on the development of the shareholders' register.

The Personnel Committee held four meetings in the year under review. It decided among other things on the extent to which the Board of Management's objectives had been achieved in the previous year and on the individual Board members' objectives for the coming year. It also considered succession planning for the Board of Management and the appointment and contracts of Board members. Other activities included reviewing and adjusting the Board of Management's remuneration and pension entitlements, and authorising the acceptance of new 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: a review of the structure of the Board of Management's remuneration system, and the adjustment of the Board of Management's distribution of responsibilities.

The Audit Committee also fulfilled its duties extensively, meeting six times in 2007. 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 financial year 2006. The Head of Internal Audit submitted his annual report for 2006 to the Audit Committee for discussion. The Audit Committee closely considered the 2007 quarterly reports and, for the first time, commissioned the external auditor with the review of the half-year financial report, which it later discussed at length in the presence of the auditor. Besides this, the Audit Committee reviewed and monitored the auditor's independence and commissioned the audit for the financial year 2007, deciding on its focal points and the auditor's fees. The Audit Committee also took delivery of reports from the auditor on its auditing and non-audit-related services. It

continually monitored the Company's risk situation, on which it obtained reports from the Board of Management at each meeting. Above all, it critically monitored the issue of exposure in markets affected by the subprime loan crisis. It received separate reports on the stabilisation of the new core administration system in reinsurance and the development of embedded values in life reinsurance business and in life and health primary insurance business. It also concerned itself several times with compliance and fraud topics in the Group. At the suggestion of the Chairman of the Audit Committee, the Compliance Officer will in future report regularly in person to the Audit Committee on these issues. This occurred for the first time at the meeting on 24 February 2008. Another topic dealt with in depth was active capital management by the Board of Management, particularly the share buy-back programme and the raising of additional hybrid capital.

The Nomination Committee was established at the end of 2007. Its task is to propose to the Supervisory Board suitable candidates for election as shareholders' representatives by the Annual General Meeting. The committee will begin its work in 2008.

The Conference Committee as per Section 27 para. 3 of the German Co-Determination Act did not need to be convened.

Dr. Schmidt as Chairman of the Audit Committee, and I as Chairman of the other committees, provided detailed information on the committees' work at the meetings of the full Supervisory Board.

Corporate governance and declaration of conformity

Munich Re's Supervisory Board concerned itself on an ongoing basis with the further development of corporate governance topics. In response to changes in the German Corporate Governance Code, we have expanded the Supervisory Board's rules of procedure so that the Audit Committee's duties now include the topic of compliance, and a nomination committee has been established. In the year under review, the Standing Committee examined the efficiency of our Supervisory Board activities on the basis of an extensive questionnaire distributed to the full Supervisory Board. It subsequently considered the results, which it used to develop improvement proposals to be discussed by the full Supervisory Board. Further information on corporate governance is available in the joint corporate governance report of the Board of Management and Supervisory Board on page 40.

In November 2007, 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 97 of this report and on the Company's website.

Changes on the Board of Management

On 28 February 2007, Dr. Heiner Hasford retired from Munich Re's Board of Management, of which he had been a member since 1993. On 31 December 2007, Mr. John Phelan also retired, having been a member of the Board of Management since 1 April 2002. We thank both gentlemen for their successful work and exceptional personal dedication.

On 1 October 2007, the Supervisory Board appointed Dr. Peter Röder to the Board of Management. In 17 years with the Munich Re Group, Dr. Röder had most recently served on ERGO International AG's Board of Management. At Munich Re, he is Mr. Phelan's successor as the Board member responsible for North America. He has also taken over the Global Clients Division from Dr. Torsten Jeworrek. The distribution of responsibilities on the Board of Management has been adjusted 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 2007, and the management reports for the Company and the Group. The auditor's reports were sent without delay to all members of the Supervisory Board. At its meeting on 24 February 2008, the Audit Committee conferred in detail about the preliminary year-end figures as at 31 December 2007 and, on 10 March 2008, 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 consideration to the auditor's reports. The Audit Committee briefed the full Supervisory Board about the outcome of its consultations at the balance sheet meeting on 11 March 2008.

Subsequent to the Audit Committee, the Supervisory Board also checked the Company financial statements, the Group financial statements, the Company management report, the Group management report and the proposal of the Board of Management for appropriation of the net retained profits. After conducting its own concluding examination, the Supervisory Board had no objections to the Company financial statements and Group financial statements, and agreed with the outcome of the external audit. On the basis of the Audit Committee's prior examination and the result of its own examination, the Supervisory Board approved the Company financial statements and Group financial statements at the balance sheet meeting on 11 March 2008. 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 successful work and great personal commitment, which was a major factor in the excellent business performance. Also worthy of special mention in this context is the palpable willingness throughout the Group to live the corporate culture together.

Munich, 11 March 2008

For the Supervisory Board

Dr. Hans-Jürgen Schinzler
Chairman

Management report

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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 from our headquarters and also via a large number of branches in such countries as Canada, the UK, France, Spain, China, Korea, Hong Kong, Singapore, Malaysia, Australia, and New Zealand. As a result of a Group directive of 2005 governing the distribution of responsibilities and competencies for key decisions between Group management and our main primary insurance subsidiary, the ERGO Insurance Group, there is "unified control" within the meaning of the German Stock Companies Act.

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 segments of primary insurance and reinsurance and clearly assigning responsibility.

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

As at 31 December 2007, our reinsurance business was organised in seven operative divisions. Overall responsibility for the client accounts always lies in one pair of hands, but as part of our Changing Gear growth programme we are further improving our set-up with effect from 1 April 2008 by creating Client Executive positions and separate underwriting units below divisional unit level. The operative divisions are also responsible for our business units abroad, including our subsidiaries.

The divisions Life and HealthCare underwrite our life and health reinsurance business worldwide, 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. 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 in the new International Health segment.

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

The Germany, Asia Pacific and Africa Division takes care of property-casualty business with clients in Africa, Asia, Australia and the Pacific Islands, and also serves our German cedants.

Special and Financial Risks (SFR) is in charge of the special classes of credit, aviation and space, enterprise risks and contingency risks, and for alternative markets business. Besides this, it develops and implements division-specific innovation projects and coordinates the overarching work of the innovation teams in the non-life divisions. Risk transfer to the capital markets is handled by our Risk Trading Unit, into which Munich American Capital Markets (MACM) – an entity that adapts a capital-market-oriented approach to structuring insurance risks for risk transfer – has been integrated. In addition, SFR also attends to our own reinsurance (retrocession).

Corporate Underwriting/Global Clients handles our accounts with major international insurance groups (hence "Global Clients") and writes business worldwide in special classes such as agriculture and workers' compensation. Its most important markets are the USA, the UK and Germany. Moreover, it performs an important corporate underwriting function for the reinsurance group in the property-casualty segment: its staff clarify fundamental, cross-divisional issues of underwriting policy, oversee quality assurance, integrate mathematical methods into our business processes, and set standards for claims management.

Since 1 January 2008, Global Clients and the previous North America Division, which is 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/North America Division. Corporate Underwriting has been operating as an independent entity since 1 January 2008.

The reinsurance group at a glance

Division	Subsidiaries/Branches
Life and HealthCare	
Atlanta, Brisbane, Chicago, London, Melbourne, Moscow, Mumbai, Perth, Santiago de Chile, Sydney, Toronto, Waltham, Warsaw	Munich Reinsurance Company of Australasia Munich American Reassurance Company Munich Reinsurance Company Canada Branch (Life) Munich Reinsurance Company UK Life Branch Munich Reinsurance Company Life Reinsurance Eastern Europe/Central Asia
Europe and Latin America	
Athens, London, Madrid, Milan, Moscow, Paris	Munich Ré France Branch Münchener Rück Italia Münchener Rückversicherungs-Gesellschaft Sucursal España y Portugal Munich Reinsurance Company UK General Branch
Bogotá, Buenos Aires, Caracas, Mexico City, São Paulo	
Germany, Asia Pacific and Africa	
Munich	
Beijing, Hong Kong, Kolkata, Kuala Lumpur, Mumbai, Shanghai, Seoul, Singapore, Taipei, Tokyo	Munich Reinsurance Company Beijing Branch Munich Reinsurance Company Singapore Branch Munich Reinsurance Company Hong Kong Branch Munich Reinsurance Company Malaysia Branch Munich Reinsurance Company Korea Branch
Auckland, Brisbane, Melbourne, Perth, Sydney	Munich Reinsurance Company Australian Branch Munich Reinsurance Company New Zealand Branch
Accra, Cape Town, Johannesburg, Nairobi, Réduit	Munich Mauritius Reinsurance Company Ltd. Munich Reinsurance Company of Africa
Special and Financial Risks	
Geneva, London, Munich, New York	New Reinsurance Company Great Lakes Reinsurance (UK) Munich American Capital Markets Munich-American RiskPartners GmbH
North America	
Atlanta, Boston, Chicago, Columbus, Dallas, Hamilton, Hartford, Kansas City, Los Angeles, Montreal, New York, Philadelphia, Princeton, San Francisco, Seattle, Toronto, Vancouver	Munich Reinsurance Company of Canada Munich Reinsurance America Temple Insurance Company
Corporate Underwriting/Global Clients	
London	Munich Re Underwriting MSP Underwriting

Asset management

We have transferred Munich Reinsurance Company's investment business to our subsidiary MEAG MUNICH ERGO AssetManagement GmbH, which is one of the major asset managers in the European financial sector. Virtually the entire asset management of the Munich Re Group is concentrated in MEAG, which at the end of 2007 had a total of around €172bn under management for the insurance companies in the Group, €64bn of which was for Munich Reinsurance Company. The subsidiary MEAG MUNICH ERGO Kapitalanlagegesellschaft mbH is one of the major investment fund companies in Germany, managing around €9bn in special and retail funds.

With offices in New York and Hong Kong, MEAG is internationally oriented, offering global competence and know-how across a wide range of asset classes to institutional investors and private clients.

Important tools of corporate management

Value-based management – Munich Re's management philosophy

Munich Re's objective is to analyse risk from every conceivable angle and to handle it successfully, thereby creating lasting value for its shareholders, clients and staff. A guiding principle of our 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.

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, and supervisory parameters.

Our business decisions are focused on increasing our corporate value, which we do in the following ways:

- We assess business activities not only according to their earnings potential but also relative to the extent of the risks assumed, which is material in measuring added value. Only the risk-return relationship reveals how beneficial an activity is from the shareholder point of view.
- With clearly defined value-based performance indicators, we ensure the necessary comparability of alternative initiatives and take priority-based decisions.
- 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 our corporate value.

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

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

Adjusted result – Cost of equity = 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 a single-period basis, 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, published by the CFO Forum in May 2004.

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 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, which does not include the value added by future new business. However, the valuation is made under the assumption of continued operations, i.e. taking into account the related costs in particular. Options and guarantees 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 2007. Assets that are traded on the capital markets are valued on the basis of the market values observed at the valuation date.

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 based on the 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, bearing in mind the risk capital required for deviating from the benchmark portfolio. MEAG's performance is measured in terms of the excess return it achieves.

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 major part. In the long term, a firm can only be successful if it operates sustainably and takes account of such future-oriented qualitative factors as well.

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

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

What we aim to achieve

Starting point 2007

In the past year, the Company's business performed very well. Thanks to the very good business experience in reinsurance and the excellent investment result, we recorded a profit for the year of €1.4bn. The investment result made a very positive contribution of €3,693m (3.308m), representing a return on investment (including deposits retained on assumed reinsurance) of 5.1% (4.3%). The return on investment is calculated as the ratio between the investment result and the average investment portfolio at carrying amounts in the financial year 2007.

The combined ratio, a much-heeded performance indicator in the insurance industry, is the percentage ratio of total expenses for claims incurred, expenses for premium refunds, change in the provision for future policy benefits, interest on technical provisions, change in other technical provisions (net in each case) and operating expenses (net) to earned premiums (net). It 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 and the change in claims reserves. Net operating expenses chiefly comprise commission plus personnel and non-personnel expenses for the acquisition and ongoing administration of insurance contracts.

The combined ratio in reinsurance includes the accident and health segment as well as property-casualty business. In the financial year 2007, it totalled 95.9% (97.9%). This marked improvement is essentially due to the much more favourable performance of Munich Re America's intra-Group cessions. This positive development was partially cancelled out by major-loss experience (especially natural catastrophe losses), which nevertheless remained within the long-term average. Our satisfactory combined ratio continues to be founded on our very profitable basic business, for which the prerequisites are cycle management and consistent underwriting discipline.

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

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

– Another important distinguishing feature relates to the time-lag between 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 evaluate it internally through the performance indicator of value added, which measures value creation not only on the basis of current and forecast profits but also by 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 2008

We have set ambitious targets again for 2008 for the whole Munich Re Group, to follow up the successful performance of the past financial year. For this purpose, we are 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. We thus take into account the economic standards currently underlying (at least to some extent) the requirements of supervisory authorities and rating agencies – standards that are set to play a decisive role in future.

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

RORAC is defined as follows:

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

The numerator in the formula comprises the published IFRS net income adjusted for post-tax income (interest rate x [1 – tax rate]) generated on capital not subject to risk within the given risk tolerance. The basis for the adjustment is the capital exceeding the necessary risk-based capital (additional available equity). This is calculated as follows: the starting point is the equity recognised in the IFRS financial statements, from which the "economic equity" is

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

At what level should the RORAC target be set?

Our RORAC target is a sustained return on risk-adjusted capital of 15% over the whole market cycle. We will not finalise and publish the risk-adjusted capital applicable for 2008 until May, when we have comprehensively assessed our current risk positioning. As things stand, however, our assumption is that the RORAC figure will correspond to an expected consolidated profit of between €3.0bn and €3.4bn, which is equivalent to a return on equity ranging from 11.5% to 13.0%.

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 98% in property-casualty reinsurance, which includes an amount of 6.5% of net earned premiums as projected claims expenditure for natural catastrophes.

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

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

Embedded values as additional performance indicators

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

We aim to achieve EEV earnings of between 8% and 9% in relation to the value of the overall business in force at the beginning of the year. The life and health primary insurance business, managed and measured on an embedded-value basis, will contribute to the IFRS consolidated profit and thus to reaching the RORAC target, even though IFRS consolidated results follow the narrower individual financial-year perspective.

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 in the order of 98% 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 expect a return of 4.5% in relation to the average carrying amount of the investments.

Overall, it should be possible for Munich Reinsurance Company to achieve another very good result in 2008.

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 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 performed 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 reasons are many and varied, ranging from technological progress and advancing geopolitical interdependencies to climate change and developments in international liability. In addition, concentrations of values are mushrooming, and regions are becoming more dependent on each other, giving rise to new risk potentials and accumulation hazards. It is, therefore, imperative to carry on refining risk models and to swiftly incorporate new findings.

Furthermore, the insurance industry's regulatory environment is being affected by profound changes. The introduction of new rules for state supervision in Europe under the banner of "Solvency II" and new accounting standards have implications for insurers' capital requirements and income statements; this will also influence the demand for reinsurance cover and trigger changes in its supply. 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

Despite a number of burdens, the general global economic environment for the insurance industry remained largely favourable in 2007. Although the oil price rose strongly, particularly in the second half of the year, the reduction in global economic growth in comparison with the previous year was only slight. The international financial markets, however, were significantly disrupted by the US subprime mortgage market crisis. Against this backdrop, most stock markets in Europe nonetheless realised moderate price gains in the course of the year, whilst the increases in the USA were comparatively modest and losses were recorded in Japan.

Economy

Global economic growth continued in 2007, albeit with slightly less impetus. China, Europe and the USA were again the principal engines of the global economy, the importance of the USA declining against that of Europe.

In the USA, the world's largest insurance market, economic growth slowed appreciably compared with the previous year. Chiefly responsible for this was the slackening of the housing market, which was accompanied by the collapse on the subprime mortgage market, in turn leading to a confidence crisis on the capital markets. Once again, the mainstays of the economy were private consumption and corporate investments. Year on year, real GDP rose by 2.2%.

With real growth of 2.1%, Japan's economy also lost some momentum.

Economic growth in the eurozone, driven by domestic demand and exports, was marginally weaker in 2007 than in the previous year, amounting to 2.7% in real terms. Once again, there were marked regional differences: the increase in real GDP in Spain and Ireland, for example, was well above average, whereas economic growth in Italy and Portugal again remained comparatively subdued.

The performance of the German economy was also somewhat weaker in 2007 than in the previous year. The most significant contributions to growth came from investments and the export sector. The economic upswing continued to have a positive effect on the labour market, with an annual average rise in the number of people in employment of approximately 650,000. The unemployment rate stood at 8.1% in December, a year-on-year decrease of 1.5 percentage points.

In the UK, economic growth was sustained at around the level of the previous year, chiefly due to robust domestic demand.

Rapid development in emerging markets persisted in 2007, the crisis on the international financial markets being concentrated primarily on industrialised nations. The Chinese economy remained very strong, with real growth totalling 11.4%. In India, too, the high current expansion rate remained almost undiminished.

Among the central and eastern European countries, Russia and Poland were among those recording higher growth than the previous year. Momentum in Hungary slackened somewhat, reflecting the current consolidation efforts of its government.

In Latin America, the economy cooled a little in comparison with the previous year, due not least to slightly weaker growth in Mexico. Brazil, on the other hand, made gains in terms of real economic growth.

The global situation in 2007 was characterised by the rising prices of commodities – especially oil – and foodstuffs, which, however, contrasted with diminishing inflationary pressure owing to an economic slowdown. Over the year as a whole, rates of inflation fell moderately both in the USA and the eurozone. In this environment, and particularly against the background of the problems on the international financial markets, the US Federal Reserve pruned back its reference interest rate from 5.25% at the start of the year to 4.25% at the end of 2007. In contrast, the European Central Bank increased its reference interest rate in the first half of the year from 3.5% to 4.0% and then left it unchanged. In the same period, and thus also prior to the onset of the financial market crisis, the Bank of England put up its key interest rate from 5.0% to 5.75%, only to then lower it again in December to 5.5%.

