GROUP ANNUAL REPORT

ERGO

Overview of ERGO Insurance Group

		2009	2008	Change previous year (%)
Total premiums	€ million	**19,050**	17,711	7.6
Gross premiums written	€ million	**17,470**	16,578	5.4
Expenses for claims and benefits	€ million	**16,114**	13,893	16,0
Investment result	€ million	**4,401**	2,871	53.3
Result before impairment losses of goodwill	€ million	**734**	929	– 21.0
Consolidated result	€ million	**173**	73	135.6
Investments	€ million	**113,277**	108,191	4.7
Technical provisions (net)	€ million	**109,197**	101,809	7.3
Equity	€ million	**3,857**	3,568	8.1
Full-time representatives		**21,963**	21,709	1.2
Salaried employees		**33,152**	31,508	5.2
Group earnings per share in accordance with IFRS	€	**2.14**	0.76	183.0
Dividend per share	€	**0.60**	–	–

With premium income of € 19bn, ERGO is one of the major insurance groups in Europe. Worldwide, ERGO is represented in more than 30 countries and concentrates on Europe and Asia. In Europe, ERGO is no. 1 in the health and legal expenses insurance segments, and is among the market leaders in its home market of Germany. More than 50,000 people work for the Group, either as salaried employees or as full time self-employed insurance agents.

ERGO offers a broad range in insurance, provision and services. More than 40 million customers, of which 20 million are based in Germany alone, place their trust in the security and expertise in the various lines of business provided by ERGO and its experts. ERGO offers customers integrated insurance and service concepts for their individual needs.

ERGO has the right sales channel for every client: almost 22,000 self-employed full-time insurance agents, staff working in direct sales, as well as insurance brokers and strong cooperation partners – both in Germany and abroad – look after clients. In addition, ERGO maintains a far-reaching sales partnership with the major European bank UniCredit Group, both in Germany as well as in Central and Eastern Europe.

ERGO is part of the Munich Re Group, one of the leading reinsurers and risk carriers worldwide. Under the umbrella of Munich Re, both primary insurers and reinsurers capitalise on opportunities to turn risk into value. The largest part of the group's investments amounting to approximately € 182bn, of which € 113bn is accounted for by ERGO, is managed by the joint asset management and fund company MEAG. At the end of 2009, Munich Re held a 99.69% stake in ERGO, and intends to extend this to 100% in the course of the year 2010.

2009

ERGO Insurance Group

Group Annual Report

Contents

	3	Letter to shareholders by the Chairman of the Board of Management
	6	Report of the Supervisory Board on the 2009 financial year
Management Report	**12**	Declaration on Corporate Management
	28	ERGO Insurance Group
	33	Governing bodies
	35	Parameters
	42	Business performance
	42	Overview and key figures
	50	Business segment development
	60	Financial position
	64	Other success factors
	69	Prospects
	74	Risk report
	88	Shares in ERGO Versicherungsgruppe AG
Consolidated Financial Statements	**90**	Consolidated balance sheet as at 31 December 2009
	92	Consolidated income statement for the financial year 2009
	93	Statement of recognised income and expense
	94	Changes in Group equity
	95	Consolidated cash flow statement for the financial year 2009
	96	Segment reporting
	104	Notes to the Consolidated Financial Statements
	222	Selected participating interests
	226	Auditor’s report
	227	Declaration of the Board of Management

Dr. Torsten Oletzky
Chairman of the Board of Management
ERGO Versicherungsgruppe AG

Dear Readers,
Dear Shareholders,

Looking back, 2009 has been an eventful year. The volatile background of the economic and financial crisis has been a challenge for business people in all sectors. Insurers have succeeded in charting a relatively stable course through the crisis. Our company, too, did well in the previous year.

The most important decision we made in 2009 was taken in November. We will be changing our brand strategy. In future, life insurance and property-casualty insurance will be renamed ERGO, and direct insurance will also carry the ERGO name. This wide range of services is complemented by our specialist insurers for health, legal expenses and travel insurance. Each of these is brought together under a single brand, giving them a sharper profile.

The decision to abandon the German brands of Hamburg-Mannheimer, Victoria and KarstadtQuelle Insurance in favour of the ERGO brand was not taken lightly. However, we are convinced that this new brand presence is the right answer to the current challenges facing our Group, as well as creating more transparency for our customers pertaining to the entire range of distribution channels. Rather than restricting themselves to a single distribution channel when it comes to choosing insurance cover, people now increasingly tend to select their route to their insurer on the basis of their current needs and their personal preferences in the specific situation at hand. The focus on the ERGO brand and the clear positioning of the specialist brands mean we can retain more customers in the Group when they are changing between various distribution channels. A further advantage is that our advertising and marketing will achieve a higher return in terms of familiarity and positive sentiment. Consequently, we will soon be making more out of the diversity of our distribution channels.

Although we took this decision against the background of such long-term considerations, the actual timing was determined by the bankruptcy of Arcandor with its Karstadt and Quelle brands. This threatened to have an adverse impact on the business of KarstadtQuelle Insurance, which had its roots in the Arcandor group. ERGO has been the majority shareholder of the direct insurer since 2002, and since 2008 we have been sole owners. By renaming KarstadtQuelle as ERGO Direct Insurance, we provided an immediate resolution, and because we have thoroughly revised our entire brand strategy rather than just improving one aspect of it, we have created a convincing overall concept for the future. This also means we have harmonised our brand strategy in Germany with the strategy we use in international markets.

In 2009, we successfully completed an important chapter in Group development. Since October, ERGO Versicherungsgruppe AG has been the legal employer of most of our back-office staff in Germany. This means that our employment contracts now also reflect our unified structures and processes, which is an important step for the consolidation of our identity and company culture. Both these factors are becoming inceasingly important in the competition for well-qualified, motivated employees. In order to be successful here, we attach great value to the compatibility of professional and family life – a commitment honoured once more by the Hertie charitable foundation with its "berufundfamilie" (profession and family) certificate.

In 2009, we successfully continued to pursue our long-term goals in relation to our competitive position. For example, we have worked further on reducing costs. We were able to conclude negotiations successfully with co-determination committees. The majority of the reduction of a total of 1,800 posts announced has been achieved in line with socially acceptable terms.

We have also successfully concluded two major integration projects, namely the incorporation of ERV, which deals with ERGO's travel insurance and which we had acquired from Munich Re at the beginning of 2009, as well as the Bank Austria Creditanstalt Versicherungen. Once again, our extensive experience arising from the internal integration process and the incorporation of new companies and areas of business showed its worth.

The integration of the Austrian insurer is just one of many examples of our numerous international operations, which grew by 25.4 percent to 5.1 billion euros, continuing the positive trend. Here, we are continuing with the important distribution channel via banks, which we further strengthened in the past year. Regarding the DnB Nord bank, we have acquired an exclusive partner for the sale of life insurance in the Baltic States. In Greece, the Piraeus Bank will sell property insurance for us on an exclusive basis.

Nevertheless, there were fewer opportunities than expected to continue the expansion of our business in new markets, where the economic and financial crisis significantly reduced our room for manoeuvre. Above all, there were very few attractive opportunities for acquisitions, because both potential vendors and potential joint venture partners were reluctant to put themselves forward. For instance, we had to accept a setback, because our cooperation partner in life insurance, the Indian Hero Group, withdrew in order to focus on its core business.

At the same time, the trend on the capital markets led us to focus even more strongly on long-term security in the context of our risk-aware investment policy. Our benefit promises to our customers are of a long-term nature and constitute the core of our insurance business. For this reason, sustainability is more important to us than short-term yield. We are transparent to our customers, too, regarding this sustainable policy. As an example, we were the first on the German market to publish the valuation reserves of our two life insurers on the Internet on a monthly basis.