Capital markets

By and large, price developments on the international stock markets were moderately positive in 2007. The EURO STOXX 50, for instance, improved by nearly 7%, whereas in the USA the S&P 500 advanced by well over 3%. The DAX made gains in the region of 22%, while the Japanese Nikkei Index recorded a decrease of about 11%.

In view of positive economic expectations, yields on ten-year German government bonds moved up initially from 3.9% at the beginning of the year to just under 4.7% at the start of July, and ten-year US government bond yields improved from 4.7% to 5.2% by mid-June. However, the US subprime mortgage market crisis – and with it the dampening of economic prospects – led to yields falling back to 4.3% at year-end in Germany and even to 4.0% in the USA.

The euro gained considerable ground against the US dollar in the course of the year, its price rising from US$ 1.32 to US$ 1.46. Against the Japanese yen, it moved up only marginally from ¥157.12 at the start of the year to ¥163.33 at the end of 2007.

Insurance industry

Writing business at risk-adequate prices was once more the central issue on the insurance markets in 2007. 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.

The capital base of the reinsurance industry continued to improve in comparison with 2006 due to good underwriting results and despite a noticeable increase in natural catastrophe losses. Reinsurers have begun to return excess capital to their shareholders in order to ensure the profitability of the capital employed in their business. Altogether, the capitalisation of the reinsurance industry remains robust, which also influences the intensity of competition.

Important insurance markets

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.

The still relatively robust global economy in 2007 supported the development of the insurance markets. This applied especially to those markets in emerging economies. In China and India, for example, the figures up to and including November show that dynamic premium growth continued. European markets also displayed positive growth dynamics; in Spain, for example, total premiums in the first three quarters were up by nearly 10% year on year.

In Germany, however, despite the still robust economic situation, premium volume remained more or less unchanged in comparison with the previous year, decisive factors being the continued intensive competition, the economic uncertainty felt by many citizens, and real incomes again sinking slightly.

Legal parameters

Various German, European and global initiatives in the field of insurance law are constantly changing insurers' legal parameters. The German insurance industry is affected by several items of proposed legislation that will impact its business in terms of pricing and product design, client relations, and the overall business processes of companies in the sector.

Extensive insurance law reforms came into force in our home market of Germany on 1 January 2008.

The amended **German Insurance Contract Act** (VVG reform) aims to bring the Act into line with supreme court decisions and increase consumer protection. The reform emphasises, for example, the obligations of insurance companies to provide information and consultancy prior to and on concluding contracts. The new VVG stipulates that insurance clients are to be provided with the general terms and conditions of insurance in good time before agreeing to a contract. In life and health insurance, acquisition and marketing costs will have to be disclosed in future (details of this will be regulated by an ordinance).

The ninth amendment of the German Insurance Control Act entered into force on 1 January 2008. This contains revised provisions covering the transferral of insurance portfolios. In its judgement of 26 July 2005, the German Federal Constitutional Court had declared the previous ruling unconstitutional and commissioned the legislators to formulate a regulation meeting the requirements of constitutional law by 31 December 2007. Besides this, insurance supervision has been brought into line with the changes in international standards for financial supervision, especially where risk management within companies is concerned.

On a European level, the **Solvency II project** continues to progress. On 10 July 2007, the EU Commission published its proposal for a Solvency II framework directive combining and updating the content of 13 EU directives. The new rules will change the supervisory system fundamentally, making it more risk-focused: Solvency II will much better reflect economic realities. In the future, insurance companies will not only need to provide evidence of risk-adequate capital resources but will also have to meet various qualitative risk management requirements.

The proposed regulations also aim to reorganise the supervision of groups of companies in Europe. The previous system of single-company ("solo") supervision based on national corporate structures is to be superseded by stronger group supervision and supplemented by European group supervision, thereby recognising that groups are increasingly being managed centrally across national borders.

The European Commission's proposal represents an important contribution to creating a level playing field and hence to the further development of the European single market. The Solvency II directive is scheduled to be adopted in late 2008 or early 2009.

Munich Re benefits from Solvency II in terms of enhanced customer loyalty and additional growth opportunities. In future, there will be a demand for customised solutions more closely aligned to individual risk parameters and offering an even higher degree of flexibility. Munich Re is thus increasingly assuming the role of a partner that creates value for primary insurers via a more comprehensive service approach akin to that of a holistic financial adviser.

In the **USA**, 2007 again saw intensive discussion concerning supervisory law revisions, in particular with regard to foreign reinsurers. At present, the insurance and reinsurance industry is supervised by 50 insurance commissioners in the individual US states. There is now virtual unanimity that this system is inefficient and costly, weakening the competitiveness of the US market overall. For quite some time, there have thus been plans to introduce an integrated federal supervisory authority or to further develop the existing system of individual state supervision.

The US Congress is currently considering two bills which envisage federal supervision for insurance companies. Owing to the presidential election on 4 November 2008, when the House of Representatives and parts of the Senate are also elected, a decision on these two bills is not to be expected until 2009 at the earliest.

The insurance supervisors of the individual US states, organised under civil law as the National Association of Insurance Commissioners (NAIC), have also made proposals for the further development of the existing system, according to which supervision at individual state level would be simplified – for example, only one supervisory authority would have responsibility for one foreign reinsurer. In this context, particular consideration would be given to the financial strength of the reinsurer on the basis of its rating. The NAIC proposals are problematic in that they would need to be implemented in all US states, and that individual US states have no legal possibility to conclude contracts with other countries.

If a federal supervisory authority existed, however, it would be possible to conclude legally binding international agreements on the supervision of insurance companies. Consequentially, a federal solution would be preferable from the perspective of a reinsurance company with global operations.

Overview and key figures

As a professional reinsurer, Munich Reinsurance Company operates worldwide in all classes of insurance. It is the parent company of the Munich Re Group, whose business encompasses reinsurance, primary insurance and asset management.

As in the previous year, Munich Reinsurance Company's business performed very well in 2007.

In the financial year 2007, the Company wrote gross premiums totalling €17.6bn (17.8bn), a slight year-on-year decline mainly attributable to the scheduled reduction in large-volume treaties. Currency translation effects also had a negative overall impact on our premium volume in 2007. Despite sustained competitive pressure, we nevertheless achieved risk-adequate prices in the last treaty renewals. In line with our maxim of "profitability before premium volume", we continue to adhere to a very selective underwriting policy geared consistently to profitability. We refrained from renewing treaties that did not meet our requirements in terms of prices, terms and conditions, and succeeded in replacing them with attractive new business in other segments. Some 80% (78%) of our premium income came from business with non-German clients.

Our underwriting result before claims equalisation provisions showed a profit of €785m in 2007, compared with €504m in the previous year. At €1.2bn, claims costs for major losses were approximately 40% higher than in the previous year (€864m), but were still within the long-term average. The heaviest burden came from Winter Storm Kyrill, which in the first quarter of 2007 caused losses of around €360m, particularly in Germany but also in other central European countries.

The combined ratio, which reflects the relation of claims and costs to net earned premiums, came to 95.9% (97.9%). Excluding claims burdens from natural catastrophes, it amounted to 91.2% (96.3%).

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

Major losses over €5m (net)

€m	2007	2006	2005	2004	2003
Major losses total	1,229	864	3,092	1,164	921
Thereof natural catastrophes	575	196	2,492	675	245

Low loss expenditure in the previous year had enabled us to allocate €626m to the claims equalisation provisions, and we strengthened them further in the year under review by an amount of €1,122m, with a particularly high addition to the provisions in fire business. After the allocations to claims equalisation provisions, our underwriting result showed a loss of €337m (122m).

Our investment result totalled €3,693m, a further improvement of €385m compared with the previous year, of which €799m (969m) is incorporated in the underwriting result as interest on technical provisions, in compliance with accounting regulations.

Given that our portfolio of fixed-interest securities was still large, we continued to earn high interest income in the financial year 2007. With the reporting-date analysis showing a considerably lower increase than in the previous year, the need for write-downs of fixed-interest securities in the financial year 2007 was also significantly lower compared with 2006. The favourable development of the stock markets enabled us to again realise significant capital gains in 2007.

We also realised appreciable gains on the disposal of a real estate package, which were neutralised, however, by the posting of a special reserve in accordance with Section 6b of the German Income Tax Act.

To optimise its post-tax income, Munich Reinsurance Company contributed liquid assets amounting to €9bn in three new limited partnerships which hold new special funds that invest exclusively in fixed-interest securities. The registered seats of these partnerships are situated in the community of Grünwald, a location providing trade tax advantages. The equity contributions were financed through the liquidation of several special funds and the disposal of fixed-interest securities, a transaction which had a positive effect on the investment result.

Altogether, the Company's return on investment (including deposits retained on assumed reinsurance) thus rose to a satisfying 5.1% (4.3%) as at 31 December 2007.

Munich Reinsurance Company's results

€m	2007	2006	2005	2004	2003
Underwriting result	–337	–122	–1,706	–507	–1,747
Investment result without interest on underwriting provisions	2,894	2,339	1,391	1,887	2,614
Other result	–465	–301	–278	–505	–343
Taxes	–649	–221	–399	–98	–13
Profit/loss for the year	1,443	1,695	–992	777	511
Net retained profits	1,198	1,033	712	459	287

In the financial year 2007, we posted a profit for the year of €1,443m. After the transfer of €289m to our revenue reserves and consideration of the profit carried forward, net retained profits totalled €1,198m. These are earmarked for the payment of an increased dividend of €5.50 per share.

Events after the balance sheet date

Under the share buy-back programme decided by the Munich Re Board of Management in the second quarter of 2007, we repurchased a further 3.4 million shares with a volume of €444m after the balance sheet date up to 23 January 2008.

In addition, in February 2008, we sold 1.3 million put options on Munich Re shares for the share buy-back programme, adopted by the Board of Management on 29 January 2008. The options will expire in October 2008 and, if exercised, will result in a buy-back volume of €149m.

Munich Re has launched a bond programme amounting to US$ 1.5bn with which so-called extreme mortality risks can be placed on the capital market. A first tranche of US$ 100m has now been placed with investors at a price of 1.35% above the three-month LIBOR. This transaction is designed to protect the Munich Re Group against large losses that might result from an exceptional rise in mortality rates after major pandemics or similar events. The programme is such that Munich Re can launch further tranches at short notice, e.g. in response to increased demand for capacity from its reinsurance clients.

Classes of business

In **life reinsurance**, we were not able to match the previous year's premium level. The decrease was mainly linked to the scheduled reduction of two large-volume individual reinsurance treaties and negative currency translation effects. The substantial fall in deposits retained on assumed reinsurance in the year under review is a by-product of this reduction.

As in prior years, the trend towards private annuity insurance continued in Germany in 2007. Riester and Rürup pension products proved increasingly popular. The demand for endowment insurance, by contrast, has been stagnating since the tax advantage granted on these policies was abolished at the end of 2004. 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, and the dynamic expansion of the insurance markets in Asia and Eastern Europe.

In 2007, new business in many important markets remained at around the same level as in the previous year, although the number of disability risks increased in relation to the volume of mortality business. Besides traditional reinsurance, our Retakaful Branch in Kuala Lumpur, Malaysia, has been offering Family Retakaful contracts compliant with Shari'ah principles (as an alternative to life reinsurance) since 2007. We are thus one of the first major reinsurers in this market segment. We managed to further improve the result in life reinsurance compared with the previous year, and we anticipate that in the coming years our initiatives in Asia will generate growth that is well above average.

Health reinsurance experienced a strong increase in premium volume in the year under review. Although we terminated several treaties for which we were not able to realise our pricing expectations and treaty conditions, premium income in the financial year experienced a significant year-on-year increase owing to new business and expansion of client relationships, especially in the Gulf region.

In Germany, the health reform debate was concluded at the beginning of 2007. The division of the German health insurance market into statutory and private health insurance will be maintained.

All in all, it looks as if the international health insurance market will become more dynamic. We see an increasing need for innovative reinsurance solutions and expect that attractive growth opportunities will successively present themselves, for instance in the Gulf states. Munich Re has been active in this market for several years now, with managed care service companies that support our clients in risk management and the assumption of insurance risks. The specialist health primary insurer DAMAN, established by Munich Re in Abu Dhabi in 2005, commenced operations in mid-2006. It has been growing profitably and has in the meantime become a leading provider in the market. We are the exclusive reinsurer there and expect DAMAN to continue developing positively. It is likely that more Gulf states will privatise their health markets in future, giving a further boost to our health reinsurance business.

As in the previous year, we achieved a good result.

In **accident reinsurance**, we recorded a decrease in premium volume in the year under review, primarily owing to the consolidation of our portfolio in workers' compensation business. Although the result improved considerably compared with the previous year, it was still negative and did not meet our 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. For more recent accident years, however, Munich Re America's intra-Group cessions have experienced more favourable loss emergence than expected across nearly all lines of business, so that on balance the result is virtually break-even.

In **liability reinsurance**, prices largely remained at a good level and resulted in gross premiums remaining constant compared with the previous year. Market players' risk awareness was high, leading to realistic estimates of potential losses and therefore to risk-adequate prices.

There was a minor deterioration in the result in 2007 as against the previous year, essentially owing to higher claims costs from major losses.

In **motor reinsurance**, premium volume declined, mainly because of the negative developments in primary insurance premiums and the reduction of a major proportional quota share treaty. Pressure on rates persisted on a broad front in Germany. Reinsurance premium volume declined throughout the market and the margins narrowed. We further reduced our proportional business for 2007 as a consequence of our strictly profit-oriented underwriting policy.

The greatly improved year-on-year result is attributable to the absence in 2007 of negative effects from the restructuring of intra-Group cessions. Moreover, it was not necessary to strengthen the reserves for losses from French motor business as much as in 2006. In the previous year, these two factors had produced a significant deterioration in the result in motor reinsurance business.

In **marine reinsurance**, premium growth was robust. We benefited above all from cessions by our subsidiary MR Capital, which took advantage of the still positive market environment to conclude new business in the energy and cargo sectors.

As expected, the result in marine reinsurance improved substantially compared with the previous year, the reason being the lower cost burden from major losses than in 2006, when reserves for the 2005 hurricanes required significant strengthening.

Premium income in **aviation reinsurance** showed a marked decline in the two volatile classes of aviation and space. In aviation, the reductions in rates and premiums we experienced were drastic, as expected, reflecting the increased competition among a growing number of market players. In aviation, prices for insuring the launch and operation of satellites softened further in 2007. Moreover, some scheduled satellite launches had to be postponed until the following year or were even cancelled completely.

The result in aviation reinsurance was lower than in the previous year, mainly because of two major claims in space reinsurance (loss of two satellites during the launches).

We posted a rise in premium volume in **fire reinsurance**. Prices largely remained at a good level, as was also the case in liability reinsurance. As in the past, we systematically refrained from writing business that did not meet our

requirements for risk-adequate prices, terms and conditions. However, we succeeded in replacing unrenewed treaties with attractive new business.

The result declined substantially compared with the previous year. This, however, is due to the exceptional major-loss expenditure incurred in 2006 and to the fact that 2006 had been strongly influenced by the aforementioned intra-Group shifts in the results of individual lines of business. With a major-loss burden that was within the long-term average, we achieved a very positive overall result before allocation to the claims equalisation reserve.

In **engineering reinsurance** (machinery, EAR, CAR, EEI, etc.), premium income was slightly up on the previous year.

Although we were unable to emulate the good result of the previous year, the result in 2007 was nevertheless still very satisfactory.

Under the heading of **other classes of business**, we subsume the remaining classes of property reinsurance, i.e. 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.

Overall premium volume in these classes was somewhat higher in the year under review. We further extended our leading position in agricultural reinsurance. The business we wrote mainly comprised state-supported crop insurance programmes, with a large portion stemming from the USA. Apart from this, we work closely with selected cedants in applying our global experience and competence in agricultural reinsurance to individual segments and regions with high growth potential.

The combined technical result of these classes improved slightly year on year, despite the significant impact that Winter Storm Kyrill had on a number of classes.

In credit reinsurance, the positive result achieved in the previous year further improved in 2007, with only very few major losses and a more or less unchanged number of small and medium-size losses. Premium volume in credit reinsurance grew modestly, since the lower demand for reinsurance among our European clients was more than compensated for by the expansion of business in China.

	Gross premiums written		Underwriting result before claims equalisation provision and similar provisions	
€m	2007	2006	2007	2006
Life	4,848	5,275	306	282
Health	820	667	51	51
Accident	454	539	–398	–739
Liability	1,501	1,502	–132	–17
Motor	2,184	2,352	–90	–437
Marine	1,081	924	152	–211
Aviation	471	694	10	105
Fire	3,179	2,974	670	1,305
Engineering	1,196	1,154	110	163
Other	1,828	1,766	106	2
Non-life combined	12,714	12,572	479	222
Total	**17,562**	**17,847**	**785**	**504**

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. Calculated on the basis of 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 segment that is sufficiently large and homogeneous to balance the risk within a determinable period of time. 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 provision for natural hazard risks and similar provisions for nuclear risks, pharmaceutical product liability risks and terrorism risks.

Given the positive results, we were able to strengthen the balance sheet item "claims equalisation provision and similar provisions" in the financial year 2007, especially in fire, marine, motor and credit business. Altogether, we allocated a total of €1,122m (626m) to this balance sheet item. The bulk of this amount consisted of €754m (364m) to the claims equalisation provision itself and €339m (235m) to the provision for natural hazard risks. Other allocations made by the Company in the financial year 2007 were €18m (19m) to the provision for terrorism risks, €4m (6m) to the provision for pharmaceutical product liability risks, and €6m (2m) to the provision for nuclear risks.

Investments

Investment principles

In addition to our return target, the main considerations in our investment strategy are security, liquidity, mix and spread of investments. 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. Besides this, the Company keeps sufficient liquid funds available to be able to meet its payment obligations at all times. The methods we use to control investment risks are described in the risk report.

Our investment strategy is committed to the principle of sustainability. We aim to ensure that at least 80% of the market value of our investments is invested in assets which 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.

Investment mix

€m	31.12.2007	31.12.2006	31.12.2005	31.12.2004	31.12.2003
Land, land rights and buildings, including buildings on third-party land	824	981	1,005	1,037	1,049
Investments in affiliated companies and associates	21,831	12,293	12,054	13,015	13,613
Loans to affiliated companies and participating interests	703	247	211	1,236	1,325
Shares, investment certificates and other non-fixed-interest securities	7,839	14,590	15,385	12,927	12,920
Bearer bonds and other fixed-interest securities	21,419	21,915	19,266	17,937	16,189
Other investments	919	458	522	502	370
Total	**53,535**	**50,484**	**48,443**	**46,654**	**45,466**

Development and structure of investments

The carrying amount of Munich Reinsurance Company's investments (excluding deposits retained on assumed reinsurance) rose by 6.0% to €53.5bn in the financial year 2007. The following items involved significant changes compared with the previous year:

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

Our real estate investments are geared to generating an appropriate yield. To this end, we continually monitor existing items with regard to their long-term profitability and future exposure to risks. In addition, the diversification of our portfolio is a key element of our real estate strategy.

It was against this background that we prepared the disposal of a German real-estate package in 2006. This led to a sale of land and buildings with a total carrying amount of €176m in the financial year 2007, enabling us to realise capital gains of €360m in the process.

Investments in affiliated companies and participating interests

The increase of €9,538m in carrying amounts largely resulted from the establishment of three new affiliated companies totalling €9,012m. These companies are the owners of new special funds for fixed-interest securities. In the case of our subsidiaries, capital increases amounting to €378m on balance were carried out. We also acquired MSP Underwriting Ltd. and Bell & Clements Ltd.

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

The portfolio reduction is attributable in part to the liquidation of three special funds, totalling €7bn, which was invested in affiliated companies, leading to a shift from investment fund certificates to investments in affiliated companies.

In the year under review, we took advantage of the still favourable stock-market situation to realise significant gains on the disposal of equities, in particular Allianz and RWE shares.

Bearer bonds and other fixed-interest securities

At €21.4bn, investments in fixed-interest securities were virtually unchanged compared with the previous year (€21.9bn) and account for a sizeable 40.0% (43.4%) of total investments (excluding deposits retained on assumed reinsurance business). A slight expansion of our portfolio was counteracted by negative currency translation effects. Our portfolio of fixed-interest investments has an excellent rating structure. As at 31 December 2007, approximately 99% of our fixed-interest securities were investment-grade and 97% were rated "A" or better.

Valuation reserves Owing to an amendment to Section 54 of the German Accounting Regulations for Insurance Companies, the off-balance-sheet valuation reserves reported must now include not only investments recognised at amortised cost but also investments accounted for at nominal value. Our off-balance-sheet valuation reserves, i.e. the difference between the fair value of our investments and their nominal value, decreased only slightly to €11,015m compared with the previous year, despite extensive disposals. It is important to remember, however, that a total of €40m in investments accounted for at nominal value were recognised in 2007 whereas in the previous year these investments were not taken into account. A detailed breakdown of the reserves is provided in the notes on page 81.

Valuation reserves

€m	31.12.2007	31.12.2006	31.12.2005	31.12.2004	31.12.2003
Real estate	1,309	1,632	1,509	1,655	1,808
Equity investments	9,009	8,884	7,683	4,565	4,929
Fixed-interest securities[1]	697	531	844	583	283
Total	**11,015**	**11,047**	**10,036**	**6,803**	**7,020**

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

The gains realised on the disposal of real estate led to a reduction in the valuation reserves for land and buildings. By contrast, the valuation reserves for our equity investments showed a moderate rise owing to the still favourable performance of the capital markets, despite realised capital gains. In the case of our fixed-interest securities, the valuation reserves increased because we realised losses in 2007 and the interest-rate level in the USA declined over the year.

Result We succeeded in improving our investment result in the financial year 2007 by €385m compared with the previous year.

As a result of the liquidation of several special funds, we realised €465m, leading to a year-on-year improvement of €261m in the investment result. Moreover, we realised high gains on the sale of equities.

The gains on the disposal of real estate totalling €360m were allocated to the special reserve posted in accordance with Section 6b of the German Income Tax Act and are therefore not included in the overall investment result.

Investment result

€m	2007	2006	2005	2004	2003
Regular income	3,797	3,166	2,873	2,616	6,285
Write-ups/write-downs	–319	–152	–1,948	–555	–207
Net realised capital gains	1,028	981	1,846	950	1,114
Other income/expenses	–813	–687	–216	–125	–3,596
Total	**3,693**	**3,308**	**2,555**	**2,886**	**3,596**

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	2007	2006	2005	2004	2003
Real estate	32	70	48	73	79
Investments in affiliated companies and associates	285	265	–104	–632	307
Loans to affiliated companies and to participating interests	9	6	–1,234	87	63
Shares, investment certificates and other non-fixed-interest securities	1,835	1,489	1,570	1,504	1,691
Bearer bonds and other fixed-interest securities	793	576	930	845	542
Other investments	739	902	1,345	1,009	914
Total	**3,693**	**3,308**	**2,555**	**2,886**	**3,596**

Financial position

Investments on the assets side of the balance sheet serve mainly to cover technical provisions (72.3% of the balance sheet total). Equity (12.2% of the balance sheet total) and subordinated bonds classified as strategic debt (6.4% of the balance sheet total) 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 the global orientation of our Group. Besides the euro, our main currencies are the US dollar and pound sterling. We ensure that our business is sufficiently capitalised at all times by monitoring the situation continuously and taking suitable measures, which are dealt with in the section on capital management.

To optimise our capital position and reduce capital costs, we again used strategic debt in 2007 and returned equity to our shareholders in the form of share buy-backs and dividends. Strategic debt increased by €1.8bn in 2007, mainly due to our subordinated bond issue with a volume of €1.5bn. A detailed analysis of the structuring of this type of funding is provided in the section on strategic debt on page 34.

In order to improve our capital structure even further, we decided in May 2007 to continue buying back shares, a process we had begun in November 2006 with a volume of €1bn. In this latest step, we resolved to repurchase a volume of at least €2bn by the next Annual General Meeting on 17 April 2008. Having meanwhile successfully concluded this share buy-back programme in January 2008, and including the dividend for the financial year 2006, we have paid out a total of around €4bn to our shareholders since November 2006.

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

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, the aim of which 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 means of investments with similar characteristics. 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, which is an important element of our Changing Gear growth programme, we ensure that the capital of the Munich Re Group is maintained at an appropriate level. Munich Reinsurance Company's capital is a large and important part of this. The Group's available capital must always be sufficient to cover the capital requirements determined both by our own internal risk model and by the requirements of supervisory authorities and rating agencies. 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 capital as one which does not exceed that required for our operations. Such a needs-based, risk-commensurate capital level makes a decisive contribution to financial discipline in all our business processes.

Our active capital management includes returning 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. In the period May 2007 to the end of 2010, we aim to return at least €8bn to our shareholders. By 26 February 2008, we had already repurchased 15.1 million Munich Re shares with a value of €2bn. Further shares with a volume of at least €3bn are set to follow by the end of 2010. Reducing the number of shares issued and improving our profit will enable us to boost our earnings per share by an average of 10% annually from 2007 to 2010, proceeding from a normalised basis. In addition, we intend to pay our shareholders an annual dividend of at least €1bn for the financial years 2007 to 2009.

Essentially, we see efficient and transparent capital management – always geared to what is feasible – as an appropriate means of achieving our goal of being recognised as a reliable partner in the capital markets. This should guarantee our ability to raise capital quickly and easily on the capital markets, especially for large potential growth opportunities (even if currently unlikely) and the optimisation of our capital structure. In June 2007, to reduce our cost of capital, we placed a subordinated bond with a total volume of €1.5bn in a favourable market environment.

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. 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. We determine our economic capital on the basis of the internal risk model data so that we are able to absorb two successive annual losses of a size expected only every 100 years. Next, the capital determined is allocated proportionately to the individual divisional units in line with the volatility of their business activities. We continuously review the assumptions on which the internal risk model is based and adjust them as required.

Equity

In the year under review, our equity decreased by €1,849m to €9,306m, or by 16.6% compared with the previous year, mainly owing to the share buy-back programmes announced in November 2006 and May 2007. In the financial year 2007, we bought back shares to the value of approximately €2,303m by the balance sheet date, which we offset against the revenue reserves. €988m 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 2007 totalling €1,443m, of which €1,124m has been earmarked for the dividend payment.

Equity

€m	31.12.2007	31.12.2006	31.12.2005	31.12.2004	31.12.2003
Equity	9,306	11,155	10,417	11,866	11,375

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 2007, Munich Reinsurance Company's share capital of €587.7m was divided into 217,888,670 registered, no-par-value, fully paid shares. The shares are endowed with full voting and dividend rights, with the exception of the 10,064,599 shares held by the Munich Re Group itself at 31 December 2007 (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

The registered shares listed on the stock exchange are subject to transfer restrictions in that pursuant to Article 3 para. 2 of the Articles of Association of Munich Reinsurance Company, they may be transferred to another holder only with the consent of the Company.

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 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, 11,776 shares issued to employees were also subject to a restriction on disposal until 30 November 2008.

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 obligation was previously 5%. With effect from 20 January 2007, it was reduced to 3%. 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 26 April 2007 authorised the Company, pursuant to Section 71 para. 1 item 8 of the German Stock Companies Act, to buy back shares until 25 October 2008 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 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 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 2% 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 Article 71 para. 1 item 8 sentence 5 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 an unlimited 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. These warrants would entitle the bearer, on the basis of the warrant conditions then stipulated, to acquire registered Munich Re shares. Warrants may be issued for registered shares totalling up to €35m of the share capital; as a precautionary measure, capital of €35m was conditionally authorised under Article 4 para. 3 of the Articles of Association.

Under Article 4 para. 1 of the Articles of Association, the Board of Management is authorised, with the consent of the Supervisory Board, to increase the Company's share capital at any time up to 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 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 illustrated by the recent share buy-back, the authorisations also enable Munich Re to buy back shares and thus return to shareholders capital no longer required for an efficient capital structure.

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.

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 loans as strategic debt.

Strategic debt

€m	31.12.2007
Euro subordinated bond, €3,000m, 6.75%, 2003 (2013/2023)[1]	3,000
Pound-sterling subordinated bond, £300m, 7.625%, 2003 (2018/2028)[1]	408
Euro subordinated bond, €1,500m, 5.767%, 2007 (2017/perpetual)[1]	1,500
Total	**4,908**

[1] First possible call date/term.

In December 2007, to facilitate administration, Munich Re Finance B. V. was replaced by the previous guarantor, Munich Reinsurance Company, as the issuer of the dated subordinated bonds issued in 2003. In this connection, the subordinated loans of €2,618m and £297m to Munich Reinsurance Company posted in the previous year were extinguished. Parallel to the change of issuer, the full bond amount and MR Finance B.V.'s redemption claim of €352m against ERGO was passed on to us. The claim resulted from the transfer to ERGO of part of the income from the subordinated bond issued.

The tranches of the bonds with nominal values of €3.0bn 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 (euro tranche) and 21 June 2018 (pound-sterling tranche) respectively.

As part of our active capital management, we issued subordinated bonds with a volume of €1.5bn in June 2007. It is a perpetual bond, callable by us from ten years after the date of issue.

The Company 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 insurance companies is generally understood to be the ability of an insurer to always meet the obligations assumed under its contracts. In concrete terms, this means an insurance company must fulfil specific minimum capital requirements. 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** have increased in comparison with the previous year, mainly owing to the very good development of our business, particularly the decline in claims payments made.

The **cash outflows for investing activities** were determined by payments for the acquisition of investments. These mainly involved company acquisitions or allocations of capital to affiliated companies, increases in our portfolio of equities, special funds and deposits with banks. On balance, cash outflows exceeded the inflows from the sale and maturity of investments.

The **cash outflows for financing activities** stem from the share buy-back in 2007 and the dividend payment for 2006. By contrast, Munich Reinsurance Company's subordinated bond issue resulted in a cash inflow.

Overall in the year under review, cash – which encompasses cash with banks, cheques and cash in hand – rose by €111m to €342m.

Other success factors

Besides the high quality of our business operations, a number of factors that cannot be measured by financial performance alone are instrumental in securing Munich Reinsurance Company's sustained economic success. These include:
- Open dialogue with our clients
- Our firm commitment to new, needs-oriented products and services
- Our corporate responsibility towards employees, society and the environment
- Efficient business processes for managing our Group and identifying or avoiding risks

Clients and relationships

As a professional reinsurer, Munich Reinsurance Company works together with over 4,000 corporate clients – traditional insurers and captives – from around 160 countries.

As reinsurers, we aspire to be the preferred partner in risk for our clients. Our operative business consequently provides companies wishing to cede insurance risks with the full range of underwriting products. In addition, they can benefit from our strengths that go beyond actual reinsurance cover: our financial strength, our knowledge, our solution-oriented approach, and real partnership with our clients.

We continued to be the preferred partner in knowledge for many clients throughout the world in 2007. In Munich and at our many offices and subsidiaries, we offer a large number of seminars and workshops each year on fundamental topics in all lines of insurance. Held in various languages, these place the emphasis on dialogue between our clients and Munich Re experts. We also stage numerous specialist events at our clients' offices every year – forums, symposiums and seminars – dealing with current developments in the individual markets and ensuring a continual transfer of knowledge.

Our two scholarship programmes, which offer high-quality advanced training for our clients' prospective managers, have enabled us over the years to strengthen the partnerships we enjoy with our cedants.

Our solution-oriented approach to collaboration is also clearly illustrated by connect.munichre, our internet client portal, where we provide our cedants with round-the-clock assistance: useful knowledge, services, analysis and quotation tools from the property-casualty and life segments. This supports primary insurers in their daily business and presents a direct and secure interface to Munich Re. With its swift, efficient and safe interactive features, connect.munichre supplements Munich Re's range of services and rounds off personal client relationships. The portal is currently used by over 1,100 insurers globally.

Last but not least, our cedants benefit from our local presence. Branches and subsidiaries around the world ensure that our clients can always find us where and when they need us. We thus combine international know-how with in-depth knowledge of local conditions, to offer our clients individual solutions in every case.

Research and development

Insurance markets are subject to a wide variety of influences. Munich Re concerns itself with these factors at an early stage so as to help shape them wherever possible and to adapt its products and services to the new circumstances or devise innovative solutions. Our more than 20 centres of competence play a special role here: they are active in many different fields, and the significance of their work sometimes goes far beyond the immediate world of insurance. Not only do they create the basis for identifying and highlighting new risks; they also help control them by making them insurable.

Munich Re's Geo Risks Research unit, for example, is the link between geoscientific research and operative underwriting. Besides analysing and evaluating risks, advising underwriters and clients, and developing new service tools, this centre of competence also addresses all climate-change issues of relevance to Munich Re in its new Corporate Climate Centre. The Centre of Competence for Biosciences focuses on recent and future trends in genetic engineering and their impact on society and the insurance industry. New centres of competence have also been created in life reinsurance. Their main tasks include analysing insurance portfolios, the findings of which are used to produce new actuarial assumptions and to optimise underwriting, developing products (for risks that are currently uninsurable for instance, such as diabetes under critical illness covers) and improving our clients' business processes (e.g. by using Allfinanz in medical underwriting).

The Information Technology Topic Network designs new types of IT covers geared to creating business opportunities and leveraging new business potentials. A recent example is Munich Re's work in developing first-party computer virus cover in response to the industry's need to insure its own losses caused by IT viruses. Other centres of competence deal with the topics of customised portfolio solutions (for old loss portfolios), directors' and officers' liability, workers' compensation, and the risks of the jewellery business and diamond trade (jewellers' block).

Lastly, our Knowledge Management Centre of Competence provides the methodological and institutional foundations for the constant updating and exchange of knowledge, enabling us to secure, expand and efficiently utilise this, our most important resource. There are now more than 60 topic networks, in which 700 staff from 20 countries are engaged in ensuring a living culture of knowledge.

In the divisions, novel solutions are developed by five innovation teams, i.e. interdisciplinary groups made up of highly qualified experts who work in close contact with the underwriting units to identify and tap new business opportunities. They help promote growth in the divisional units on three levels: by designing tailor-made solutions for our clients, developing new products or particular segment strategies, and introducing new distribution approaches. In this process, the account managers, with their direct access to the needs and requirements of our clients, remain the main source of new business ideas – the innovation teams take up these ideas and are the driving force behind their successful realisation. The focus is on analytical and actuarial methods and on strategic planning. These solutions provide our clients with a variety of benefits, including risk management analyses and support, optimised individual policy design, and new risk transfer solutions for risks on the boundary of insurability.

The Kyoto Multi Risk Policy, for instance, was developed for new risk constellations in emissions trading. Industrial enterprises are faced with the challenge of reducing CO_2 emissions worldwide and are therefore investing an increasing amount of money and know-how in emerging countries. With its innovative concept, Munich Re partners clients in covering risks arising from new technologies, uncertain counterparties and a politically unstable environment.

Our activities in the area of research and development in life reinsurance also include the observation and analysis of current market trends, e.g. the effects of Solvency II on the life reinsurance industry.

Staff

Our staff provide the basis for our success with their competence, motivation and commitment. They embody the qualities with which Munich Re turns risk into value. That is why we invest consistently in further developing their skills.

Facts and figures

In 2007, an average of 3,628 (3,476) staff were employed with the Company, representing an increase of 4.4%.

Initial and further training

Initial and further training rank among the strategic tasks in our human resources work. Our staff must be highly qualified and motivated to ensure the continued success of our operations. Their knowledge edge is critical to designing solutions for new market developments at an early stage and to meeting the high-level requirements of our business. We ensure the necessary qualifications and skills through systematic personnel measures that take into account individual abilities and future requirements. Hence, we consistently offer a large number of internal seminars for personal and specialist training.

Succession planning

We are also firmly committed to giving young people sound professional training and good career perspectives: in 2007, a average of 37 (39) trainees were employed at the Company. Key pillars of our succession planning are graduate trainee programmes and the employment of students.