My overall verdict on 2009 is a positive one. Apart from the activities I have described, we are able to present a solid profit, even considering the crisis. Total premium income increased by 7.6 percent to 19 billion euros. Our acquisitions had a positive effect, but declining exchange rates in important international markets such as Poland or Turkey were negative. Without the effect from acquisitions, and if exchange rates had remained constant, our growth would have been 3.7 percent. Our consolidated result was 173 million euros, which is significantly higher than the 73 million euros we achieved last year, but still considerably less than we aim for in normal years. Thanks to our fundamentally robust technical situation and on the expectation that the turbulence in capital markets and in the real economy subsides, I am confident that we will once again achieve returns on equity of between 12 and 15 percent in the future.

2010 will represent an important turning point for our shareholders. Since November 2009, our parent company, Munich Re, has been holding a 99.69 percent stake in ERGO after purchasing further shares, and on 25 November 2009 it initiated a squeeze-out procedure, as this is generally termed, according to Section 327a of the German Stock Companies Act (AktG). The law stipulates that the remaining ERGO shareholders should receive compensation, the amount of which is determined with the help of an independent auditor. The Annual General Meeting of ERGO Versicherungsgruppe AG is expected to make a decision as to Munich Re's motion on 12 May 2010. I would like to take this opportunity to thank all our shareholders for their support during the last few years and for their trust in our work. I would be delighted if they continued to take a friendly interest in ERGO's future development.

Things certainly remain exciting. The new brand strategy means we will start a new chapter in the Group's history in 2010. In other respects too, we are looking firmly to the future, and we will keep taking advantage of the opportunities that arise. You will be hearing about us!

Torsten Oletzky

Dr. Nikolaus von Bomhard
Chairman of the Supervisory Board
of ERGO Versicherungsgruppe AG

Report of the Supervisory Board on the 2009 financial year

During the past financial year, we have carefully and regularly monitored the activities of the Board of Management in accordance with legislation and the Articles of Association, and closely followed ERGO's business development. The Board of Management briefed us regularly, promptly and extensively about all major Company and Group decisions and business transactions during Supervisory Board meetings and via additional written and verbal reports. The Supervisory Board was directly involved in all decisions of fundamental importance.

The Supervisory Board held five meetings, in which virtually all members of the Supervisory Board took part. The Board of Management notified us of all major business transactions and significant pending decisions – also between the Supervisory Board meetings. Furthermore, the Supervisory Board was informed by Munich Re about the intended implementation of a squeeze-out. In addition, as Chairman of the Supervisory Board, I regularly conferred with the Chairman of the Board of Management on ERGO's strategy, as well as on risk and capital management and the current trends in the business situation. Shareholder and employee representatives each had the opportunity to discuss important matters with the Chairman of the Supervisory Board during separate meetings held prior to the Supervisory Board meetings in August and November. Audit measures as per Section 111 para. 2 of the German Stock Companies Act (AktG) were once again not required in the year under review.

Main issues during plenary meetings

During the financial year under review, the Supervisory Board once again focused on the initiatives launched by the Board of Management in 2008. The "Continuous Improvement of the Competitive Position" project is intended to achieve targeted cost ratios in Germany by 2010 by means of short-term measures, and a process is to be established which will improve both service quality as well as reducing costs continuously even after 2010. We are sure that the various measures will be achieved in the timeframe. The "ERGO – One Company" project was completed in the second half of the reporting year, and incorporated in terms of labour law the organisational structure and workflow encompassing functions across the brands which have been established over the past years. Consequently, staff in the managerial and administrative offices of a majority of the companies belonging to the ERGO Group transferred to ERGO Versicherungsgruppe AG on 1 October 2009.

We have also received detailed reports on the strategy of ERGO's international business, including discussions on the developments pertaining to the major acquisitions and start-up projects as well as other ERGO growth initiatives abroad. The opportunities and risks associated with expanding business in the markets of Asia and Eastern Europe were focused upon in particular detail. The Supervisory Board endorses the decision taken by the Board of Management of maintaining a strategy to internationalise ERGO.

Furthermore, the Board of Management provided us with detailed information concerning the scheduled integration of the travel insurer Europäische Reiseversicherung (ERV) and Mercur Assistance into ERGO, and we also discussed the measures adopted by the Board of Management for efficient IT management at ERGO. In addition, we have continued to analyse the situation on the financial markets. The Board of Management reported on the consequences of the crisis for ERGO and its companies. We were able to establish that ERGO has weathered the turbulence on the financial markets reasonably well in the year under review. We also received a detailed report on investment strategy planning and the impact of the Arcandor bankruptcy on the existing sales partnership.

During the meeting in November, we held detailed discussions on ERGO's new brand strategy for the German market. The Board of Management explained the reasons for focussing on the ERGO brand for life and property-casualty insurance in future, changing the name of KarstadtQuelle Insurance to ERGO Direkt Insurance as well as retaining the special brands of DKV, D.A.S. and ERV.

Further to the Act on the Appropriateness of Management Board Remuneration (VorstAG) and the new regulations pertaining to the German Corporate Governance Code (DCGK), which came into effect in the reporting year, the powers of the Board Committee and plenum have changed. In future, all matters concerning remuneration of Board members will be decided by the plenum; the Board Committee takes on a preparatory and proposing function for these issues. We have modified the rules of procedure for the Supervisory Board accordingly. On the other hand, the Supervisory Board has amended the remuneration system for the members of the Board of Management with effect from 1 January 2010, so that the requirements comply with both the VorstAG and the DCGK. Moreover, the Supervisory Board has passed a resolution on the extent of earnings and accrued pension rights for Board members as from 1 January 2010, as well as the bases for assessment concerning the variable remuneration components in 2010. Furthermore, we discussed and passed resolutions concerning our proposals made to the 2009 Annual General Meeting, which included among other things the controlling and profit transfer agreements signed with Europäische Reiseversicherung AG, Mercur Assistance Versicherungs-AG and Vorsorge Lebensversicherung.

Work of the committees

There are five committees in accordance with the procedural rules as applicable to the Supervisory Board. Besides the prescribed Conference Committee in accordance with Section 27 para. 3 of the Co-Determination Act (MitbestG), these are: Standing Committee, Audit Committee, Board Committee and Nomination Committee. For an overview of the committee members, please refer to page 34.

The **Standing Committee** held three meetings in the year under review. It concentrated on the capital market situation in the context of the financial market crisis and its impact on ERGO. Against this background, the Standing Committee decided to amend the 2009 investment strategy planning in March. Furthermore, the Committee discussed the consequences arising from the German Act on the Appropriateness of Management Board Remuneration (VorstAG) and the new regulations of the German Corporate Governance Code (DCGK) for the Board of Management and Supervisory Board. Other topics concerning the committee included the necessary amendments to corporate governance as a result of the German Accounting Law Modernisation Act (BilMoG) as well as the heightened requirements made of management and supervisory governing bodies in line with the Act for the Strengthening of the Financial Markets and Insurance Supervision. The Standing Committee also carried out an efficiency check on the Supervisory Board activity and preparation of the declaration of conformity in accordance with Section 161 of the German Stock Companies Act (AktG). It also gave its approval to the acquisition of Hamburg-Mannheimer Pensionskasse AG and Victoria Pensionskasse AG by ERGO Versicherungsgruppe AG, the 2010 investment strategy plan as well as various other matters which the Board of Management had submitted to the committee in accordance with its procedural rules.