International promotion of talent

Throughout the reinsurance group, we systematically identify and prepare staff for future management tasks worldwide with our scheme for assessing and developing staff potential (POE). Highly talented and qualified staff are selected and groomed for management functions in Munich and for leading functions at business units abroad. As a result, we create career prospects for our staff internationally and can fill vacancies with particularly suitable employees.

Commitment to sustainability

Munich Re's business is inextricably linked with ecological aspects. We are directly affected by environmental impacts, such as the greater frequency and intensity of weather-related natural catastrophes. A particular focus of our commitment is therefore climate protection: for many years Munich Re has been contributing its specialist knowledge to numerous organisations and associations concerned with global climate change, especially UNEP FI, the Finance Initiative of the United Nations Environment Programme, which promotes understanding of climate change in the financial sector.

As a service provider, we place comparatively little burden on the environment, but we have to set an example if we want to encourage others to practise sustainable management. We therefore aim to make our activities at our Munich location climate-neutral by 2009. The entire reinsurance group, currently numbering more than 50 locations worldwide, will follow suit by 2012.

As a globally operating corporation, Munich Re accepts its responsibility towards society and supports various social and cultural projects. Knowledge obligates – that is the conviction that led to our setting up the Munich Re Foundation, whose operations were publicly launched in April 2005, with a capital of €50m. Under the motto "From Knowledge to Action", the Munich Re Foundation has set itself the aim of helping people in risk situations and improving their situation – especially in countries where the people are too poor to make use of financial services like insurance. The foundation not only provides direct support but also devotes itself to promoting knowledge, heightening awareness and networking, which facilitates self-help. In its work, it can build on the highly developed risk knowledge of its benefactor. Detailed information on the Munich Re Foundation can be obtained from its report at www.munichre-foundation.org.

Information security

Information management plays a core role at Munich Re. Great significance is therefore placed on the availability, confidentiality and integrity of data. To ensure the security of all its data, computers and networks, but also of all information not stored in IT systems, Munich Re has efficient security organisations in place in insurance and reinsurance.

At the top of the security pyramid in our reinsurance group is our Chief Information Security Officer, who is responsible for defining uniform global standards and guidelines, monitoring their implementation at all our companies, and managing critical incidents. He and his staff are supported by a "virtual" team of decentralised Information Security Officers and our Security Centre of Competence in Toronto, whose functions include testing the IT landscape for weaknesses in security.

We attach great importance to the security training and awareness of all our staff and to improving Munich Re's security culture. Regular external audits and benchmarkings against other groups in the industry have confirmed that Munich Re's information security is at a high level. However, given that we see security as a process rather than a state, we are constantly refining our strategies and standards. This process is geared to the actual risks in order to support Munich Re's business operations and improve its competitiveness. The recommended measures are carefully weighed up against the risk-minimising impact, also in terms of costs, and are duly incorporated into the security architecture.

The divisional units utilise our security experts' know-how in order to explore new fields of business and assess the information security risks at potential client companies.

Corporate governance report[1]

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

How we view corporate governance

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

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

What rules apply to Munich Re?

With its international organisation, the Munich Re Group has to consider corporate governance rules in different national legal systems. Clearly, we observe not only the respective national standards but also internationally recognised best practices. In Germany, where Munich Re has its headquarters, corporate governance rules are laid down above all in the German Stock Companies Act, the German Co-Determination Act and the German Corporate Governance Code. The latter, which entered into force in 2002 and has since been amended several times, contains the main legal rules that must be observed by German listed companies. In addition, it includes recommendations and proposals based on nationally and internationally recognised standards of good and responsible management. Every year, Munich Re's Board of Management and Supervisory Board publish a declaration stating how far the Code's recommendations have been complied with. The 2007 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 the 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).

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

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 value of the Company.

Internal regulation of the Board of Management

Munich Re's Board of Management had nine members at the end of 2007. Since 1 January 2008, the number has decreased again to eight. 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 26 April 2007, 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 (www.munichre.com) at any time. The Board of Management availed itself of this authorisation in 2007 by resolution of 4 May 2007. By 31 December 2007, a total of about 11.7 million shares had been purchased for an overall price of around €1.55bn, equivalent to approximately 5.3% of the relevant share capital at the time of the 2007 authorisation. As part of the 2006/2007 share buy-back programme, around six million own shares were acquired in 2007 up to the 2007 Annual General Meeting for an overall price of approximately €750m, representing around 2.6% of the relevant share capital at the time when the authorisation was granted by the 2006 Annual General Meeting. These shares and the approximately 3.6 million shares from the 2007/2008 share buy-back programme 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. Specific types of transaction, such as investments of substantial size, generally require the Supervisory Board's consent.

Supervisory Board

The Supervisory Board monitors the Board of Management and gives counsel where appropriate. Certain transactions 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.

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

Munich Re's Supervisory Board has set up five committees: the Standing Committee, the Personnel Committee, the Audit Committee, the Conference Committee, and (since the end of 2007) the Nomination Committee, thereby complying with a new recommendation of the German Corporate Governance Code.

Annual General Meeting

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

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

Based on our underwriting 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. Beyond this, there are no other significant agreements subject to such conditions.

Corporate governance topics in 2007

At its meeting on 9 November 2007, the Supervisory Board decided to set up a Nomination Committee. This committee is comprised exclusively of representatives of the shareholders and presents a list of candidates suitable as representatives of the shareholders to the Supervisory Board for the latter's election proposals to the Annual General Meeting.

In 2007, the Supervisory Board reviewed the efficiency of the Board of Management's activities by way of an extensive survey. To this end, the Standing Committee of the Supervisory Board compiled a detailed questionnaire that was sent to all Supervisory Board members. The main focus was on the content and timing of reports from the Board of Management to the Supervisory Board. This was assessed as consistently positive and efficient, as was the work of the Supervisory Board and its committees in the 2007 financial year, notwithstanding a large number of proposals for improvement made in response to the survey.

Recommendations and proposals of the German Corporate Governance Code

In November 2007, 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 14 June 2007 (published on 20 July 2007) and will continue to do so in future. Since the last declaration of conformity in November 2006, Münchener Rückversicherungs-Gesellschaft Aktiengesellschaft in München has fulfilled all the recommendations of the German Corporate Governance Code of 12 June 2006 (published on 24 July 2006)."

Munich Re also complies with all the proposals of the German Corporate Governance Code with only one exception. This concerns item 5.4.7 para. 2 sentence 2 of the Code, which suggests that the result-related remuneration of members of the Supervisory Board should include components based on the company's long-term performance. The Board of Management and Supervisory Board will propose a suitable amendment to the Articles of Association at the 2008 Annual General Meeting.

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.

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

Structure and system of the Board of Management's remuneration

Component	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)	Function Responsibility Length of service on the Board	Fixed	Contractual stipulations	Monthly
Short-term compensation component				
Annual bonus	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	Consolidated result	50–150% (fully achieved = 100%)	Achievement of objectives least 50% on average over three years	In the fourth year
Share-price-based compensation component				
Long-term incentive plan (stock appreciation rights; term: seven years)	Appreciation in share price	0–150% (cap at 150% of share price increase	– End of vesting period (two years) – 20% share price increase – MR shares have outperformed EURO STOXX 50 twice at the end of three-month period during the term of the plan	As from third year of plan until end of plan
Retirement plan				
Pension entitlement	Basic remuneration Number of years on the Board	Fixed	– Retirement – Insured event – Premature termination or non-extension of employment contract under certain circumstances	–

Fixed components

Basic remuneration

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

Remuneration in kind/fringe benefits

Remuneration in kind and fringe benefits are granted according to function, and are commensurate with market conditions (DAX 30 companies). The benefits in question are individually taxable.

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 13 f. We use the performance measures embodied in value-based management for the corporate and divisional objectives.

The processes defined to specify objectives and assess their achievement also involve the external auditor, who subjects the envisaged financial objectives to a review regarding their consistency, appropriateness and assessability, which includes analysing the calculation of the individual results achieved. The outcome of the 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. It is measured on the basis of the Group result category from the short-term compensation component. Payments are made only if the achievement rate is at least 50% on average for the three-year period.

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

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

Whether the stock appreciation rights can be exercised and, if so, when, is not certain at the time they are granted. The exercising and proceeds depend on the development of the share price and the exercise price and date. The amount of income is limited. Up to now, it has only been possible to exercise stock appreciation rights under the plans set up in 1999 and 2003 to 2005. Further information on the long-term incentive plans can be found on pages 88 to 89 of the notes to the financial statements.

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 incentive system.

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

A different arrangement applies to the remuneration structure of Mr. Phelan, who until 31 December 2007 was not only a member of the Board of Management but also the President, Chief Executive Officer and Chairman of the Board of Munich Re America Corporation, and therefore had special remuneration agreements, with the major portion of his income derived from the USA.

Other remuneration

In the case of seats held on other boards, remuneration for board memberships must be paid over to the Company or is deducted in the course of regular compensation computation. Excepted from this is remuneration for memberships explicitly recognised by the Company as personal, which do not exist at present. In the event of a change of control, the members of the Board of Management have no contractual entitlement to payments. As far as the share-price-based remuneration is concerned, the conditions provide for special exercise options in the case of a change of control. Details of this are provided in the notes to the consolidated financial statements on page 89.

Pension entitlement

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

Benefits on termination of employment

Benefit	Precondition	Benefit amount
Occupational pension		
	– Reaching the age of 60; at the latest, turning 65	– 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	– The Board member is incapacitated for longer than 12 months and will probably be permanently unable to fully perform duties of office	– 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 – gross violation of duties – the Board member giving notice	– Older than 50 – More than ten years' service with the Company – Board member's appointment extended at least once	– 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 – 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 – Leaving the Board before reaching the age of 60 – At least five years' service with the Company	– 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 – gross violation of duties – the Board member giving notice	Entitlement to vested benefits – Leaving the Board before reaching the age of 60 – At least ten years' service with the Company	– 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 there of short of 65th birthday

Benefit	Precondition	Benefit amount
Benefits for surviving dependants		
Widow(er)'s/orphan's pension		
a) Active Board member	– Death of Board member during active service	– 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	– Death of Board member after retirement – Marriage and/or birth of child before drawing occupational pension	– 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)	Entitlement ceases – for widow(er) on remarrying (only in the case of Board members appointed since 2006) – for orphans 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	– 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: 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 idow(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.

Total remuneration of the Board of Management

The basis for reporting the remuneration of Board members is German Accounting Standard No. 17 (DRS 17), according to which the amount shown for the annual bonus is the provision established for that bonus, since the performance on which the bonus is based has been completed by the balance sheet date of the financial year and the requisite Board resolution is already foreseeable. Under the above-mentioned standard, medium- and long-term bonuses of the members of the Board of Management must be recognised in the year of payment in future. The members of Munich Reinsurance Company's Board of Management received remuneration totalling €13.7m (17.1m) in the financial year. The previous year's figures have been adjusted in accordance with DRS 17. The reduction in remuneration is due to changes in the composition of the Board of Management. The compensation components that Mr. Phelan received for his work as member of Munich Reinsurance Company's Board of Management is included in the total remuneration.

Renumeration of individual Board members
(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 [1,2,3]	Value of stock appreciation rights granted	Total	Number of stock appreciation rights
		€	€	€	€	€	
Dr. Nikolaus von Bomhard	**2007**	**864,000**	**51,878**	**1,588,650**	**666,000**	**3,170,528**	**21,442**
	2006	864,000	57,393	1,606,500	666,000	3,193,893	30,411
Dr. Ludger Arnoldussen[4]	**2007**	**300,000**	**39,647**	**479,640**	**240,000**	**1,059,287**	**7,727**
	2006	75,000	7,566	133,875	60,000	276,441	2,740
Dr. Thomas Blunck	**2007**	**350,000**	**28,026**	**509,110**	**280,000**	**1,167,136**	**9,015**
	2006	300,000	26,818	569,520	240,000	1,136,338	10,959
Georg Daschner	**2007**	**450,000**	**33,133**	**752,220**	**360,000**	**1,595,353**	**11,590**
	2006	400,000	29,780	771,120	320,000	1,520,900	14,612
Dr. Heiner Hasford[5]	**2007**	**116,000**	**8,357**	**170,042**	**49,000**	**343,399**	**1,578**
	2006	696,000	40,700	1,020,250	294,000	2,050,950	13,425
Dr. Torsten Jeworrek	**2007**	**550,000**	**33,538**	**1,007,930**	**440,000**	**2,031,468**	**14,166**
	2006	500,000	29,021	961,800	400,000	1,890,821	18,265
Christian Kluge[6]	**2007**	**–**	**1,634**	**–**	**–**	**1,634**	**–**
	2006	510,000	33,702	816,480	300,000	1,660,182	13,699
John Phelan[7]	**2007**	**–**	**198,466**	**346,920**	**–**	**545,386**	**–**
	2006	–	123,307	365,120	–	488,427	–
Dr. Peter Röder[8]	**2007**	**75,000**	**4,029**	**124,425**	**60,000**	**263,454**	**1,932**
	2006	–	–	–	–	–	–
Dr. Jörg Schneider	**2007**	**600,000**	**41,958**	**1,134,000**	**480,000**	**2,255,958**	**15,454**
	2006	600,000	35,014	1,113,000	480,000	2,228,014	21,918
Dr. Wolfgang Strassl	**2007**	**350,000**	**14,508**	**603,190**	**280,000**	**1,247,698**	**9,015**
	2006	300,000	14,959	561,540	240,000	1,116,499	10,959
Karl Wittmann[9]	**2007**	**–**	**405**	**–**	**–**	**405**	**–**
	2006	510,000	33,131	723,240	300,000	1,566,371	13,699
Summe	**2007**	**3,655,000**	**455,579**	**6,716,127**	**2,855,000**	**13,681,706**	**91,919**
	2006	4,755,000	431,391	8,642,445	3,300,000	17,128,836	150,687

[1] At the balance sheet date, no Board resolution had yet been passed on the amounts to be paid for 2007. The amount shown for the annual bonus is based on estimates and the relevant provisions established. The actual amounts paid out will be shown in the following year.
[2] Owing to the good business performance, provisions have been established for the maximum bonus amounts for the consolidated result.
[3] In the financial year 2006, a total of €8,704,850 was reserved for the annual bonus, whereas the actual amount paid out totalled €8,642,445.
[4] Member of the Board of Management since 1 October 2006.
[5] Retired from the Board of Management on 28 February 2007.
[6] Retired from the Board of Management on 31 December 2006; the benefits in kind shown were for the previous year.
[7] Retired from the Board of Management on 31 December 2007. Remuneration in kind and fringe benefits include travel expenses from Princeton to Munich.
[8] Member of the Board of Management since 1 October 2007.
[9] Retired from the Board of Management on 31 December 2006; the benefits in kind shown were for the previous year.

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 consolidated 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 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.

The provisions posted hitherto for the medium-term bonus 2006–2008, payable in 2009, are shown in the following table.

Provisions for the medium-term bonus 2006–2008[1]

Name €	Financial year 2007	Financial year 2006	Total
Dr. Nikolaus von Bomhard	**1,020,000**	1,020,000	2,040,000
Dr. Ludger Arnoldussen[2]	**360,000**	90,000	450,000
Dr. Thomas Blunck	**420,000**	360,000	780,000
Georg Daschner	**540,000**	480,000	1,020,000
Dr. Heiner Hasford[3]	**110,000**	660,000	770,000
Dr. Torsten Jeworrek	**660,000**	600,000	1,260,000
Christian Kluge[4]	–	540,000	540,000
John Phelan	**210,000**	210,000	420,000
Dr. Peter Röder[5]	**90,000**	–	90,000
Dr. Jörg Schneider	**720,000**	720,000	1,440,000
Dr. Wolfgang Strassl	**420,000**	360,000	780,000
Karl Wittmann[6]	–	540,000	540,000
Total	**4,550,000**	**5,580,000**	**10,130,000**

[1] Owing to the good business performance in 2006 and 2007, provisions have been established for the maximum bonus amounts for the consolidated result.
[2] Member of the Board of Management since 1 October 2006.
[3] Retired from the Board of Management on 28 February 2007.
[4] Retired from the Board of Management on 31 December 2006.
[5] Member of the Board of Management since 1 October 2007.
[6] Retired from the Board of Management on 31 December 2006.

Pension entitlements

Personnel expenses of T€6,898 (18,015) were incurred in the financial year for the increase in the pension provisions for 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 1 January	Personnel expenses for the provisions
			€
Dr. Nikolaus von Bomhard	**2008**	**407,100**	**896,366**
	2007	380,160	3,848,434
Dr. Ludger Arnoldussen[1]	**2008**	**157,500**	**2,061,126**
	2007	150,000	62,591
Dr. Thomas Blunck	**2008**	**120,000**	**1,122,450**
	2007	105,000	670,483
Georg Daschner	**2008**	**180,000**	**–175,117**
	2007	180,000	1,945,021
Dr. Heiner Hasford[2]	**2008**	**–**	**–**
	2007	375,840	3,412,285
Dr. Torsten Jeworrek	**2008**	**171,000**	**540,010**
	2007	165,000	1,604,037
Christian Kluge[3]	**2008**	**–**	**–**
	2007	244,800	1,371,632
John Phelan	**2008**	**–**	**–**
	2007	–	–
Dr. Peter Röder[4]	**2008**	**90,000**	**1,080,444**
	2007	–	–
Dr. Jörg Schneider	**2008**	**275,000**	**882,692**
	2007	252,000	2,431,555
Dr. Wolfgang Strassl	**2008**	**120,000**	**489,744**
	2007	105,000	1,050,266
Karl Wittmann[5]	**2008**	**–**	**–**
	2007	244,800	1,618,196
Total	**2008**	**1,520,600**	**6,897,715**
	2007	2,202,600	18,014,500

[1] The pension commitments include pension entitlements from former employers which have been transferred to Munich Re.
[2] Retired from the Board of Management on 28 February 2007; commitment for occupational pension on reaching the age of 60.
[3] Retired from the Board of Management on 31 December 2006.
[4] Member of the Board of Management since 1 October 2007.
[5] Retired from the Board of Management on 31 December 2006.