The **Audit Committee** held a total of five meetings during the course of the 2009 financial year. It dealt with the annual accounts and consolidated financial statements, and reviewed them with the auditor prior to the balance sheet meeting. Reporting during the year on business development and the risk situation was also discussed. In particular, it looked closely at risk management and commissioned KPMG Bayerische Treuhandgesellschaft Aktiengesellschaft Wirtschaftsprüfungsgesellschaft Steuerberatungsgesellschaft to assist the work of the Audit Committee as part of the monitoring duties of the Supervisory Board as laid out in the German Accounting Law Modernisation Act (BilMoG) in checking ERGO's internal risk model. Furthermore, the Audit Committee received the annual report by the Group Internal Auditing unit and listened to the Compliance Officer explaining the structure of the compliance system at ERGO. Finally, the Committee made preparations for the appointment of the external auditor, checked its independent status, specified areas requiring special attention as well as agreeing on the audit fee, and commissioned the audit.

The **Board Committee** met on five occasions during the reporting year. It took decisions on the annual bonus for 2008 and the 2006–2008 medium-term bonus, as well as advising on long-term succession plans for the Board of Management and approving the takeover of new Supervisory Board, Advisory Board and similar mandates by members of the Board of Management. One major area of discussion was the new legal parameters pertaining to the German Act on the Appropriateness of Management Board Remuneration (VorstAG) and the new regulations of the German Corporate Governance Code (DCGK), where the Committee deliberated on reviewing the remuneration system for the Board of Management and prepared corresponding resolution proposals for the plenum, especially regarding the format of the variable salary and the necessary modifications to the employment contracts of the members of the Board of Management. The Committee also reviewed the salaries and pension entitlements of the members of the Board of Management and made corresponding proposals to the plenum. As regards the variable remuneration for 2010, the Board Committee discussed the basis of assessment and prepared the necessary resolutions for the plenum.

The **Nomination Committee** met once during the year under review, and prepared the elections of the shareholder representatives for membership of the Supervisory Board which will take place at the 2010 Annual General Meeting.

The **Conference Committee** did not need to convene during the reporting year.

The Chairman of the Audit Committee, Dr. Hasford, and I myself in my function as Chairman of the other committees regularly briefed the full Supervisory Board in detail about the work of the various committees.

Corporate Governance and Declaration of Conformity

ERGO's Supervisory Board explicitly supports good corporate governance. Indeed, we checked the efficiency of our business activities once again during the reporting year. Following this, as a result of a proposal made by the Standing Committee, the plenum decided, among other things, to ask ERGO's Chief Risk Officer to report henceforth on the risk strategy and the current risk situation during the meeting in spring. Furthermore, we were able to ascertain that the measures introduced over the past few years to improve the efficiency of our work have had an effect.

On 23 December 2009, the Board of Management and Supervisory Board issued the annual declaration of conformity on the German Corporate Governance Code in line with Section 161 of the German Stock Companies Act (AktG), and this is posted on the Company's website. For more details, please refer to the corporate governance report on page 16, which now forms part of the Declaration on Corporate Management according to Section 289a of the German Commercial Code (HGB).

Annual financial statements

KPMG Bayerische Treuhandgesellschaft Aktiengesellschaft Wirtschaftsprüfungsgesellschaft Steuerberatungsgesellschaft, Munich, audited the annual financial statements prepared by the Board of Management, including the management report, and the consolidated financial statements, including the Group management report, for the 2009 financial year, and awarded them an unqualified auditor's opinion.

In a meeting held on 9 March 2010, the Supervisory Board's Audit Committee discussed these documents in detail and examined them in advance. We then discussed at great length the annual financial statements and the consolidated financial statements, the management report and the Group management report along with the reports by the external auditor in the balance sheet meeting, during which the representatives of the auditor were also present and made a statement. We had no objections. We approved the annual financial statements and the consolidated financial statements for 2009 which are hereby endorsed. We have studied the proposal by the Board of Management on the appropriation of profits and approve it.

We have also examined the report prepared by the Board of Management regarding relations to affiliated companies as well as the corresponding audit report compiled by the external auditor and have no reservations.

The external auditor gave the report prepared by the Board of Management on the relations to affiliated companies the following auditor's opinion:

"After having duly audited and appraised the documents, we hereby certify that
1. the facts stated in the report are correct,
2. the Company did not render unduly high remuneration for any transaction recorded in the report,
3. the provisions detailed in the report do not give rise to any significantly different assessment than that which is stated by the Board of Management."

We share this judgement. On the basis of our own examination, we have no objections to raise concerning the declaration made by the Board of Management at the end of the report on the relations to affiliated companies.

Changes to the Supervisory Board

Following the Annual General Meeting held on 5 May 2009, Ms Waltraud Baier, Mr Reinhard Pasch and Mr Klaus Roth stepped down from the Supervisory Board as workers' representatives. We would like to thank these former members of the Supervisory Board for their many years of work for the ERGO Group and for their dedication to our Board. Mr Harald Herber and Mr Michael David have replaced Ms Baier and Mr Pasch respectively and have been appointed as newly elected workers' representatives on the Supervisory Board. Ms Silvia Müller was legally appointed as the successor to Mr Roth. During a meeting of the

Supervisory Board after the Annual General Meeting, Mr David was elected as the deputy chairman of the Supervisory Board instead of Mr Roth, and Mr Nörenberg was elected member of the Standing Committee instead of Mr Pasch.

Our gratitude to the Board of Management and staff

On behalf of the Supervisory Board, I would like to thank the members of the Board of Management and all staff working for the companies within the ERGO Insurance Group for their enormous personal dedication in a financial year that was far from easy.

Düsseldorf, 17 March 2010

On behalf of the Supervisory Board
Dr. Nikolaus von Bomhard, Chairman

Declaration on Corporate Management

The Declaration on the Corporate Management of ERGO Insurance Group comprises all relevant information on the management practices in accordance with Section 289a para. 2 of the German Commercial Code (HGB), the Report by the Board of Management and Supervisory Board on Corporate Governance within the Group pursuant to item 3.10 of the German Corporate Governance Code (DCGK) and the remuneration report in accordance with item 4.2.5 DCGK as well as respective accounting rules.

Declaration of conformity by the Board of Management and Supervisory Board of the ERGO Versicherungsgruppe AG in accordance with Section 289a para. 2 No. 1 of the German Commercial Code (HGB)

On 23 December 2009 the Board of Management and Supervisory Board of ERGO Versicherungsgruppe AG made the latest annual declaration of conformity in accordance with Section 161 of the German Stock Companies Act. The declaration is permanently available on the Group's website www.ergo.com and reads as follows:

"The last annual declaration of conformity as required by and pursuant to Section 161 of the German Stock Companies Act (AktG) was made by the Supervisory Board and the Board of Management on 19 December 2008. We hereby confirm that, with the exception of the points below, the recommendations of the 'Government Commission on the German Corporate Governance Code' in the version of 6 June 2008 have been fully complied with since the last declaration was made:

- Item 2.3.3 sentence 2 and 3
  Only a small proportion of the shares of ERGO are held in free float. As a result, the Annual General Meeting is comparatively small and manageable, allowing the shareholder to exercise his rights fully and independently. Therefore, no proxy was appointed to exercise the voting rights at the General Meeting according to the shareholder's instructions.

- Item 4.2.5 para. 1
  Pursuant to legal provisions, specifications regarding the remuneration of the Board of Management must be made in the Management Report as well as in the Notes to the Annual Report. Explanations made there include all information required by legislation and the Code. In order to avoid unnecessary repetitions, the explanations regarding the remuneration system for the members of the Board of Management are therefore not included in the Corporate Governance Report.

- Item 5.4.6 para. 3 sentence 1
  The remuneration of the Supervisory Board members is defined in ERGO's Articles of Association. In addition, the Consolidated Financial Statements contain information regarding the remuneration of the Supervisory Board members, broken down into fixed and variable components. Therefore, no individual statement is provided.