Total remuneration of former members of the Board of Management

Payments to retired members of the Board of Management or their surviving dependants totalled T€6,018 (5,171).

Pension commitments

Personnel expenses of T€0 (22,224) were incurred for retired members of the Board of Management. As at 31 December 2007, the pension provisions and provisions for comparable benefits for former members of the Board of Management amounted to T€89,040 (80,795).

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 total remuneration of the members of the Supervisory Board amounted to T€1,960 (1,948). The variable remuneration component totalled T€774 (774).

Advances and loans

The members of the Supervisory Board and Board of Management did not receive any cash advances or loans in the year under review. Nor were there any notifiable transactions between Board members and the Munich Re Group.

Risk report

The selective acceptance of reinsurance risks is at the core of our business model. Compliance of our risk early-warning system with 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.

Objectives of risk management

Risk management plays a core role in the steering of Munich Re's operations. The Group deploys a mixture of decentralised and centralised risk management functions, tools and processes for its diverse global business. The central activities come within the responsibility of the Group Chief Risk Officer (Group CRO). For the decentralised risk management activities, which are integrated in the framework of the Group Chief Risk Officer's duties, we draw on suitably qualified staff in all significant units at the reinsurers in the Group. With our effective integrated risk management we aim to

– protect Munich Re's reputation;
– ensure the highest degree of confidence in meeting policyholders' claims; and
– enable Munich Re to protect and sustainably generate shareholder value.

Risk management framework: Principles and governance

The functions and responsibilities of all participants – be they members of the Board of Management, executives, or staff employed in decentralised or central risk management – are clearly defined. Responsibility for the assumption of risks is strictly separated from control functions. The Board of Management is responsible for the Group-wide, cross-divisional planning, steering and monitoring of the risk landscape as a whole.

At Munich Re, Integrated Risk Management is centrally responsible for preparing Board decisions relating to risk management and for identifying, evaluating, steering, monitoring and communicating risks on the asset and liability sides. It is supported in this role by the decentralised risk management units. The Group Chief Risk Officer is a permanent member of the Board of Management's Group Committee and Strategy Committee, and takes part in all meetings of the Board of Management Committees that deal with risk issues.

The main responsibility of Integrated Risk Management is to set standards and develop methods and tools as a basis for consistent Group-wide risk management. The decentralised risk management units throughout the Group operationalise these in a manner suitable to their business needs and take account of legal requirements when necessary.

In day-to-day business, our executives in the business units are also responsible for systematically handling individual reinsurance risks. They identify, analyse, manage and monitor the risks on an ongoing basis with support from the decentralised risk management units.

Risk appetite and risk-based capital

The basis for accepting risks is determined by the Board of Management's requirements 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 across the Group.

Of key importance within these requirements and processes is our Strategic Risk Management Framework (SRMF), developed several years ago and since constantly refined. Through close integration into strategic and operative planning, SRMF enables the Company's risk appetite to be determined and the limits derived from it to be monitored. The risk appetite established for the Group can thus be broken down for the operative units, with a view not only to limiting our risks but also to taking business opportunities. The calibration of the limits defined in SRMF gives consideration to the interests both of our clients and of our shareholders. Consequently, the main limits involve securing our capital strength and avoiding "financial distress", i.e. restricting the likelihood of an economic loss for the year. These main limits are supplemented by limits for individual risks, e.g. concentration limits and limits for market and credit risks.

We manage business portfolios by assigning return expectations, derived from the size of the risks assumed, to individual activities. Our internal risk model, the Munich Re Capital Model, plays a central role here. We use it to analyse how certain risk scenarios affect the results of the segments life and health, property-casualty and investments of the reinsurance group. This framework allows us to take an objective view of the risks, tailored to the long-term nature of that business.

We determine our required economic capital using a robust market-consistent economic capital model, the Munich Re Capital Model. It is calibrated to enable us to absorb two successive annual losses of a size only to be expected every 100 years, thus ensuring that we meet our obligations. The model is built using a series of modules for each of our business segments. For example, for our scenarios of natural hazards worldwide, we utilise the expertise of our geoscience teams, who together with our Corporate Underwriting unit draw on internal and external information to develop models for representing our global exposures to hurricanes, winter storms, typhoons, earthquakes, flood and other natural perils. The modules are aggregated using a conservative measure of the dependence of the risks in the portfolio. We limit our exposure to the risks evaluated using budgets that we assign to the individual scenarios. We also apply a series of stress tests to check the resilience of the implied "economic capital buffer" (i.e. excess of available financial resources over required risk capital). In the next step, the required risk capital is allocated to the individual divisional units on a proportional basis in line with the volatility of their business activities.

Value-based management

Risk management tools and processes are embedded in our business steering concepts, being closely interlinked with the value-based management system applied in the Group. Our business managers are given earnings targets measured on the basis of an added value component and the cost of the capital required for operating the business. The capital required is determined using an internal risk model that takes regulatory requirements into account. In this way, there is an explicit linkage of the results from the Munich Re Capital Model to the remuneration of our business executives. The value-based management framework we deploy is geared to ensuring that the individual business unit's pricing takes risk-adequate capital costs into account. The technically risk-adequate price is defined as the price which reflects the sum of expected losses, acquisition and non-acquisition costs plus the cost of allocated risk capital.

Risk measurement

As a global risk carrier, we can diversify our portfolio through the broadest possible mix and spread of individual risks. In this way we significantly reduce the volatility of total claims payments and substantially increase the value added by all divisional units, since the total risk capital required is lower than the sum of the individual requirements. In relation to risk-adjusted capital, the return is therefore higher.

We are constantly refining the tools with which we monitor and manage risks. Our suite of tools for measuring risks 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 also regularly compare these economic risk measures with both regulatory and rating-agency measures as part of our active capital management process. These comparisons are performed at many levels, including segment, legal entity, 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 gained valuable information from a comparison with the results of the Quantitative Impact Study 3 (QIS 3) carried out as part of the work at EU level to create a new, harmonised insurance supervisory system in the European Union (Solvency II). In our view, differences in relation to our internal model are mostly due to deficits in the QIS 3 framework, which does not yet adequately reflect economic realities.

By means of this range of quality assurance measures, we ensure that the economic risks in our portfolio are faithfully represented. To improve supervision of risks, we distinguish between market, credit, liquidity, insurance and operational risks.

Qualitative risk assessment

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 in this regard, using 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, but it 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.

For the holistic assessment of the risk situation, risk surveys coordinated by Integrated Risk Management are conducted throughout the Group.

Such surveys consist partly of standardised reports based on risk questionnaires, meetings and workshops held with the individual departments and subsidiaries. These are supplemented by various top-down assessments from senior management on concrete topics. The findings thus obtained are additionally reconciled with our operative corporate planning process. Besides this, there is an internal ad-hoc reporting process to ensure we can take immediate action if risks or hazards emerge suddenly. Thanks to information from the risk assessments, the Board of Management is notified at an early stage about risk-relevant developments, and risk-reduction measures can be recommended and coordinated. It is the role of the central Integrated Risk Management Unit to challenge and verify the findings of the risk assessments using its own knowledge of the risks, together with structured interviews and independent analysis.

As part of the early-warning system under the German Law on Corporate Control and Transparency, "emerging risks" have to be considered. 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 very high. Trends and faint signals are identified internally in many different ways: this includes systematic trend research in Group Development, utilising Munich Re's knowledge management, and risk assessment. Various forms of cooperation with external partners complement our internal early-warning system. One example is our collaboration with the US RAND Institute for Civil Justice on the issue of class actions. Our investments are continually monitored on the basis of various key risk and earnings figures as part of a Group-wide early-warning system. This is designed to ensure the achievement of result targets, the fulfilment of solvency requirements and sufficient equity capital protection at individual company as well as at Group level.

Quantitative risk measurement: Modelling and aggregation

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.

When determining risk-based capital, we distinguish between market, credit, insurance and operational risks. Within insurance 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 "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.

Risk management processes and exposures

We adopt a holistic risk management approach, the main objective of which is to analyse and control the interdependencies between risks on the asset and liability sides, and between strategic and operational risks. This entails considering economic parameters as well as the requirements and expectations of clients, shareholders, supervisory authorities and rating agencies.

Market risks

Risk management processes

At Munich Re, we are guided by the following asset-liability management principles. In a first step, we structure our investments so that they match the characteristics of our provisions as closely as possible. We allow in this step for the economic structure of the provisions as well as any regulatory restrictions on their determination. The result of this "replication" of the provisions is a virtual investment portfolio, which we call the "neutral position". The neutral position is constructed in such a way that changes in prices and rates on the capital markets and developments in insurance are, as far as possible, reflected in the value of this "drawing-board" investment portfolio in the same direction and to the same extent as in a market valuation of the provisions. The match can of course never be perfect – we call the risk of divergence the "base risk", which by nature can be considerable as regards the development of the loss reserves. But with virtual portfolios, we can model quite well the reaction of the provisions to fluctuations in the main capital market factors, such as interest rates, exchange rates, inflation rates, commodity prices and share-index levels. When we come to structure our real investment portfolio, the modelled virtual portfolio therefore forms a "neutral" basis for additional risk-return considerations. Building on this, the Munich Re Group exploits its expertise in international financial markets to deliver an appropriate return for the risk taken by deviating from the neutral position. Such market risk is taken in a way that is commensurate with the risk-bearing capacities of Munich Reinsurance Company, the skills and expertise of our asset managers, and the strategic level of tolerance for market risk set by the Board of Management. The asset managers may deviate from the neutral position within the limits defined by risk management. Compliance with these limits is constantly monitored by risk measurement and reporting systems. If limits are exceeded, the asset holders and other Group units are informed so that countermeasures can be taken.

The investment process for the Company's investments is governed by uniform rules based on virtual portfolios and limits. Each company manages its investments itself according to these uniform rules.

Our asset-liability management, and thus also our taking of asset-liability mismatch risks, is based primarily on the behaviour of the economic value of the assets and liabilities. Effects based on our accounting must be treated with caution, as the financial statements prepared in accordance with the applicable accounting rules do not always fully reflect the economic situation. Besides these aspects, our investment strategy naturally also considers requirements relating to supervisory regulations, accounting and tax purposes.

Furthermore, for individual reinsurance products involving explicit market risks, such as interest-rate or currency risks, asset-liability management principles are applied at micro (e.g. treaty) level when the products are being designed and priced. This is especially important for life business and long-tail property-casualty business, where long time horizons are involved. The companies entrusted with our asset management, in particular MEAG, are given mandates by the Reinsurance Committee. These are fleshed out and monitored during the year by the RI ALM Department in accordance with uniform standards applicable throughout the reinsurance group.

Market risks are measured and limited using a Value-at-Risk (VaR) approach for the asset-liability mismatch risk, which we define as a deviation – measured in terms of VaR – from the neutral position. The asset-liability mismatch risk is therefore nil when the investment is identical with this neutral position. In this hypothetical case, however, the above-mentioned base risk is still present. We also use the risk measure VaR in our strategic investment planning to model the optimal investment portfolio according to our risk preference. This asset-liability mismatch risk approach measures the possible adverse changes in economic surplus resulting from changes in assets and the valuation of liabilities. Within this VaR, all important sources of the market risks of assets are considered, i.e. equity, interest rate, credit spread, currency, inflation and real-estate risks. As far as equity investments are concerned, we model diversified equities using appropriate indices, whereas concentrated equity investments are modelled by name. When modelling these risks, state-of-the-art models are used which allow, for example, for so-called “fat tails” in equity market risk distributions or, within the interest-rate modelling, for the “deformation” of the entire interest-rate curve, and this in a variety of currency regions. Our stochastic modelling is supplemented by applying stress tests, sensitivity and duration analyses. Nevertheless, severe losses cannot be ruled out if reality differs seriously from the model assumptions or stress scenarios.

We only run currency risks to a small extent, since we practise a policy of currency matching, i.e. we match the currencies of our liabilities with assets in the same or similar currencies. Mismatches are strictly limited from an accounting as well as an economic aspect. We use derivative financial instruments to achieve a better match for our liabilities, to hedge parts of the asset portfolio against market price fluctuations, and to prepare planned purchases and sales. We also hold these instruments for trading purposes in order to enhance earnings, albeit only to a limited degree. As part of our asset-liability management, we have hedged financial options and guarantees embedded in our life insurance liabilities using derivative financial instruments. Credit derivatives are only employed in our investment portfolio to a limited extent.

In our real estate investments, we are constantly optimising the return and risk profile by rejuvenating our portfolio on an ongoing basis, diversifying internationally and investing in top-class commercial real estate primarily located in major European cities.

Risk exposures

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 Munich Re's investments at 31 December 2007.

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

Market risk – Share prices

Change in share prices	Change in market value of investments sensitive to share prices
Increase of 20%	€4.797bn
Increase of 10%	€2.397bn
Decrease of 10%	–€2.397bn
Decrease of 20%	–€4.792bn
Market values at 31 December 2007	€28.255bn

Market risk – Interest rates

Change in interest rates	Change in market value of investments sensitive to share prices
Increase of 200 BP	–€2.935bn
Increase of 100 BP	–€1.593bn
Decrease of 100 BP	€1.843bn
Decrease of 200 BP	€3.936bn
Market values at 31 December 2007	€33.610bn

Market risk – Exchange rates

Change in exchange rates	Change in market value of investments sensitive to share prices
Increase of 10%	€2.006bn
Decrease of 10%	–€2.006bn
Market values at 31 December 2007	€21.828bn

Credit risks

Risk management processes

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, credit enhancement, 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 Monte Carlo 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 aggregate the credit risks emanating from the insurance and investment sides, we utilise an in-house counterparty exposure monitoring system. We restrict default risks by limiting our total exposure in respect of individual debtors. To ensure exposures across all segments are taken into account, the Group Committee of the Board defines and monitors these limits. Moreover, we consider a whole range of individual attributes, including the issuer's individual rating, its capitalisation as a basis for covering the liability, the quality of the collateralisation and of the respective issue, as well as the industry sector concerned.

This allows us to control the exposure on a single debtor and to steer towards a well-balanced credit risk portfolio. Furthermore, we are able to shift capacities between the insurance and investment sides of the balance sheet. The credit crisis that emerged in 2007 from the US mortgage market also affected Munich Reinsurance Company. It has made clear the value of effective credit risk management and endorsed our approach in this area. The economic impact on our investment portfolio is comparatively small, but developments have shown that there is still potential for improvement in our set-up, processes and model assumptions. A separate section is devoted to the credit crisis in the latter part of the risk report.

We also regularly perform stress tests on our cross-balance-sheet exposures utilising the expertise of our economists and risk managers, who have developed a range of short-term/shock-event-type scenarios and more long-term trends to ensure the resilience of our assigned credit risk capital in aggregate. The results of this analysis are shared with the Board risk committees.

Risk exposures

Credit assessment is of central importance for the management of credit risks relating to **fixed-interest securities**. The main factor here is the quality of the issuer or the respective issue, which is primarily reflected – according to Munich Reinsurance Company's investment principles – in the ratings of international rating agencies: 97% of our investments in fixed-interest securities at 31 December 2007 had a rating of A or better (according to Standard & Poor's classification). The majority of fixed-interest securities in our portfolio have been issued by governments or banks with excellent ratings or top security, e.g. German government bonds, US Treasuries, or pfandbriefs.

Retrocessions

The **reinsurers and retrocessionaires** participating in our external placements are approved by our Security Committee, which screens their creditworthiness regularly according to several criteria. One of the minimum criteria is a rating of A– or better from one of the major rating agencies, or equivalent such as collateralisation. Furthermore, concentrations of credit risks are avoided by a broad spread of our cessions.

The exposure of the capital market placements, namely the cat bonds Aiolos II (covering windstorm losses in Europe) and Carillon (covering windstorm losses in the USA), was collateralised with financial instruments of best quality, so that the credit risk involved is negligible.

Insurance and investments combined
The asset-related and insurance-related credit risks contain accumulation potential in their counterparty default risks. These are therefore monitored in detail. An example is the subprime loan crisis.

Receivables
As at 31 December 2007, 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	1.0
AA	32.8
A	34.1
BBB or lower	0.2
Without external rating	50.5

€59.9m 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 amount to €3.6m.

Liquidity risks

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). We thus have processes in place that regularly track these differences and report their implications to the Group Committee of the Board. This planning concept, which has been in place for many years, has proved its value after major loss events.

Insurance risks

We define technical insurance risk as the risk of insurance losses exceeding our expectations. We supplement our quantitative risk management of these risks with qualitative considerations. For example, our Corporate Underwriting units develop standards for how to assess the "risk of change" in the business environment, and our claims management departments complement this by monitoring trends in types of claims, such as bodily injury claims under various liability regimes.

The interaction of risks of change and risk concentrations may lead to considerable loss potential. This not only involves regional concentrations but can also occur within a class of business or across several classes owing to events like natural catastrophes, pandemics or terrorist attacks. Our Integrated Risk Management Division is responsible for identifying, analysing, monitoring and coordinating cross-segment and cross-balance-sheet accumulations or concentrations. It works closely with the experts in each segment to advise the Board of Management and other units on the likely impacts of such accumulations on our Group-wide exposures.

Accumulation risks arising from natural catastrophes (nat cat) are modelled and monitored centrally by Corporate Underwriting, with the help of our experts in the Geo Risks Research and risk management units. In general, natural catastrophe scenarios are set up and monitored individually, once the Group-wide exposure – measured in terms of the 1-in-1,000-year probable maximum loss (PML) estimate – exceeds €500m. The exposure measurement processes can never be all-embracing, as we learned from Hurricane Katrina in 2005, where losses were significantly higher than we would have expected for a hurricane of comparable wind force.

In general, several external models and the respective internal model are run in parallel and differences in results are reviewed by geoscientists, senior underwriters and nat cat modelling experts from Corporate Underwriting in order to come up with the final model, which thus takes expertise from all relevant sources into account. Our models are always built to calculate the combined total of all expected losses in any one event, including secondary loss components like storm surge and/or altered economic parameters, such as demand surge.