Further, we hereby confirm that, with the exception of the points below, the recommendations of the "Government Commission on the German Corporate Governance Code" in the version of 18 June 2009 are fully complied with:

- Item 2.3.3 sentence 2 and 3
  Only a small proportion of the shares of ERGO are held in free float. As a result,

the Annual General Meeting is comparatively small and manageable, allowing the shareholder to exercise his rights fully and independently. Therefore, no proxy was appointed to exercise the voting rights at the General Meeting according to the shareholder's instructions.

- Item 5.4.6 para. 3 sentence 1
  The remuneration of the Supervisory Board members is defined in ERGO's Articles of Association. In addition, the Consolidated Financial Statements contain information regarding the remuneration of the Supervisory Board members, broken down into fixed and variable components. Therefore, no individual statement is provided."

Relevant information on management practices (Section 289a para. 2 No. 2 of the German Commercial Code, HGB)

ERGO Versicherungsgruppe AG aims to ensure, in addition to observing statutory regulations, that the management of the Group and the business processes meet the requirements of good compliance and corporate governance. To this end, the Board of Management has introduced a number of guidelines after consulting with co-determination committees. These include:

- the Code of Conduct for employees, executive staff and Board members of ERGO and its companies,
- ERGO's Framework Guideline on Anti-fraud Management and
- the Securities Trade Act (WpHG) Compliance Guideline.

The Code of Conduct is intended to provide all recipients with a guideline on appropriate conduct towards colleagues, superiors, customers and the public. The Code aims to promote the integrity of those concerned, and with it that of ERGO and its companies as a whole. The Code addresses in particular conflicts of interest, the acceptance and granting of gifts and invitations, benefits to officials as well as donations/sponsoring.

The ERGO Framework Guideline on Anti-fraud Management is intended to reduce the risk of damage to ERGO's assets as a result of criminal acts. These include, for example, damage to assets as a result of theft, fraud or embezzlement, cases of corruption and fraudulent financial reporting. Internal procedures and responsibilities of a good anti-fraud management are laid down in the Guideline. Prevention and detection of criminal acts and the swift implementation of appropriate countermeasures are among the most important functions of anti-fraud management.

The Securities Trade Act Compliance Guideline concerns the compliance with the provisions of the German Securities Trade Act (WpHG) and aims to prevent inadmissible use or disclosure of insider information and to ensure compliance with the ad hoc reporting obligation. To this end, a special insider register is kept and staff members working in relevant areas are made aware of the issue. In addition, the Guideline ensures compliance with the Directors' Dealings Regulations and, last but not least, the ban on market manipulation.

The above-mentioned documents are publically accessible on ERGO's website http://www.ergo.com/cms/ergo/de/investors/corpgov.htm

Description of the work of the Board of Management and Supervisory Board, make-up of the committees and their work (Section 289a para. 2 No. 3 of the German Commercial Code, HGB)

Board of Management

Duties and responsibilities

The Board of Management is responsible for managing the Company, and must safeguard the Company interests and endeavour to increase the Company's value in a sustainable manner. The Board of Management is under an obligation to ensure compliance with both statutory requirements and internal Company directives, and is responsible for an appropriate risk management and risk controlling within the Company.

Internal regulations

ERGO's Board of Management currently consists of nine members. An overview of membership and responsibility for the different divisions can be found on page 34. Additional information on individual Board members is available on our website. Pursuant to Section 6 of the Articles of Association, the Board of Management must consist of at least two members; apart from this requirement, the number of members is determined by the Supervisory Board. Procedural rules issued by the Supervisory Board regulate the work of the Board of Management, in particular the allocation of responsibilities of individual Board members, matters to be addressed by the full Board, the required majority for Board of Management resolutions and rules of representation.

The ERGO Risk Committee has been a standing committee of the Board of Management since November 2006, making quick responses to risk management issues within ERGO Insurance Group possible. The committee comprises four Board of Management members, among them Dr. Rolf Ulrich, board member in charge of risk management and Dr. Daniel von Borries, board member responsible for investment and finance. The remaining committee members, Christian Diedrich and Dr. Jochen Messemer were appointed by resolution of the ERGO Board of Management in accordance with the procedural rules of the committee.

Cooperation between the Board of Management and the Supervisory Board

The Board of Management and the Supervisory Board work together very closely to the benefit of the Company. The Board of Management provides the Supervisory Board with comprehensive information on the strategic approach of the Company and discusses the current state of the strategy implementation. It regularly provides the Supervisory Board with reports on all questions relevant to the Company, where required also on an ad hoc basis. The Supervisory Board has defined in detail the information and reporting requirements of the Board of Management. Certain types of transaction, such as substantial investments or changes to the Group's organisation, are subject to the consent of the Supervisory Board.

Supervisory Board

Duties and responsibilities

The Supervisory Board monitors the actions of the Board of Management and provides advice. Pursuant to the procedural rules of the Board of Management, certain transactions are subject to its consent. However, it is neither authorised nor under an obligation to take managerial action. The Supervisory Board also appoints the external auditor. The remuneration of the Supervisory Board members is set out in the Articles of Association and is hence determined by the shareholders.

Internal regulations

In compliance with the statutory regulations and the Articles of Association, ERGO's Supervisory Board consists of 20 members. Ten members are elected by the employees; the ten representatives of the shareholders are elected by the Annual General Meeting. An overview of the Supervisory Board members can be found on page 33.

ERGO's Supervisory Board has set up five Committees, namely the Standing Committee, the Board Committee, the Audit Committee, the Nomination Committee and the Conference Committee.

- The Standing Committee consists of five members, three shareholder representatives and two employee representatives. By virtue of their function, the Chairman of the Supervisory Board and his deputy are members of this Committee. The Standing Committee decides on all business which requires the consent of the Supervisory Board, unless the full Supervisory Board is required to make the decision or the procedural regulations of the Supervisory Board prescribe another body for a particular decision. The approval of corporate contracts with Supervisory Board members and the preparation of the annual declaration of conformity of the Supervisory Board in accordance with Section 161 of the Stock Companies Act (AktG) and the Supervisory Board's report on the Company's corporate governance in the annual report are also the responsibility of the Committee.

- The Board Committee has three members, two shareholder representatives and one employee representative. By virtue of his function, the Chairman of the Supervisory Board is a member of this Committee. The responsibilities of the Board Committee include, above all, preparing the appointment of Board of Management members and long-term succession planning for the Board of Management, preparing resolutions of the full Supervisory Board on the remuneration system for the Board of Management and determining the total remuneration of individual Board of Management members, as well as representing the Company in front of the Board of Management in accordance with Section 112 of the Stock Companies Act (AktG).

- The Audit Committee is made up of three members, two shareholder representatives and one employee representative. Its responsibilities include the preparation of the Supervisory Board resolution on the adoption of the Company's annual financial statements and the approval of the consolidated financial statements. It reviews the audit reports with the external auditor and examines the Company's risk management and compliance systems. In addition, this Committee appoints the external auditor to verify the annual report and consolidated financial statements, including setting focal points of the audit and agreeing on the auditing fee.

- The Nomination Committee consists of the Chairman of the Supervisory Board and two further shareholder representatives. These are elected by the shareholder representatives on the Supervisory Board. The Nomination Committee recommends suitable shareholder candidates to the Supervisory Board to be proposed for election as shareholder representatives to the Board by the Annual General Meeting. To this end, the Committee compiled a catalogue of criteria.

- The Conference Committee, which was set up in accordance with Section 27 para. 3 of the Co-determination Act (MitbestG), consists of the Chairman of the Supervisory Board, his deputy and two further members, one elected by the shareholder representatives on the Supervisory Board and one by the employee representatives on the Board. According to Section 31 para. 3 of the Co-determination Act, the Conference Committee must make a proposal to the Supervisory Board in case no two-third majority, as required by the Act, is reached for the appointment or the cancellation of an appointment of Board of Management members.