In addition, exposures arising from other lines of business for which no stochastic models on nat cat have been developed so far (e.g. casualty and aviation) are assessed in close cooperation with the respective business units, using their expertise. The degree of robustness of these models and assessments influences the risk appetite per risk type. Thus, we have a greater preference for (well-quantifiable) natural catastrophe risks than for terrorism risks, which are extremely hard to model in terms of assumptions regarding intensity and frequency.

Accumulation risks pursuant to individual natural perils are strictly limited at Group level as part of the Board of Management's strategic risk management framework. Unused capacities are reallocated between business units according to need.

Within the Munich Re Capital Model, risks from natural catastrophes are represented in their entire stochasticity, i.e. by aggregating the full distributions. With this method, it is assured that the tails of the nat cat loss distributions – and the associated possible losses, are captured when determining the capital requirements needed to back nat cat business.

For Munich Re, terrorism does not constitute an insurable peril like earthquake, storm or flood. Unlike natural hazards, terrorism does not occur randomly, and its probabilities and consequences cannot be modelled and quantified with scientific data and methods. The assessment of terrorism risk is therefore based on a mixture of qualitative and quantitative data (e.g. for estimating property damage consequent to an attack of a predefined magnitude), with information on terrorism being inconsistent and not available to all parties in the same detail. This means that accumulation scenarios are extremely difficult to gauge. Munich Re consequently writes terrorism risks with great caution, but we do take advantage of business opportunities where we can constrain the risk sufficiently and obtain risk-adequate prices. We are committed to controlling our risk accumulation and have therefore adopted various measures to control, limit and manage our aggregate terrorism exposure. Accumulation risks arising from terrorism are monitored centrally, based on a selection of markets, terrorism accumulation zones and scenarios. Within the Munich Re Capital Model, risks from terrorism are represented so that a determination and allocation of risk capital is ensured. Stress testing is also used, given the difficulties associated with quantifying the risk exposure.

Insurance risk: Property-casualty

Risk management processes

Binding underwriting guidelines and limits and clear underwriting authorities at Munich Re precisely regulate who is authorised and accountable for concluding insurance and reinsurance contracts. In terms of content, we distinguish between mandatory guidelines and divisional guidelines. Deviations from the mandatory guidelines are only permitted with the approval of the Board of Management. In the case of divisional guidelines, the Board Member responsible decides who in the division is authorised to allow deviations. 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. This also involves specific recommendations on how the quality of the underwriting should be improved in the unit reviewed.

Risk exposures
In addition to other key indicators, combined ratios are important for us in monitoring the premium/claims risk in property-casualty (re)insurance.

Combined ratio for the last ten years

%	2007	2006	2005[1]	2004	2003	2002[3]	2001[2]	2000	1999	1998
Including natural catastrophes	95.9	97.9	117.0	96.4	93.8	108.3	127.4	115.7	120.6	101.9
Excluding natural catastrophes	91.2	96.3	97.3	91.2	92.1	104.8	126.1	111.7	107.2	98.9

[1] Thereof effect of assuming discounted claims provisions from Munich Re America: 8.7%
[2] Thereof World Trade Center: 15.9%
[3] Thereof World Trade Center: 3.5%

Insurance risk: Life and health

Risk management processes
In life reinsurance the biometric risk, the lapse risk and the interest guarantee risk are especially relevant. The calculation of technical provisions is based on "biometric" actuarial assumptions, i.e. 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 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 insurance and 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.

In reinsurance, we exclude the interest-guarantee risk in many cases through suitable treaty design.

Risk exposures
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 organisation of the Chief Risk Officers of large insurance companies, in September 2005.

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

Operational risks

Operational risks comprise the risks of losses as a result of 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 includes the willingness to learn from mistakes and to recognise and grasp these as opportunities for change and improvement.

To prevent infringements of regulations, Munich Re has appointed a Compliance Officer, who arranges for publication of the pertinent rules, draws up supplementary guidelines, and makes staff aware of the risks of violations. He ensures among other things that inside information is handled in conformity with the law. In addition, a Disclosure Committee headed by the Compliance Officer sees that disclosure requirements regarding price-sensitive information are complied with.

To prevent antitrust violations, staff are informed about the regulations and are expected to comply with them.

We attach particular importance to precautionary measures that ensure continuity of our operations in an emergency or crisis situation. Business processes critical to value creation can be maintained or resumed as quickly as possible in such cases. Responsibility for establishing and monitoring this business continuity process at Munich Re has been entrusted to a separate unit, which is guided by internationally recognised business continuity management standards.

Risks in information technology

Munich Re's global business and Group-wide risk management require an organisational and technical networking of our business units and systems. We are dependent on electronic communications technology, the complexity of which is continually increasing. The significance of the stored and transmitted information is growing as well. As a result, we are also increasingly exposed not only to IT security risks (such as breakdowns and outages, disruptions due to viruses, attacks by hackers and theft of data) but also to the risk of theft of information through the deception of staff ("social engineering").

These risks are identified and limited by decentralised security organisations that liaise closely.

Risks involving human resources

Given its business model, Munich Re is particularly dependent on the knowledge and proficiency of its staff. We control the resultant human resources risks by means of appropriate indicators and metrics. Our human resources tools as a whole serve to strengthen our staff's ties with the Group and consequently to safeguard our business intelligence. With our specially tailored programme of qualification and further training measures, we make sure that our staff are able to adapt to current market demands.

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.

Legal and supervisory risks

Legal risks may arise on the one hand from court decisions and legislation (changes in legal parameters) and on the other from legal disputes and arbitration proceedings in which we as an international insurance group are involved, especially in the area of claims settlement.

We counter risks from changes in legislation and court decisions by constantly monitoring current developments and by actively participating in relevant bodies and associations in order to contribute our views.

The following are examples of currently relevant legal risks:

- In April of 2004, the then 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 other regulators. We have 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 vigorously.

- After the federal legislative procedure for the US Fairness in Asbestos Injury Resolution Act foundered in February 2006, several US states adopted legislation initiatives (tort reform) which may have a positive effect on the settling of asbestos claims. Following revelations about questionable asbestos-related disease diagnoses and resultant lawsuits, various investigation committees are at work. Similar questionable practices that have come to light in silicosis lawsuits are also relevant for US asbestos claims. These developments indicate that the legal situation in the USA is moving in a positive direction for the insurance industry, since it will no longer be so easy to assert unjustified claims. However, it is too early to say whether and to what extent this will have implications for future loss development in the insurance industry.

- The majority of the severe hurricane losses that occurred in 2005, especially from Katrina, have now been settled. Nevertheless, numerous lawsuits against diverse insurers are still pending. The main point of contention is the extent to which flood losses are indemnifiable, the damage along the coast having been caused mainly by the storm surge accompanying Katrina rather than as a direct result of the wind. In New Orleans, it was primarily levees bursting that led to the highest losses. To date, the courts of the US states affected have passed judgements both in favour of and against the insurance industry. Although insurers are frequently attempting to settle claims by compromise, many suits are likely to go all the way to the court of last instance, so that in some cases a final judgement is only to be expected in a few years. As things stand at present, this uncertainty should be covered by our overall reserve for the 2005 hurricanes.

– 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.

Overarching accumulation risks

Effects of the subprime loan crisis

A current example of an overarching accumulation risk is 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 both the insurance and the capital market 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 2007/2008, we had received (status: 31 December 2007) isolated provisional notifications from our liability reinsurance clients, which we have taken into account – also provisionally – through allocations to IBNR reserves.

Our credit reinsurance business is not directly affected by the subprime loan crisis. Munich Re has not written reinsurance of financial guarantee companies in the USA (so-called credit enhancement business) since 2003, and we do not expect any significant losses from the remaining run-off business.

On the investment side, the subprime loan crisis did not give rise to any significant impairment losses or losses on disposal in 2007. The current exposure in subprime-related securities stands at approximately €65m, or 0.1% of Munich Reinsurance Company's total investments.

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 with a detailed analysis of our overall exposure (scenario analysis) and the optimisation of our risk structure by transferring risk, e.g. through the launch of a bond programme for extreme mortality.

Main other risks

As reinsurers, we are dependent on economic and political parameters in the different markets in which we operate, as well as on macroeconomic and geopolitical risks. The development of the economy not only affects our reinsurance business but also influences the capital markets and hence our investment portfolio. An economic downturn can lead to payment defaults and downgradings of credit ratings among our debtors, which may require write-downs in our books.

When developing new markets, such as those in Asia and eastern Europe, Munich Re is largely dependent on the prevailing economic, political and regulatory conditions, the accessibility of market segments, and the local

sales channels. But even in developed markets, social or political changes may result in a deterioration of legal, fiscal or economic conditions, and this may ultimately affect the assets, liabilities, financial position and results of individual companies or the Munich Re Group as a whole.

As a matter of general principle, our economists constantly study and monitor the economic and political situation of our main markets and inform the Board of Management without delay about relevant trends so that, if necessary, suitable risk mitigation or management measures can be taken. Conceivable scenarios are also discussed and coordinated with our asset management company MEAG to enable us to react promptly and appropriately in respect of our investments held.

Strategic risks arise if the strategy at overall Group level or business-segment level is not compatible with existing and future client requirements, market conditions or other parameters (e.g. economic or regulatory). If these disparities were not recognised, our objectives and initiatives would not take sufficient account of developments. In our strategic planning, we therefore carefully analyse the strategic risks, which are evaluated in individual projects (e.g. investment or market-entry projects) using scenarios and at an aggregate level on the basis of "wild cards". These wild cards describe events with a very low occurrence probability but a potentially strong impact on our business operations. In addition, we systematically perform SWOT analyses (strengths, weaknesses, opportunities, threats) and, building on these, specify what action is to be taken. Our Group Development Division works closely with our Integrated Risk Management Division and other units involved to ensure that our stress tests adequately reflect the risks underlying the Munich Re Capital Model and our management of cross-line, cross-segment and cross-balance-sheet (potential) accumulation of risks.

We continually review such other risks throughout the Company to make balance-sheet provision in good time if necessary.

Financial strength

Financial strength on an economic basis

During the whole year under review, our available financial resources comfortably exceeded the risk-based capital requirements for Munich Reinsurance Company determined by our internal risk model. This was also illustrated by a series of stress tests applied to our economic measure of financial strength. The favourable result for the financial year 2007 further consolidated this position, giving us headroom to return at least €8bn to our shareholders from 2007 to the end of 2010 as part of our Changing Gear programme (see information on capital management, page 30).

In this context, we not only take into account the results of our own risk and capital modelling but also consider and comply with the still differing requirements of regulatory authorities and rating agencies. The Solvency II project to reform insurance supervision in Europe and various initiatives of the major rating agencies should lead to a gradual convergence of the criteria for financial strength in future.

More detail on our financial strength is provided in the "Financial position" section on page 29 f.

Regulatory and rating-agency capital requirements

Munich Re 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.

Assessment of the risk situation

Current situation

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. Broken down across the Group hierarchy, the risk appetite was documented and communicated throughout Munich Re. Risk exposures were regularly quantified in the year under review and compared with the risk tolerance. Risk exposure was always within the risk tolerance. We therefore assess Munich Reinsurance Company's risk situation as manageable and under control.

Outlook

As part of its Changing Gear programme, the Company has identified a number of growth opportunities, which are being resolutely pursued. Munich Re's risk management functions were involved in the development, assessment and prioritisation of these initiatives, and will continue to closely partner and critically analyse them in future. The risk management functions will also ensure that the resulting business fields are fully integrated into the existing risk management structures.

The business plans – and especially the ensuing risk exposures – were compared with the risk tolerances of the main risk categories. We have established that the business planning is in line with the risk tolerances.

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-year, the future regulatory requirements for risk management have become increasingly transparent in the last year. Munich Re supports these developments, which accord with our internal risk management approaches in all the main elements.

Prospects

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

For this reason, we wish to emphasise the following: predictions about the forthcoming development of our Group are based primarily on planning figures, forecasts and expectations. Consequently, the following assessment of 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 variety of earnings opportunities. We expect the global reinsurance market to carry on growing in the next ten years. In the coming years, we will adhere to our principle of "profit before growth" in primary insurance and reinsurance. In other words, we will strive for growth in profits, not in premium income, and notwithstanding our previous successes, we will continue to make every effort to improve our business portfolio and the efficiency of our processes. Furthermore, we intend to and will expand our business, but not at the expense of sustained profitability.

This means in concrete terms that we intend to generate additional profit from our reinsurance activities by 2010, thus becoming the most profitable of the big five reinsurers. To this end, we have combined strategic business initiatives and organisational and structural projects in our Changing Gear growth programme, aimed at achieving our three ABC goals: Ambitious growth, Best in class and Capital efficiency. At the heart of this programme is our determination to provide our clients even more rapidly and efficiently with products tailored to their needs.

The development of property-casualty business is likely to be surpassed by the dynamic growth of life and health reinsurance. We predict that the highest percentage growth rates will come from the emerging markets of Asia and Latin America. Given their higher starting level, Europe and North America should nevertheless provide significantly greater absolute growth. With our worldwide presence, we are excellently positioned to tap the opportunities in all regions of the world and fields of business. This applies to business opportunities arising from differences in regional and line-specific market cycles, and to strategic initiatives, e.g. the expansion of Retakaful business written by our newly established branch in Kuala Lumpur.

In life reinsurance, premium income is set to decline somewhat in 2008, since we are reducing several large-volume reinsurance treaties as planned. For the coming years, however, we anticipate that fundamental growth impulses will derive from the restructuring of European insurance supervision (Solvency II) and the continuing privatisation trend in old-age and disability provision in advanced markets. Other developments, such as the dynamic growth of the life insurance markets in Asia and eastern Europe, should also contribute to the expansion of our new business.

There are a host of avenues for growth with various business models in the field of health business. As the world's leading provider in this field, with a product portfolio that integrates reinsurance and services, Munich Re is well prepared for these developments. Our commitment in the American health market will enhance our competitive position.

In past years, we have laid the foundations in property-casualty reinsurance for the sustained profitability of our business by consistently adhering to risk-adequate prices, terms and conditions – even in phases with a fortuitously low incidence of major losses. This is the only way we can cope with potential peak burdens that can occur at any time. Consequently, the renewals at 1 January 2008 (which involved approximately two-thirds of our property-casualty treaty business, i.e. without facultative reinsurance) were by and large satisfactory. The development of reinsurance terms of trade varied considerably, depending on the class of business and region concerned. We did not experience a globally uniform reinsurance cycle.

Following the substantial price increases for natural catastrophe risks in the US market in previous years, we suffered moderate reductions in price levels. The renewals of large property and liability treaties with our global clients proved very satisfying overall, with prices, terms and conditions remaining stable. Attractive agricultural business continued to show growth. By contrast, there were further price reductions in European industrial business, sections of aviation reinsurance, and German and French motor liability. We systematically refrained from writing business that did not meet our stringent requirements. Rates for the renewed portfolio were slightly lower overall, whilst profitability levels were still good.

For the forthcoming renewals on 1 April 2008 (Japan and Korea) and 1 July 2008 (parts of the US market, Australia and Latin America), we expect a similar development to that prevailing at the renewals at 1 January 2008.

If exchange rates develop steadily, our gross premium volume in 2008 should reach roughly the same level as in the previous year. We estimate that positive developments in the growth markets will cushion the premium reductions associated with the shift from proportional to non-proportional forms of cover. In property-casualty reinsurance, we expect a combined ratio in the order of 98% based on a major-loss burden from natural catastrophes of 6.5% of our net earned premiums. All in all, we anticipate a good annual result for 2008.

The investment environment in 2007 was characterised by volatile interest rates and rising share prices. Since last year's mid-year peak in interest rates, yields on long-term fixed-interest securities have been declining. Particularly in the credit crisis, yields on government bonds benefited from having top credit ratings. Starting very flat in the USA until May 2007, the yield curve became markedly steeper in the USA and the eurozone in the second half of the year.

For 2008, we anticipate that inflation rates will remain high, partly due to rising commodity prices, and will result in volatility in the bond markets. From an economic point of view, we address this potential risk with our asset-liability management, which matches the maturities of our fixed-interest securities with those of our liabilities.

Current yield levels have largely taken the economic slowdown into account. We assume that the yields on long-term bonds relevant for our bond portfolio will increase moderately by the end of 2008.

The US dollar has lost considerable ground in foreign exchange markets since 2006. We expect that it will strengthen in the course of the year and potentially increase in value in the medium term.

Rebounding from a course correction in July and August, the equities market experienced a marked recovery – albeit subject to fluctuations – by the end of the year, closing with a positive performance. However, the environment for equities might become more difficult, given the severity of the credit crisis and fears of a recession in the USA.

In the case of shares, we anticipate only moderate earnings in the order of the dividend yields for the full year of 2008, with a significant rise in volatility in particular in the first half of the year. In view of the risks described, we will, if necessary, reduce the proportion of our investments in equities.

In 2007, we consistently pursued our strategy of reducing the historically evolved concentration of our investments in the financial services sector and will continue to actively diversify our investment risks in future.

By achieving a 5.1% return on investment in the past financial year, we again exceeded our target of 4.0%. We are currently sceptical with regard to the stock markets. If, starting from the present level, prices move sideways or downwards, write-downs would have a distinctly negative impact on the result. We have again based our planning for the current year on a return of around 4.5% on our investments.

Our shareholders will continue to participate in Munich Re's success. After the share buy-back programme already concluded in January 2008, we plan to repurchase shares for at least a further €3bn by the end of 2010. In addition, we intend to pay our shareholders an annual dividend of at least €1bn for the financial years 2008 and 2009. We thereby intend to permanently strengthen the confidence in Munich Re shares and send out a clear signal that we are adhering to our disciplined, profit-oriented corporate approach.

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Balance sheet as at 31 December 2007

Assets	Notes					Prev. year
		T€	T€	T€	T€	T€
A. Intangible assets	(1)				48,042	80,414
B. Investments	(2, 3)					
I. Land, land rights and buildings, including buildings on third-party land				823,957		980,540
II. Investments in affiliated companies and participating interests						
1. Shares in affiliated companies			21,640,569			12,170,882
2. Loans to affiliated companies			680,436			221,589
3. Participating interests			190,191			122,286
4. Loans to participating interests			22,984			25,134
				22,534,180		12,539,891
III. Other investments						
1. Shares, investment fund certificates and other non-fixed-interest securities			7,838,711			14,590,343
2. Bearer bonds and other fixed-interest securities			21,419,250			21,914,620
3. Loans secured on property			4,073			5,427
4. Other loans						
a) Registered bonds		3,420				3,792
b) Loans and promissory notes		–				8,023
c) Miscellaneous		148				170
			3,568			11,985
5. Deposits with banks			685,134			142,791
6. Miscellaneous investments			225,710			298,152
				30,176,446		36,963,318
IV. Deposits retained on assumed reinsurance				18,545,338		23,297,334
					72,079,921	73,781,083
C. Receivables						
I. Accounts receivable on reinsurance business				2,734,166		3,214,119
Thereof from – affiliated companies: T€704,672 (885,610) – participating interests: T€11,332 (5,293)						
II. Other receivables				597,962		437,438
Thereof from – affiliated companies: T€128,281 (97,200)						
					3,332,128	3,651,557
D. Other assets						
I. Tangible assets and inventories				35,516		46,108
II. Cash at bank, cheques and cash in hand				342,206		231,229
III. Own shares				29		–
					377,751	277,337
E. Deferred taxes					156,037	156,037
F. Other deferred items						
I. Accrued interest and rent				413,105		377,292
II. Miscellaneous deferred items				44,971		33,658
					458,076	410,950
Total assets					**76,451,955**	**78,357,378**

Equity and liabilities	Notes				Prev. year
		T€	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			687,848		2,702,274
IV. Net retained profits			1,198,388		1,033,111
				9,305,998	11,155,147
B. Subordinated liabilities	(5)			4,908,469	3,059,224
C. Special reserve	(6)			363,700	–
D. Technical provisions	(7)				
I. Unearned premiums					
1. Gross amount		3,118,539			3,304,931
2. Less for retroceded business		158,119			236,949
			2,960,420		3,067,982
II. Provision for future policy benefits					
1. Gross amount		13,418,994			16,207,498
2. Less for retroceded business		493,049			568,242
			12,925,945		15,639,256
III. Provision for outstanding claims					
1. Gross amount		30,648,983			32,639,375
2. Less for retroceded business		1,494,180			1,971,304
			29,154,803		30,668,071
IV. Provision for premium refunds					
1. Gross amount		7,338			10,121
2. Less for retroceded business		–			–
			7,338		10,121
V. Claims equalisation provision and similar provisions			9,530,293		8,408,595
VI. Other technical provisions					
1. Gross amount		747,260			1,002,376
2. Less for retroceded business		37,005			49,028
			710,255		953,348
				55,289,054	58,747,373
E. Other accrued liabilities	(8)				
I. Provisions for employees' pensions and similar commitments			552,298		567,838
II. Provisions for tax			1,254,483		895,331
III. Other provisions			853,298		786,945
				2,660,079	2,250,114
F. Deposits retained on retroceded business				614,722	750,465
G. Other liabilities					
I. Accounts payable on reinsurance business			1,732,023		1,873,034
Thereof to – affiliated companies: T€384,046 (403,466) – participating interests: T€4,360 (–)					
II. Amounts owed to banks	(9)		1,224,027		133,836
III. Miscellaneous liabilities			353,694		387,388
Thereof towards – affiliated companies: T€11,447 (135,563) Thereof from taxes: T€32,360 (138,405)					
				3,309,744	2,394,258
H. Deferred items				189	797
Total equity and liabilities				**76,451,955**	**78,357,378**

Income statement for the financial year 2007

Items	Notes				Prev. year
		T€	T€	T€	T€
I. Technical account					
1. Earned premiums for own account					
a) Gross premiums written		17,561,618			17,847,207
b) Retroceded premiums		–816,772			–1,159,757
			16,744,846		16,687,450
c) Change in gross unearned premiums		43,709			1,171,088
d) Change in retroceded share of unearned premiums		–76,770			–20,974
			–33,061		1,150,114
				16,711,785	17,837,564
2. Interest on technical provisions for own account	(11)			774,551	944,677
3. Other underwriting income for own account				13,447	1,793
4. Claims incurred for own account					
a) Claims paid					
aa) Gross amount		–12,034,636			–12,367,602
ab) Retroceded amount		994,320			428,144
			–11,040,316		–11,939,458
b) Change in provision for outstanding claims					
ba) Gross amount		191,528			–277,092
bb) Retroceded amount		–437,724			156,173
			–246,196		–120,919
				–11,286,512	–12,060,377
5. Change in other technical provisions for own account					
a) Net provision for future policy benefits			–399,383		–978,815
b) Other net technical provisions			4,488		–5,918
				–394,895	–984,733
6. Expenses for premium refunds for own account				–3,572	–5,788
7. Operating expenses for own account	(12, 16)				
a) Gross operating expenses			–5,184,486		–5,510,390
b) Less commission received on retroceded business			185,028		308,125
				–4,999,458	–5,202,265
8. Other underwriting expenses for own account				–30,393	–27,054
9. Subtotal				784,953	503,817
10. Change in claims equalisation provision and similar provisions				–1,121,698	–625,791
11. Underwriting result for own account	(10)			–336,745	–121,974

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€278,740 (210,005)			285,403			222,268
b) Income from other investments Thereof from affiliated companies: T€488,512 (397,947)						
ba) Rents from land and buildings, including buildings on third-party land		106,597				128,705
bb) Income from other investments		3,405,550				2,815,449
			3,512,147			2,944,154
c) Income from write-ups			50,034			286,731
d) Realised gains on the disposal of investments			2,612,293			1,289,207
e) Income from profit-transfer agreements			–			324
				6,459,877		4,742,684
2. Investment expenses	(12, 14, 15, 16)					
a) Expenses for the management of investments, interest paid and other expenses for investments			–449,230			–687,832
b) Write-downs of investments			–369,106			–439,313
c) Realised losses on the disposal of investments			–1,584,350			–307,623
d) Expenses from loss transfers			–943			–
e) Allocation to the special reserve			–363,700			–
				–2,767,329 3,692,548		–1,434,768 3,307,916
3. Interest income on technical provisions				–799,029		–968,854
					2,893,519	2,339,062
4. Other income					434,787	383,192
5. Other expenses					–900,073	–684,809
6. Operating result before tax					2,091,488	1,915,471
7. Taxes on income				–644,690		–225,937
8. Other taxes				–4,297		5,428
					–648,987	–220,509
9. Profit/loss for the year					1,442,501	1,694,962
10. Profit brought forward from previous year					44,707	4,875
11. Withdrawals from revenue reserves					2,303,245	250,000
12. Transfers to revenue reserves					–288,820	–666,726
13. Offset against shares bought back for cancellation					–2,303,245	–250,000
14. Net retained profits					**1,198,388**	**1,033,111**

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 Accounting Regulations for Insurance Companies (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 valued according to the strict lower of cost or market principle, despite the alternative valuation option provided for under Section 341b of the German Commercial Code.

Lower valuations from previous years are maintained for 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.

Deferred taxes

Deferred taxes result from temporary differences between financial statement valuations and valuations prescribed for determining taxable income.

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 take into account the risks of change, error and random fluctuations. The actuarial assumptions are adjusted 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 provisions 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 German commercial law to mitigate fluctuations in claims experience in future years, plus the provisions for major risks and natural hazards.

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. No provisions for anticipated losses were posted in the financial year 2007.

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, Munich Reinsurance Company established a contractual trust agreement in the form of a two-way trust for its unfunded company pension obligations. To finance these obligations, it is necessary for the trust assets to correspond to the present value of pension obligations. In the process, however, account has to be taken of the difference between the actuarial interest rate relevant for measuring the obligations and the return attainable on the investments. Therefore, the present value of the pension obligations 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 €248m (283m) 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 provision, which is measured using an actuarial interest rate of 4.8% (4.0%), 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 respective 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

	31.12.2007	Prev. year
Australian dollar	1.66515	1.67300
Canadian dollar	1.44300	1.53450
Pound sterling	0.73445	0.67375
Rand	9.99215	9.29750
Swiss franc	1.65525	1.60965
US dollar	1.46205	1 31865
Yen	163.33300	157.12400

Notes to the balance sheet – Assets

(1), (2) Intangible assets and investments

	Carrying amount 31.12.2006	Currency translation	Additions	Reclassi-fications	Disposals	Write-ups	Write-downs	Carrying amount 31.12.2007
	T€	T€	T€	T€	T€	T€	T€	T€
(1) Intangible assets	80,414	–	4,104	–	–6,050	–	–30,426	48,042
(2) Investments								
Land, land rights and buildings, including buildings on third-party land	980,540	–	45,581	–	–175,716	356	–26,804	823,957
Investments in affiliated companies and participating interests								
Shares in affiliated companies	12,170,882	–	9,475,008	–	–4,419	9	–911	21,640,569
Loans to affiliated companies	221,589	–197	779,513	–	–320,469	–	–	680,436
Participating interests	122,286	–	75,092	–	–7,896	897	–188	190,191
Loans to participating interests	25,134	–1,540	80	60	–750	–	–	22,984
	12,539,891	–1,737	10,329,693	60	–333,534	906	–1,099	22,534,180
Other investments								
Shares, investment fund certificates and other non-fixed-interest securities	14,590,343	–481,892	18,366,081	–	–24,512,826	23,052	–146,047	7,838,711
Bearer bonds and other fixed-interest securities	21,914,620	–626,628	30,187,825	–	–29,948,654	25,469	–133,382	21,419,250
Loans secured on property	5,427	–	45	–	–1,399	–	–	4,073
Other loans								
Registered bonds	3,792	–372	–	–	–	–	–	3,420
Loans and promissory notes	8,023	–781	40	–60	–7,222	–	–	0
Miscellaneous	170	–13	–	–	–9	–	–	148
Deposits with banks	142,791	–8,678	551,021	–	–	–	–	685,134
Miscellaneous investments	298,152	–	18,398,374	–	–18,409,293	251	–61,774	225,710
	36,963,318	–1,118,364	67,503,386	–60	–72,879,403	48,772	–341,203	30,176,446
Total investments (2)	**50,483,749**	**–1,120,101**	**77,878,660**	**0**	**–73,388,653**	**50,034**	**–369,106**	**53,534,583**
Total (1) + (2)	**50,564,163**	**–1,120,101**	**77,882,764**	**0**	**–73,394,703**	**50,034**	**–399,532**	**53,582,625**

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 €204m.

Of our total investments (excluding deposits retained on assumed reinsurance) with a carrying amount of €53,535m, an amount of €6,833m is deposited with ceding companies or foreign governments or in the custody of trustees nominated by us. In addition, investments of €415m are subject to a restraint on disposal and have been transferred to the custody of a trustee solely to safeguard pension commitments and provisions for comparable benefits.

Derivatives	Balance sheet item	Carrying amount	Fair value	Notional principal amount
		T€	T€	T€
Equity and index risks				
Long stock options	Shares, investment fund certificates and other non-fixed-interest securities	23,599	23,599	422,560
Long stock options (hedging)	Shares, investment fund certificates and other non-fixed-interest securities	126,021	136,093	1,846,907
Short stock options	Other liabilities or other provisions	–20,998	–12,299	671,919
Stock index futures	Other provisions	–44,337	–43,359	2,077,706
Equity futures	Other provisions	–2,606	–1,823	52,019
Short equity forwards (hedging)	–	–	–51,783	1,528,159
Short equity forwards	–	–	582	52,787
Total return swaps (hedge fund certificates)	Other deferred items	39,713	74,673	290,000
Variance swaps	Other provisions	–911	–179	50,000
Interest-rate risks				
Long interest-rate swaptions (hedging)	Other investments	74,437	74,437	1,412,650
Short interest-rate guarantees	Other provisions	–74,437	–74,437	1,412,650
Interest-rate swaps	Other provisions	–5,568	–692	3,602,474
Interest-rate currency swaps	Other provisions	–1,656	–1,656	355,665
Interest-rate swaps (subordinated bond)	–	–	807	1,500,000
Interest-rate futures	Other provisions	–1,235	–1,235	171,722
Currency risks				
Currency forwards	Other provisions	–10,178	22,616	3,828,098
Other transactions				
Insurance derivatives I (swaps)	Other provisions	–7,984	–4,518	603,143
Insurance derivatives II (cat bonds)	Other provisions	–2	–2	2,394
Insurance derivatives II (cat bonds)	Other deferred items	399	1,000	74,758
Insurance derivatives III (long options)	Other investments	803	803	80,230
Credit default swaps	Other investments	902	902	22,944
Commodity swaps	Other provisions	–142	1,288	54,614

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

We mainly use derivative financial instruments only 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, index futures and interest-rate futures, all the derivatives are over-the-counter products.

Derivatives are generally valued at acquisition cost or 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 (zero bonds), 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
Stock options	Theoretical price	Listing of underlying shares Effective volatilities Money-market interest rate Dividend yield	Black-Scholes (European), Cox, Ross und Rubinstein (American)
Equity/index futures	Listed price	–	–
Equity forwards	Theoretical price	Money-market interest rate Share price Dividend yield	Present-value method
Total return swaps (hedge fund certificates)	Theoretical price	Market value of the funds Interest-rate curve	Present-value method
Swaptions/Interest-rate guarantee	Theoretical price	At-the-money volatility matrix and skew Swap curve Money market interest-rate curve	Black 76
Interest-rate swaps	Theoretical price	Swap curve Money market interest-rate curve	Present-value method
Currency forwards	Theoretical price	Currency spot rates Money-market interest-rate curve	Present-value method
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
Interest-rate futures	Listed price	–	–
Commodity swaps	Listed price	–	–
Interest-rate currency swaps	Theoretical price	Swap curve Money-market interest-rate curve Currency spot rates	Present-value method
Variance swaps	Theoretical price	Historical stock index prices Implicit volatilities Interest-rate curve	Present-value method

The fair value of investments (excluding deposits retained on assumed reinsurance) amounts to €65bn. The relevant carrying amount totals €54bn. This results in valuation reserves of €11bn for the financial year 2007.

The valuation reserves contain hidden negative valuation differences of €4m for loans to affiliated companies and loans to participating interests. No write-downs have been made, because the impairments in value are only temporary (the carrying amount corresponds to the loans' redemption amount).

For the fair values of real estate, the capitalised earnings value is generally used; 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, interest-rate curves are used.

Investments – Fair values and valuation reserves

	Carrying amounts	Fair values	Valuation reserves
€m	31.12.2007	31.12.2007	31.12.2007
Land, land rights and buildings, including buildings on third-party land	824	2,133	1,309
Investments in affiliated companies and participating interests			
Shares in affiliated companies	21,641	26,221	4,580
Loans to affiliated companies	680	716	36
Participating interests	190	251	61
Loans to participating interests	23	27	4
	22,534	27,215	4,681
Other investments			
Shares, investment fund certificates and other non-fixed-interest securities	7,839	12,206	4,367
Bearer bonds and other fixed-interest securities	21,419	22,077	658
Loans secured on property	4	4	0
Other loans	4	4	0
Deposits with banks	685	685	0
Miscellaneous investments	226	226	0
	30,177	35,202	5,025
Total investments	**53,535**	**64,550**	**11,015**

(3) Information on shareholdings

The list of all our shareholdings is filed with the Company Registry, 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 as at 31 December 2007 is divided into 217,888,670 registered no-par-value shares, each fully paid up and entitled to one vote.

Capital authorised for capital increases comprises the following items:

€m	31.12.2007
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	31.12.2007
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 owing to the share buy-back programme amounts to €2,303m, whilst the allocation to the revenue reserves totals €289m. Net retained profits include a profit of €45m carried forward from the previous year.

By resolution of the Annual General Meeting on 19 April 2006, Munich Re was authorised to buy back shares amounting to a maximum of 10% of the share capital up to 18 October 2007. This authorisation was cancelled by the Annual General Meeting on 26 April 2007 and replaced by a new one, authorising the Board of Management to buy back shares amounting to a maximum of 10% of the share capital up to 25 October 2008.

On 31 December 2007, a total of 10,064,599 Munich Re shares with a calculated nominal value of €27.1m were held by Group companies. This represents 4.62% of the share capital.

On 7 November 2006, 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 19 April 2006, in accordance with Section 71 para. 1 item 8 of the German Stock Companies Act. In the period from 8 November 2006 to 22 February 2007, a total of 8,040,818 Munich Re shares were acquired via the stock exchange. The shares were then retired in a simplified process as at 17 April 2007, 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 4 May 2007, 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 26 April 2007, 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 €2bn. There was also the possibility, within the framework of the authorisation

granted by the Annual General Meeting on 26 April 2007, to buy back shares using derivatives. In the period from 10 May 2007 to 31 December 2007, including the exercise of put options (= 366,666 shares), a total of 11,730,186 shares were acquired at an average price of €132.41. A portion of the repurchased shares (3,650,745) were then retired in a simplified process as at 26 June 2007. The share buy-back was successfully concluded on 23 January 2008. Altogether, 15,135,611 shares were acquired at an average price of €131.96.

For the employee share programme set up by Munich Reinsurance Company in 2007, 12,000 shares were acquired at an average price of €130.44, of which 11,776 shares were purchased by staff at an average price of €98.70 per share. 224 shares remain in the portfolio.

For the employee share programme set up by Europäische Reiseversicherung AG in 2007, 555 shares were acquired at an average price of €138.13 and purchased by staff at an average price of €98.70 per share. No shares remain in the portfolio.

For the employee share programme set up by MEAG MUNICH ERGO Asset-Management GmbH in2007, 2,009 shares were purchased at an average price of €134.84, which staff acquired at a price of €98.70 each. There are no shares remaining in the portfolio.

In addition, one subsidiary holds 1,556,358 shares to safeguard stock appreciation rights granted to the Board of Management and top Munich Re executives since 1999. In 2007, a total of 150,000 shares were acquired for these programmes at an average price of €137.90 and 57,220 shares were sold at an average price of €129.92.