At least one independent Supervisory Board member sits on each of the committees. The chairman of the respective committee regularly provides the full Board with detailed reports on their work. The names of the individual members of the committees are listed in the overview on page 34.

The responsibilities of the committees as well as any further regulations on the function of the Supervisory Board are defined in the procedural rules of the Supervisory Board. These include regulations pertaining to the Supervisory Board's meeting procedures, confidentiality and secrecy, dealing with the audit reports by the external auditor and the retirement age of Supervisory Board and Board of Management members.

Report by the Board of Management and Supervisory Board on ERGO Versicherungsgruppe AG Corporate Governance (item 3.10 German Corporate Governance Code, DCGK)

Corporate governance stands for a responsible corporate management and control geared towards long-term creation of value. In Germany the corporate governance rules are primarily anchored in the German Stock Companies Act, the German Co-Determination Act and in the German Corporate Governance Code. This Code, which came into force in 2002 and which has been amended several times since, contains recommendations and proposals based on nationally and internationally recognised standards of good and responsible management. Of particular importance to us in this context are efficient and trustworthy practices on the Board of Management and Supervisory Board, good collaboration between these bodies and corporate communications that are transparent both internally and externally. We see corporate governance as an ongoing process, i. e. merely stating the rules is not sufficient, they must be lived out in practice. Major contributors to ensuring this is the case are the Compliance Office, Internal Auditing and Risk Management.

The Code was revised by the Government Commission on the German Corporate Governance Code during the first six months of 2009 and a new version was adopted on 18 June 2009. In addition, the structure of the remuneration system for the Board of Management was entrenched to a large extent in the Stock Companies Act through the Appropriateness of Management Board Remuneration Act (VorstAG). The German Corporate Governance Code was therefore amended in accordance with the new legislation. The legal requirements were complemented with a recommendation to the effect that both positive and negative performance developments should be taken into account in the variable remuneration components. In order to implement this recommendation along with the provisions of the Stock Companies Act, the Supervisory Board, in its meeting in November, decided to implement necessary modifications to the structure and system of the remuneration of Board of Management members, the variable remuneration components and the principles relating to the examination and adjustment of salaries and pension entitlements of Board of Management members. With these modifications, ERGO's current remuneration system complies with all relevant requirements, notably with the objective of a sustainable development of the Group.

Furthermore, the procedural rules of the Supervisory Board, also in accordance with the provisions of the Appropriateness of Management Board Remuneration Act (VorstAG), which prescribes that the full Supervisory Board is responsible for all decisions concerning remuneration, was amended to the effect that, henceforth, the full Supervisory Board, on recommendation of the Board Committee, determines the total remuneration of the Board of Management members.

With the Appropriateness of Management Board Remuneration Act (VorstAG), the excess amount applying to Board of Management members in the case of D&O insurance is now clearly defined by Section 93 para. 2, sentence 3 of the German Stock Companies Act. The Code contains a recommendation to the effect that a corresponding excess amount be fixed for the Supervisory Board. This was taken into account in the renewal of the D&O policy of the Company and implemented accordingly.

During the course of 2009, the Supervisory Board again examined the efficiency of its activities. The measures implemented following the examination of the previous year were evaluated as positive. The Standing Committee has adopted a number of proposals relating to the work of the Supervisory Board and submitted a number of recommendations to the full Board. In response to this, the full Board notably decided that the Chief Risk Officer is to submit a detailed risk and risk strategy report during each spring session of the Supervisory Board.

Shareholdings of Board of Management and Supervisory Board members (item 6.6 of the German Corporate Governance Code, DCGK)

According to item 6.6 of the German Corporate Governance Code (DCGK), the ownership of shares in the Company or related financial instruments by Board of Management or Supervisory Board members must be reported if these directly or indirectly exceed 1% of the shares issued by the Company. In case the entire holdings of all members of the Board of Management and Supervisory Board exceed 1% of the shares issued by the Company, these holdings shall be reported separately according to the Board of Management and the Supervisory Board.

No acquisition or sales transactions notifiable under Section 15a of the German Securities Trading Act (WpHG) were recorded up to the end of the 2009 financial year. The total number of shares or any related financial tools held by all members of the Board of Management and Supervisory Board amounts to less than 1% of the shares issued by the Company.

Remuneration Report (item 4.2.5 of the German Corporate Governance Code, DCGK)

Structure of the remuneration system for the Board of Management

In compliance with the German Corporate Governance Code, the principles of the remuneration system for the Board of Management of ERGO Versicherungsgruppe AG and the make-up of the individual remuneration components are detailed below.

In accordance with the provisions under item 4.2.2. of the German Corporate Governance Code, which applied to the remuneration for 2009, the remuneration system for the Board of Management of ERGO Versicherungsgruppe AG along with the key elements of relevant components was determined by the full Supervisory Board. The Board Committee of the Supervisory Board, which comprises the Chairman of the Supervisory Board, a shareholder representative and an employee representative had prepared the resolution for the full Board.

Structure and systematics of remuneration for the Board of Management

Component	Assessment basis/ parameters	Corridor	Precondition for payment	Payment
Basic remuneration, remuneration in kind/fringe benefits (company car, healthcare, insurance policies)	Function, responsibility, length of service on the Board	Fixed amount	Contractual stipulations	Monthly
Short-term remuneration component: Annual bonus	Consolidated result based on economic earnings (ERGO Group), divisional/segment result, individual objectives	0–150% (fully achieved =100%)	Achievement of objectives	Annually, in following year
Medium and long-term component of remuneration: Mid-Term Incentive Plan (Performance Share Plan, term: 3 years)	Value-based performance targets (three-year average) based on economic earnings, total shareholder return (TSR)	0–150% (fully achieved =100%)	Achievement of three-year objectives	In the fourth year
Share-price-based remuneration components: Long-Term Incentive Plan (stock appreciation rights; term: 7 years)	Increase in Munich Re share price	0–150% (cap at 150% share price increase)	■ End of retention period (2 years) ■ Share price increase 20% ■ Munich Re shares have outperformed the Euro Stoxx 50 twice at the end of three-month period during the term of the scheme	As from third year of plan until end of scheme
Pension plan: Pension rights	Basic remuneration, years of service on the Board	Fixed amount	■ Retirement ■ Pensionable 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. Income tax on the benefits in question must be paid on an individual basis.

Variable components

The variable components comprise the annual bonus and the share price-based remuneration components of the medium-term and long-term incentive plans.

Annual bonus

This remuneration component is based on different categories of objectives. The provisions and scale for Group and divisional/segment results are geared to particular indicators; individual objectives form the basis for the achievement of personal targets. Value-based controlling variables are used for the Group and divisional/segment objectives based on economic earnings, which correspond to changes in the value of the company during the period under review, i. e. without future new business. In practice, the calculation is based on the IFRS result in the period under review, and also takes into account so-called economic adjustments.

Medium-term incentive plan

The medium-term incentive plan is based on the performance over a three-year period. It is intended to promote the medium and long-term increase in the company value of ERGO and Munich Re in terms of internal value creation (value-based performance objective) and increasing the total shareholder return (TSR) of Munich Re shares. This plan includes the free allocation of performance share units (PSU rights) to members of the Board of Management. The plan's members are able to participate in the company value development of ERGO and Munich Re through the achievement of performance targets and the increase of the TSR.

The value-based performance target is set as a three-year average target for the Group based on economic earnings. The target achievement is evaluated at the end of the plan's term. No adjustment to the objectives is carried out during the term of the plan.

The TSR represents the total return of the Munich Re share and includes share price increases plus reinvested dividends over a three-year term. Further information on the medium-term incentive plan can be found on page 25.