In the financial year 2007, companies of the ERGO Insurance Group acquired 6,660 shares at an average price of €135.06 each to cover future commitments from the long-term incentive plans launched since 2002 and sold 61,612 shares at a price of €132.71 each. Together with the remaining Munich Re shares acquired to safeguard the stock appreciation rights granted in 2002–2006, the ERGO Insurance Group had a total portfolio of 322,556 shares at 31 December 2007.

Europäische Reiseversicherung AG did not acquire further Munich Re shares to safeguard its long-term incentive plans in 2007. There are no shares in the portfolio as at 31 December 2007.

In the financial year 2007, MEAG MUNICH ERGO AssetManagement GmbH acquired 20,991 shares at €134.84 each to safeguard obligations from its long-term incentive plan and sold 1,882 shares at an average price of €126.68. It thus has a total portfolio of 106,020 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 €1,265,321,102.67.

The Company has received the following notifications pursuant to Section 21 of the German Securities Trading Act regarding voting-right percentages (status at 30 January 2008):

Allianz SE, Munich, notified us on 14 January 2008, in accordance with Section 21 para. 1 of the German Securities Trading Act, that its share of the voting rights in our Company had fallen below the threshold of 3% on 9 January 2008 and totalled 2.9362% (6,397,660 voting rights) on that date. Of this, 2.9316% (6,387,645 voting rights) was attributable to Allianz SE in accordance with Section 22 para. 1 sentence 1 item 1 of the German Securities Trading Act, and 0.0046% (10,015 voting rights) in accordance with Section 22 para. 1 sentence 1 item 6 of the German Securities Trading Act.

Barclays Global Investor UK Holdings Limited, London, England, notified us in accordance with Section 21 para. 1 of the German Securities Trading Act that its share of the voting rights in our Company had exceeded the threshold of 3% on 31 January 2007 and totalled 3.62% (8,304,401 voting rights) on that date. Of this, 3.62% was attributable to Barclays Global Investors UK Holdings Limited in accordance with Section 22 para. 1 sentence 1 item 6 in conjunction with Section 22 para. 1 sentence 2 of the German Securities Trading Act via subsidiaries for which the share of the voting rights did not exceed 3%.

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 its share of the voting rights in Munich Reinsurance Company exceeded the threshold of 5% and totalled 5.59%. Of this, 5.59% were 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.

(5) Subordinated liabilities

In December 2007, the subordinated bonds with a volume of €3,000m and £300m issued by Munich Re Finance B. V. and guaranteed by Munich Reinsurance Company underwent a change of issuer. With effect from 13 December 2007, Munich Reinsurance Company replaced Munich Re Finance B. V. as the issuer of the subordinated bonds.

In this connection, the subordinated loans of €2,618m and £297m granted to Munich Reinsurance Company in the previous year were extinguished. As part of the change of issuer, not only the whole bond amount but also MR Finance B. V.'s redemption claim of €352m against ERGO was transferred to us. The latter resulted from the passing-on of part of the issue proceeds of the subordinated bond to ERGO.

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 €4,908m is more than five years.

Subordinated liabilities

€m	31.12.2007
Euro subordinated bond, €3,000m, 6.75%, 2003 (2013/2023)[1]	3,000
Pound-sterling subordinated bond, £300m, 7.625%, 2003 (2018/2028)[1]	408
Euro subordinated bond, €1,500m, 5.767%, 2007 (2017/perpetual)[1]	1,500
Total	**4,908**

[1] (First callable date/Maturity date).

(6) Special reserve

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

(7) Technical provisions by class of business

€m	Unearned premiums	Provision for future policy benefits	Claims provision	Claims equalisation provision and similar provisions	Other provisions	Total	Reserves as % of net premiums
Life	421	11,286	960	8	476	13,151	292
Health	76	993	159	4	28	1,260	159
Accident	67	647	3,858	2	1	4,575	1,030
Liability	284	–	9.824	1,187	–5	11,290	765
Motor	358	–	5,919	637	65	6,979	328
Marine	210	–	1,378	331	4	1,923	185
Aviation	157	–	1,062	891	–	2,110	543
Fire	529	–	2,864	4,307	74	7,774	253
Engineering	567	–	1,706	858	6	3,137	272
Other classes	291	–	1,425	1,305	69	3,090	178
Non-life combined	2,539	1,640	28,195	9,522	242	42,138	344
Total	**2,960**	**12,926**	**29,155**	**9,530**	**718**	**55,289**	**330**

The claims provisions shown are 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€	31.12.2007	31.12.2006
Claims equalisation provision	8,225,001	7,470,771
Provision for major risks	341,161	312,472
Thereof:		
For nuclear facilities	76,092	69,885
For pharmaceutical products liability	71,048	66,722
For terrorism risks	194,021	175,865
Provisions for natural hazards	964,131	625,352
Total	**9,530,293**	**8,408,595**

(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€89,040 for former members of the Board of Management or their surviving dependants.

The tax provisions contain deferred taxes of T€228,115.

The other provisions include, in particular, a provision of T€460,297 for unrealised currency gains.

For personnel expenses not yet payable on the balance sheet date, provisions of T€180,099 have been posted.

There is a provision of T€75,372 for an interest-rate guarantee granted under an individual contract. The risk from the interest-rate guarantee is fully covered by interest-rate swaptions on the assets side (derivatives). There are also provisions of T€75,054 for anticipated losses from derivatives.

(9) Amounts due to banks

On the balance sheet date, amounts due to banks totalled €1,224m (134m). The change in amount is due to short-term term money borrowings.

Notes to the income statement

(10) Reinsurance underwriting result by class of business

€m	Gross premiums written		Underwriting result		Change in claims equalisation provisions and similar provisions		Combined ratio in %	
	2007	2006	**2007**	2006	**2007**	2006	**2007**	2006
Life	4,848	5,275	306	282	–2	–2	–	–
Health	820	667	51	51	–1	–1	93,3	92,6
Accident	454	539	–398	–739	–1	–	189,5	238,0
Liability	1,501	1,502	–132	–17	–2	342	109,0	101,1
Motor	2,184	2,352	–90	–437	–135	155	104,2	119,4
Marine	1,081	924	152	–211	–274	102	85,3	124,1
Aviation	471	694	10	105	222	–161	97,7	82,0
Fire	3,179	2,974	670	1,305	–1,121	–898	77,6	52,6
Engineering	1,196	1,154	110	163	169	–104	90,1	84,4
Other classes	1,828	1,766	106	2	23	–59	93,6	99,2
Non-life combined	12,714	12,572	479	222	–1,120	–624	95,9	97,9
Total	**17,562**	**17,847**	**785**	**504**	**–1,122**	**–626**	–	–

(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:

	2007	Prev. year
	T€	T€
Wages and salaries	313,113	317,044
Social insurance contributions and voluntary assistance	56,812	61,438
Expenses for employees' pensions	0	232,536
Total	**369,925**	**611,018**

In 2006, the expenses for employees' pensions had been affected by special factors (e.g. recognition of actuarial losses from previous years, adjustment of mortalities). In 2007, owing to the increase in the actuarial interest rate, there is a positive balance, which has been recognised under other income.

(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€130,606 of the write-downs are for impairments as per Section 253 para. 2 sentence 3 of the German Commercial Code.

Special tax write-downs in accordance with Section 6b of the German Income Tax Act account for T€5,930.

(15) Tax accounting influences

The result for the financial year was influenced by write-downs of T€5,930 allowed for under tax law and by the posting of a special reserve of T€363,700 in accordance with Section 6b of the German Income Tax Act.

(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 2007 long-term incentive plan is €134.07. As a result of Munich Reinsurance Company's capital increase in the business 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 341,737 (443,609) stock appreciation rights were granted, 91,919 (150,687) of these to Board of Management members. The future obligations arising from the long-term incentive plans are covered by means of 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, provisions of €55.8m (63.2m) had to be posted, resulting in expenses of €3.9m for the Company. The weighted average share price for the stock appreciation rights exercised in 2007 was €134.25 for plan year 2003, €131.51 for plan year 2004, and €135.26 for plan year 2005. The intrinsic value of the exercisable stock appreciation rights amounted to €31.6m at the balance sheet date.

Munich Reinsurance Company's incentive plans 2000–2007

	Incentive Plan 2000	Incentive Plan 2001	Incentive Plan 2002	Incentive Plan 2003	Incentive Plan 2004	Incentive Plan 2005	Incentive Plan 2006	Incentive Plan 2007
Plan commencement	1.7.2000	1.7.2001	1.7.2002	1.7.2003	1.7.2004	1.7.2005	1.7.2006	1.7.2007
Plan end	30.6.2007	30.6.2008	30.6.2009	30.6.2010	30.6.2011	30.6.2012	30.6 2013	30.6.2014
Old initial share price	€319.34	€320.47	€260 37	€86.24	–	–	–	–
New initial share price after 2003 capital increase	€303.72	€304.80	€247.64	€82.02	€88.65	€88.10	€108.87	€134.07
Intrinsic value 2007 for one right	–	–	–	€46.16	€39 53	€40.08	€19.31	–
Fair value 2007 for one right	–	–	€0 22	€46.16	€40.47	€41.93	€32.78	€25.77
Number of rights on 31 December 2000	80,582	–	–	–	–	–	–	–
Additions	–	109,474	–	–	–	–	–	–
Exercised	–	–	–	–	–	–	–	–
Number of rights on 31 December 2001	80,582	109,474	–	–	–	–	–	–
Additions	–	270	132,466	–	–	–	–	–
Exercised	–	–	–	–	–	–	–	–
Forfeited	321	443	–	–	–	–	–	–
Number of rights on 31 December 2002	80,261	109,301	132,466	–	–	–	–	–
Additions	3,793	5,319	6,696	439,581	–	–	–	–
Exercised	–	–	–	–	–	–	–	–
Forfeited	6,199	7,192	3,962	–	–	–	–	–
Number of rights on 31 December 2003	77,855	107,428	135,200	439,581	–	–	–	–
Additions	–	–	–	–	456,336	–	–	–
Exercised	–	–	–	–	–	–	–	–
Forfeited	438	600	748	2.354	–	–	–	–
Number of rights on 31 December 2004	77,417	106,828	134,452	437,227	456,336	–	–	–
Additions	–	–	–	320	1,697	485,527	–	–
Exercised	–	–	–	177,748	–	–	–	–
Forfeited	23	542	680	121	2,005	–	–	–
Number of rights on 31 December 2005	77,394	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	77,394	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	77,394	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**
Exercisable at year-end	–	105,745	132,787	125,046	251,013	397,306	–	–

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 out-performed 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 exercise prerequisites are met. If the prerequisites are not met, the stock appreciation rights are for-feited.

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 of 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 €13.7m and that of the Supervisory Board to €2.0m. 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 43 f.

(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 Investments (from 1 March 2007)
Group Development
Press
Internal Audit
Executive Offices, Group Top Executives

Dr. rer. pol. Ludger Arnoldussen
Germany, Asia Pacific and Africa
General Services (from 1 March 2007)

Dr. rer. pol. Thomas Blunck
Special and Financial Risks
Central Procurement (from 1 January 2008)
Organisational Design and Development (from 1 March 2007)
Information Technology

Georg Daschner
Europe and Latin America
Corporate Communications

Dr. jur. Heiner Hasford (until 28 February 2007)
Group Investments, Corporate Finance, M&A
Legal and Regulatory Affairs, Compliance
General Services
Organisational Design and Development

Dr. rer. nat. Torsten Jeworrek
(Chairman of the Reinsurance Committee)
Corporate Underwriting
Global Clients (until 31 December 2007, from 1 October 2007 together with Dr. Röder)
Reinsurance Investments
Accounting, Controlling and Central Reserving for Reinsurance

John Phelan (until 31 December 2007)
North America (from 1 October 2007 together with Dr. Röder)

Dr. rer. pol. Peter Röder (from 1 October 2007)
Global Clients and North America (from 1 January 2008)
North America (until 31 December 2007 together with John Phelan)
Global Clients (until 31 December 2007 together with Dr. Jeworrek)

Dr. jur. Jörg Schneider
Group Accounting
Group Controlling
Corporate Finance, M&A (from 1 March 2007)
Integrated Risk Management
Legal and Regulatory Affairs, Compliance (from 1 March 2007)
Taxes
Investor and Rating Agency Relations

Dr. oec. publ. Wolfgang Strassl
(Board member responsible for personnel and welfare matters,
within the meaning of Section 33 of the German Co-Determination Act)
Human Resources
Life and Health (until 28 February 2007)
Life (from 1 March 2007)
HealthCare (from 1 March 2007)

Supervisory Board

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

Deputy Chairman
Herbert Bach
Employee of Munich Reinsurance Company

Hans-Georg Appel
Employee of Munich Reinsurance Company

Holger Emmert
Employee of Munich Reinsurance Company

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

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

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

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

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 Võ
Employee of Munich Reinsurance Company

Membership of the Supervisory Board Committees

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

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

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

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

Nomination Committee (set up on 9 November 2007)
Dr. Hans-Jürgen Schinzler[1] (Chairman)
Dr. Bernd Pischetsrieder[1]
Dr. Albrecht Schmidt[1]
[1] From 1 January 2008.

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	–	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. jur. Heiner Hasford (until 28 February 2007)	Commerzbank AG D. A. S. Deutscher Automobil Schutz Allgemeine Rechtsschutz-Versicherungs-AG[2] ERGO Versicherungsgruppe AG[2] Europäische Reiseversicherung AG (Chairman) Nürnberger Beteiligungs-AG Victoria Lebensversicherung AG[2] Victoria Versicherung AG[2]	Munich Re America Corporation, Wilmington, Delaware[2]
Dr. rer. nat. Torsten Jeworrek	–	–
John Phelan (until 31 December 2007)	–	Munich Re America Corporation, Wilmington, Delaware[2] (Chairman) Munich Reinsurance America Inc., Princeton[2] (Chairman) Munich Reinsurance Company of Canada, Toronto[2]
Dr. rer. pol. Peter Röder (from 1 October 2007)	EXTREMUS Versicherungs-AG	–
Dr. jur. Jörg Schneider	MEAG MUNICH ERGO Kapitalanlagegesellschaft mbH[2]	–
Dr. oec. publ. Wolfgang Strassl	DKV Deutsche Krankenversicherung AG[2] Hamburg-Mannheimer Sachversicherungs-AG[2] Hamburg-Mannheimer Versicherungs-AG[2] Mecklenburgische Leben Versicherungs-AG	–

[1] Status: 31.12.2007 (in the case of members who have left the Board Management, the information shows the status at the date of their departure).
[2] Own group company within the meaning of Section 18 of the German Stock Companies Act.

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 Bank AG Deutsche Lufthansa AG E.ON AG (Chairman) IKB Deutsche Industriebank AG (Chairman)	Henkel KGaA
Prof. Dr. rer. nat. Henning Kagermann	Deutsche Bank AG	Nokia Corporation, Finland
Prof. Dr. rer. nat. Drs. h. c. mult. Hubert Markl	Bayerische Motoren Werke AG	Sanofi-Aventis S. A., Paris Georg von Holtzbrinck GmbH
Wolfgang Mayrhuber	Bayerische Motoren Werke AG Eurowings Luftverkehrs AG Fraport AG LSG Lufthansa Service Holding AG[4] Lufthansa Cargo AG[4] Lufthansa Technik AG[4]	Heico Corporation, Miami Swiss International AG, Basle
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	Deutsche Bank AG Hochtief AG ThyssenKrupp AG Volkswagen AG	–
Dr.-Ing. e. h. Bernd Pischetsrieder	Dresdner Bank AG METRO AG	Tetra-Laval Group, Pully
Dr. jur. Dr. h. c. Albrecht Schmidt	Siemens AG	Thyssen'sche Handelsgesellschaft m. b. H.
Dr. phil. Ron Sommer	–	Motorola Inc., Schaumburg Sistema, Moscow Tata Consultancy Services Ltd., Mumbai Weather Investments S. p. A., Rome

[3] Status: 31.12.2007.
[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 2007 averaged 3,628 (3,476).

(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 and 1 and 2 of the German Commercial Code:

T€	2007
Audits of financial statements	1,257
Other assurance and appraisal services	411
Tax consultancy services	584
Other services	1,396
Total	**3,648**

With effect from 1 October 2007, KPMG LLP (UK) has been an affiliated company of KPMG Germany within the meaning of Section 271 para. 2 of the German Commercial Code, following the merger to form KPMG Europe LLP. Consequently, fees paid to KPMG LLP (UK) are included for the first time in the year under review, for services rendered after 30 September 2007.

KPMG provided Munich Re with quality assurance services in technical accounting and performed systems reviews and project audits in connection with the introduction of new IT systems. The expenses for this work are shown under "other services".

(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 €2.4m 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.

There are other financial commitments amounting to €202m (€69m of these towards affiliated companies). They result mainly from agency agreements, initiated investment projects and a commitment to inject capital into an investment fund.

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 as per Section 161 of the German Stock Companies Act

In November 2007, the Board of Management and the 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 at the disposal of the Annual General Meeting amount to €1,198,387,685.00.

We propose that this amount be appropriated as follows: distribution of a dividend of €5.50 on each share entitled to dividend, with the amount apportionable to own shares held directly or indirectly and to own shares earmarked for retirement being carried forward to new account. Up to the Annual General Meeting the number of shares entitled to dividend may decrease or increase through the further acquisition, retirement or sale of own shares. In this case, a suitably modified proposal for the appropriation of the profit, with a dividend of €5.50 per share entitled to dividend, will be made to the Annual General Meeting.

Munich, 27 February 2008

The Board of Management

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, 11 March 2008

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 financial year from 1 January to 31 December 2007. 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, 4 March 2008

KPMG Bayerische Treuhandgesellschaft Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Klaus Becker
Wirtschaftsprüfer
(Certified public accountant)

Herbert Loy
Wirtschaftsprüfer
(Certified public accountant)

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

Service for investors and analysts
If you have general questions on Munich Re shares, please use our shareholder hotline:
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