Long-term incentive plan

This component with a long-term perspective is geared towards a sustained increase in Munich Re's share price. The long-term incentive plan is set up each year. It was started in 2002 and was set up for the last time in 2009. The participants received a certain number of stock appreciation rights. These can only be exercised if, after a two-year retention period, Munich Re's share price has risen by at least 20% since the start of the plan's term and the shares have outperformed the Euro Stoxx 50 at least twice over a three-month period during the term of the plan.

Whether and when the stock appreciation rights can be exercised is not certain at the time they are granted. The exercise of the rights and the proceeds depend on the development of the share price and the exercise price and date. There is a limit on the earnings amount. Up to now, stock appreciation rights have only been exercised under the plans set up in the years 2003 to 2005. Further information on the long-term incentive plan can be found on pages 26 and 27.

Weighting of remuneration components

In the case of 100% achievement of objectives (annual bonus) and based on the imputed value of the share-price-linked remuneration (long-term and medium-term incentive plans) at the granting date, the weightings of the individual components in terms of total remuneration for 2009 are as follows: basic remuneration approx. 30%, annual bonus approx. 35%, medium-term incentive plan approx. 20%, and long-term incentive plan approx. 15%. The annual bonus, medium-term incentive plan and long-term incentive plan together form a well-balanced and economic, i. e. strongly risk-based, incentive system. In addition it is ensured that the targets set for the members of the Board of Management do not have undesirable effects. No guaranteed variable remuneration components are granted.

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

Continued payment of remuneration in case of incapacity to work

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

Other remuneration

In the case of seats held on other boards, remuneration for board memberships must be paid over to the Company or is deducted in the course of regular compensation computation. Excepted from this is remuneration for memberships explicitly recognised by the Company as personal. 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 event of a change of control.

Pension

The members of the Board of Management are members of a defined benefit plan under which they will receive a fixed pension whose amount depends on their basic remuneration and years of service on the Board. The pension level starts at 30% and can reach a maximum of 50% of annual basic remuneration.

Benefits in case of termination of activities

Old-age pension
Members of the Board of Management are entitled to an old-age pension if they resign from active service in the Company after their 60th birthday or when they reach the retirement age of 65.

Pension due to occupational disability
Members of the Board of Management are entitled to a pension if – owing to permanent occupational disability – their contract was terminated by mutual agreement, if it was cancelled by the Company, or if it expires because the Board of Management member mandate is not renewed.

Early retirement with reduced old-age pension
Board of Management members are entitled to an old-age pension if their contract comes to an end as a result of non-extension or revocation of their Board of Management mandate without the member having given cause by gross negligence of his or her duties and without having expressed a request to resign; in such cases, the old-age pension shall be contingent upon the member of the Board of Management having reached his or her 50th birthday, that s/he has rendered services to or was employed with the Company for more than ten years at the end of the contract and that the Board of Management mandate was extended at least once.

Extent of the benefit in all three cases:

- For six months, continuation of previous monthly basic remuneration (only applies to members of the Board of Management who were appointed before 2006).
- A pension promise of between 30% and 50% of the annual basic salary which in case of early retirement is reduced by 2% for every whole or part of a year prior to one's 65th birthday.
- Up until the person's 65th birthday, the pension is subject to reductions based on other income from activities for third parties.

Non-forfeitable entitlement to old-age, occupational disability and surviving dependants' pension

Benefits from non-forfeitable entitlements are paid out when the Board of Management member turns 65, when s/he becomes occupationally disabled or following the death of the member of the Board of Management.

Non-forfeitable entitlement subject to the German Company Pensions Act
Members of the Board of Management are entitled to non-forfeitable benefits in accordance with the German Company Pensions Act if they discontinue rendering services to the Company before their 60th birthday and if their affiliation with the Company at the time of their departure amounts to at least five years.

Extent of the benefit: the pension promise amounts to between 30% and 50% of the annual basic salary. Non-forfeitable is the part of the old-age pension which corresponds to the proportion of the effective as opposed to the potential affiliation with the Company until the person's 65th birthday (m/n proceedings, Section 2, para. 1 Occupational Pension Law (BetrAV).

Improved non-forfeitable entitlement

Improved non-forfeitable entitlement is granted if the employment contract ends due to non-extension (on the part of the Company) without gross negligence or termination request on the part of the individual. An additional requirement is that the member of the Board of Management discontinues services with the Company before his/her 60th birthday and that the affiliation with the Company at the time of departure amounts to at least 10 years.

Extent of the benefit:

- Following departure, six-month continuation of previous monthly basic salary (only applies to members of the Board of Management who were appointed before 2006).
- A pension promise of between 30% and 50% of the annual basic salary which is reduced by 2% for every whole or part of year prior to the 65th birthday of the person concerned.

Surviving dependants' pension

In case of death of a member of the Board of Management during active service, the surviving dependants (widow/widower, orphans) will receive the previous monthly basic salary for six months, provided that the member was appointed to the Board of Management before 2006. For members of the Board of Management who were appointed after 2006, the previous monthly basic salary will be paid to the surviving dependants for three months.

In case of the death of a member of the Board of Management following retirement, the surviving dependants will receive the previous monthly pension for the duration of three months, provided that the marriage and/or the birth of the child took place before the start of their retirement pension.

If the old-age pension of the member of the Board of Management was reduced due to early retirement, any widow/widower and orphan pension shall be calculated on the basis of the reduced amount.

The surviving dependants of a member of the Board of Management who passed away in active service or following their pension will subsequently receive the benefits listed below:

- Widow(er) pension amounting to 60% of the pension promise.
- Where applicable, age-related reduction of the widow(er) pension depending on the age of the married couple by a maximum of 50%.
- Taking into account up to 50% of the revenues, provided that they exceed 50% of the widow(er) pension, as well as benefits paid under pension schemes of previous employers (for members of the Board of Management who were appointed after 2006).
- Orphan's pension amounting to 20% of the pension promise per orphan.
- Doubling of the orphan's pension if no widow(er) pension is to be paid (for members of the Board of Management who were appointed before 2006).
- In combination, widow(er) and orphan pensions must not exceed the old-age pension.

Further development

Structure of the remuneration system for the Board of Management applicable since 1 January 2010

In response to the new regulations laid down in the Appropriateness of Management Board Remuneration Act (VorstAG) and the German Corporate Governance Code, the remuneration system for the Board of Management was revised with effect from 1 January 2010. Special emphasis was placed on comprehensibility and transparency.

Upon recommendation by the Board Committee of the Supervisory Board, the full Supervisory Board endorsed the new remuneration system:

Component	Share[1)]	Assessment basis/ parameters	Corridor	Precondition for payment	Payment
Basic remuneration plus remuneration in kind/fringe benefits (company car, healthcare, insurance policies)	35%	Function, responsibility, length of service on the Board	Fixed amount	Contractual stipulations	Monthly
Variable remuneration	65%	Company performance, personal performance			
30% annual performance		Consolidated result (ERGO Group), divisional/ segment objectives, individual objectives	0–200% (fully achieved =100%)	Achievement of one-year objectives	In the second year; 25% of net payout is subject to investment in Munich Re shares with four-year sales vesting period
70% medium-term performance		Group objective (ERGO Group), individual objectives	0–200% (fully achieved = 100%)	Achievement of three-year objectives	In the fourth year; 25% of net payout is subject to investment in Munich Re shares with two-year sales vesting period
Pension		Pensionable basic remuneration (= 30% of the targeted total direct remuneration), number of years on the Board	Fixed amount	■ Retirement ■ Pensionable event ■ Premature termination or non-extension of employment contract under certain circumstances	

1) The remuneration is based on 100% achievement of the objectives relevant to the variable remuneration.

The new structure is based on only two remuneration components, the basic remuneration and variable remuneration. The variable component consists both of one-year targets and three-year targets and replaces the annual bonus and the medium-term incentive plan. The previous long-term incentive plan was discontinued. With the binding personal investment in shares with a four- or two-year vesting period, the share-price-based remuneration component remains effective. The new remuneration system is more geared towards long-term targets than the previous one, thereby creating a stronger incentive towards long-term development of the Company.

Variable remuneration

The variable remuneration component is based on the Group's overall performance as well as that of certain organisational units and the individual performance of the respective Board of Management members. It is calculated on the basis of the one-year and medium-term performance for which new targets are defined annually. Payments are made after the one-year and three-year review period. In order to promote sustainability, Board of Management members are under an obligation to invest part of the variable remuneration into shares of the Munich Re Group.

Annual performance

Annual objectives are defined for the annual performance in the context of the variable remuneration. These are based on Group, divisional/segment and individual objectives. In the case of full achievement of objectives (100%), 30% of the total target amount of the variable remuneration will be available. The targets and scale for Group and divisional/segment objectives are geared to particular indicators; individual objectives form the basis for the achievement of personal targets. The objectives are weighted individually, depending on the responsibilities of each individual Board of Management member.

Medium-term performance

As part of the medium-term remuneration, three-year objectives are defined annually. These are based on the Group's success and individual objectives. In the case of a full achievement of objectives (100%), 70% of the total target amount of the variable remuneration will be available. The targets and scale for Group objectives are based on value-based controlling variables; the individual objectives are based on personal targets. The objectives are weighted individually, depending on the responsibilities of each individual Board of Management member.

The calculation and payment of the variable remuneration for the annual performance are made upon evaluation and resolution of the full Supervisory Board in the year following the one-year review period; the calculation and payment of the variable remuneration for the medium-term performance is made at the end of the three-year review period. The payout is subject to a 25% investment of the net payout amount in shares of the Munich Re Group with a four-year (annual performance) and two-year (medium-term performance) vesting period.

Pension

Due to the fact that the basic remuneration has risen from 30% to 35% of total remuneration, the assessment basis for the pension has been changed, since otherwise this would have led to an unintended pension increase. When setting the performance-related pension promise, this has been based on the so-called "pensionable basic remuneration" since 1 January 2010, which amounts to 30% of the targeted total direct remuneration (= basic remuneration + variable remuneration, based on 100% achievement of objectives).

Other remuneration

Members of the Board of Management are not entitled to any severance payment under their respective employment contracts. In case of premature termination of services on the Board without compelling reason within the meaning of Section 626 of the German Civil Code (BGB), any compensation due must not exceed the equivalent of two years' total remuneration (in the case of a takeover or change of control within the meaning of Section 29 para. 2 of the German Securities and Takeover Act (WpÜG): the equivalent of three years' total remuneration) and must not exceed the compensation for the remaining term of the contract. The calculation must be based on the total remuneration for the previous business year and, as the case may be, on the expected total remuneration for the current business year.

Outlook

In a circular on the requirements of remuneration systems in the insurance industry, the Federal Financial Supervisory Authority (BaFin) has supplemented and further developed the remuneration principles for Board of Management and Supervisory Board members. An initial, provisional check has revealed that the remuneration system for the Board of Management, which became effective on 1 January 2010, fully meets the requirements laid down in the BaFin-circular.

Concrete information concerning stock option programmes or similar securities-based incentive systems (item 7.1.3 of the German Corporate Governance Code, DCGK)

Medium-term incentive plan

On 1 January 2009, ERGO Versicherungsgruppe AG and a number of its affiliated companies introduced a medium-term incentive plan with a term of three years. Members of the Boards of Management and selected senior management are entitled to participate in this share-price-related remuneration plan with cash settlement. The participants receive a certain number of performance share units (PSU entitlements). In the fourth year following the set-up of the scheme participants are entitled to a bonus according to the degree of achievement of the value-based performance targets and increase in the total shareholder return (TSR).

The plan's requirements are as follows:

- The basis of assessment are value-based performance targets on the one hand and the total shareholder return of Munich Re shares on the other.
- The value-based performance targets are determined on the basis of an average target achievement over the years.
- The share-price-based TSR is the total return of the share and includes increases in the share price plus the reinvested dividends during any particular assessment period. The initial value of the TSR and the value at the end of the period are calculated on the basis of the average value of the last 60 days preceding the beginning and the end of the plan period.
- The PSU rights were allocated at the beginning of the plan period by dividing the contractual amount for 100% achievement of the targets by the initial value of the TSR. The TSR is based on the total return index of the XETRA quotation of the Munich Re share price, starting date 22 January 1996.
- The final number of PSU entitlements is calculated by multiplying the number of PSU entitlements at the beginning of the plan period with the performance target achievement percentage determined at the end of the plan period. The number of entitlements may vary between 0 and one and a half times the initially allocated number of entitlements.
- The payout is capped at double the TSR. The maximum payout amount for Board of Management and senior management members is limited to 150% of the allocated amount.

Incentive-Plan 2009	2009
Commencement	1 January 2009
End	31 December 2011
Fair value 2009 per entitlement (weighted average)	€ 191.38
Number of entitlements as per 1 January 2009	27,623
Additions	–
Lapsed	–
Number of entitlements as per 31 December 2009	**27,623**

- The starting year (1st year of the plan) forms the basis for the full and proportional allocation of PSU entitlements. A pro rata temporis regulation applies to entries and withdrawals during a year.
- The medium-term incentive scheme is valued indirectly and based on the fair value of the claim on the call date. Apart from the value-based performance target, the total shareholder return during the performance period is also taken into account in determining the fair value on the call date.

In the 2009 financial year total expenditure related to the medium-term incentive scheme amounted to € 5.2m. On the call date the total carrying value of entitlements came to € 5.2m.

Long-term incentive plan

Since 1 July 2002, at yearly intervals, ERGO Versicherungsgruppe AG and individual affiliated companies have set up long-term incentive plans, each with a term of seven years. This plan was set up for the last time in 2009. Members of the Boards of Management and selected senior management are entitled to participate in these share-price-related remuneration plans. The participants receive a certain number of stock appreciation rights based on the Munich Re share.

The relevant initial share price for the stock appreciation rights is calculated from the average of closing prices for Munich Re shares in Frankfurt Xetra trading over the last three months prior to plan commencement. The initial price for the 2009 long-term incentive plan is € 97.57 (121.84). As a result of a capital increase carried out by Münchener Rück AG in the 2003 financial year, 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 118,979 (132,306) stock appreciation rights were granted, 113,548 (126,676) of these to members of boards of management. The future obligations arising from the long-term incentive scheme are hedged with Munich Re shares or options on Munich Re shares.

Personnel expenses and income incurred for the stock appreciation rights are calculated based on the change in the fair value of underlying option rights. 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. The stock appreciation rights of the financial year had a fair value of € 2.0m when granted.

The fair value of the stock appreciation rights is calculated and reserved on each balance sheet date; this amount is recorded in full. The personnel expenses recognised in the income statement therefore correspond to the change in the provision in the year under review, taking into account any rights exercised. In the year under review, provisions of € 8.1m (17.8m) had to be posted; personnel expenses totalled € –4.9m (4.3m). The weighted average share price for the stock appreciation rights exercised in 2009 was € 110.95 for plan year 2004 and € 110.70 for the plan year 2005. No stock appreciation rights were exercised in 2009 from the schemes operated in 2002, 2003, 2006 and 2007. The intrinsic value of the exercisable stock appreciation rights amounted to € 2.7m on the balance sheet date.

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 retention period and then only if the share price is at least 20% higher than the initial price. In addition, Munich Re shares must have outperformed the Euro Stoxx 50 twice at the end of a three-month period during the term of the plan. The gross amount that may be obtained from the exercising of the stock appreciation rights is limited to an increase of 150% of the initial share price.

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

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

Detailed information on the rights granted in the respective years and their current figures is provided in the Notes in explanation [38] on page 208 and 209.

The ERGO Insurance Group

With premium income of € 19bn, ERGO is one of the major insurance groups in Europe. Worldwide, ERGO is represented in more than 30 countries and concentrates on Europe and Asia. In Europe, ERGO is no. 1 in the health and legal expenses insurance segments, and is among the market leaders in its home market of Germany. 50,000 people work for the Group, either as salaried employees or as full time self-employed insurance agents.

ERGO offers a broad range in insurance, provision and services. Nowadays, more than 40 million customers, of which 20 million are based in Germany alone, place their trust in the security and expertise in the various lines of business provided by ERGO and its experts. We offer integrated insurance and service concepts for their individual needs.

ERGO has the right sales channel for every client: almost 22,000 self-employed full-time insurance agents, staff working in direct sales, as well as insurance brokers and strong cooperation partners – both in Germany and abroad - look after our clients. We maintain a far-reaching sales partnership with the major European bank UniCredit Group, both in Germany as well as in Central and Eastern Europe.

ERGO is part of the Munich Re Group, one of the leading reinsurers and risk carriers worldwide. Under the umbrella of Munich Re, both primary insurers and reinsurers capitalise on opportunities to turn risk into value. The largest part of group investments amounting to approximately € 182bn, of which € 113bn is accounted for by ERGO, are managed by the joint asset management and fund company MEAG. At the end of 2009, Munich Re held a 99.69% stake in ERGO, and intends to extend this to 100% in the course of the year 2010.

ERGO is an integral part of the Munich Re strategy, and as such, is integrated into the core processes of Munich Re, in terms of regulatory and corporate law, e. g. group strategy and corporate policy, capital and finance planning, risk management, controlling, reporting and accounting, or in general regarding significant legal transactions and measures. As a result of a corporate directive which regulates responsibilities and degrees of authority between group executive management of the Munich Re and ERGO in decisions of primary importance, a "uniform management" prevails in the sense of the German Stock Companies Act (AktG).

This management report summarises the business activities of our Group. Following an overall review of the developments of ERGO on pages 42 to 49 there is a detailed report on the six segments of domestic life, health, domestic property casualty, direct insurance, travel insurance and international operations, where we conduct all types of life insurance, pension and health cover and virtually all aspects of property and casualty insurance including legal expenses insurance. We report on the various segments on pages 50 to 59.

Our brand strategy

At the end of 2009, we changed our brand strategy in order make our 'full-service' concept more evident to our customers. In future, our life and property insurance products will also be marketed in Germany under the ERGO name. This strategy will be supplemented with, as is currently the case, our special insurers – DKV for health insurance, D.A.S. for legal expenses and ERV for travel insurance. In the respective lines of business legal entities will be merged. New business in life and property-casualty insurance, which is primarily written by Hamburg-Mannheimer and Victoria as brands so far, will in future mainly be conducted under the ERGO brand. These steps are due to take place during the second half of 2010. KarstadtQuelle Insurance was already renamed ERGO Direct Insurance in the first quarter of 2010.

In many international markets the ERGO brand is already well known, such as in the Baltic States, Belgium, Russia or Italy. In countries where our products are currently marketed under a combination of the ERGO and a local brand name, the future will witness a more pronounced positioning of the ERGO brand than to date. In terms of legal expenses insurance, we will remain active with the D.A.S. brand internationally too; our activities in the health segment will mainly concentrate on the strength of the DKV brand, and ERV will continue as the flagship for travel insurance.

Our management style and objectives

We have set ourselves the goal of excellence in managing and controlling our activities. At the centre of this are an integrated management of the segments and their administrative processes, a modern risk management (see page 74) comprising asset-liability management (ALM), as well as value-based and risk-based management of all business activities.

The management of our segments already brings the various brands under one roof. As regards domestic business, products within a particular segment are developed by one management unit with the help of the various sales organisations and then adapted to meet the different needs of customers and sales forces. We also organised our administrative locations in Germany to cover various companies and brands, thereby making use of synergy effects.

Cross-sectional functions for operations are coordinated and controlled centrally from one source, meaning that procedures can be streamlined and run efficiently. The ERGO Insurance Group works with harmonised IT platforms; this supports Group-wide management and reduces costs which are incurred with the maintenance of different systems. Within Germany, the IT services stem from ERGO's in-house IT service provider, ITERGO.

Responsibility for sales has been concentrated under the ERGO sales division, and aims to achieve a holistic view of customers, cross-company sales channels and brand management. Management board members of the respective legal entities are responsible for the operational management of the tied agents, meaning that the identification of the sales forces is therefore preserved. Broker and bank sales are concentrated at ERGO level.

International business is managed by a separate division. Our multi-line activities include different business models in life and property-casualty insurance, combined with our wide-ranging specialist skills in legal expenses, travel and health insurance as well as in assistance. As regards the special insurers in the health segment – they are part of the health segment – operational management is carried out by the Munich Health unit at Munich Re.

For the main part, we have entrusted management of our assets to MEAG MUNICH ERGO AssetManagement GmbH and its subsidiaries. Strategic investment decisions are taken by the companies of the ERGO Insurance Group based on the advice given by MEAG.

Value-based management

Our goal is to recognise all facets of risk, to assess it, diversify it and thus create sustainable value for our shareholders, customers and staff. Increasing the value of our Company in the long run is an authoritative guiding principle behind our corporate thinking and actions. This also includes our active capital management. This principle is primarily practised through the consistent use of value-based management systems.

Besides value-based variables, our business is managed by observing a range of additional conditions of importance for an insurance group. 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. These include regulations governing local accounting systems, tax aspects, requirements pertaining to liquidity and supervisory parameters.

Our value-based management is reflected in the following aspects:

- Business activities are not only assessed according to their earnings potential but also relative to the extent of risks assumed which is material for the question of the extent of value creation. Only the yield-risk ratio can indicate whether a particular activity is beneficial from a shareholder's perspective.
- With value-based management variables we ensure the necessary comparability of alternative initiatives and prioritise them according to economic principles.
- Responsibilities are clearly assigned, and levers for increasing value are made transparent to management and staff.
- Strategic and operational planning are closely related.

Property-casualty insurance: value added

In property-casualty insurance, where short-term business transactions dominate, the concept of value added is used in order to measure the value created in a given year. The value added is calculated as the difference between adjusted results and cost of capital.

The adjusted results are used as the basis for calculating the value added. They are made up of the technical results as derived from the income statement, the investment result as well as other non-technical income. In each case, value-based adjustments are made, for example in order to smooth out the costs of major losses, to normalise capital yield and to take account of claims expenses in the event of later payment at present value.

This kind of adjusted result is compared with the requisite cost of capital. This is basically derived from the risk capital based on our internal model. As far as property-casualty insurance is concerned, which is measured over a calendar year, the positive value added attained is the extent of adjusted results exceeding the cost of capital.

Life and health: embedded value

Life insurance and health insurance products are marked by their long-term nature and the spread of earnings over the term of the policies. We assess these types of long-term business portfolios, where success cannot be measured sensibly from a one-year perspective, on the basis of the "European Embedded Value" Principles and Guidance, published by the CFO Forum in May 2004. Even if we, like most companies, are not yet applying the "Market Consistent Embedded Value Principles" fully for 2009, we are already calculating our embedded value according to market consistent principles.

The embedded value is the present value of future net earnings from business in force calculated using actuarial principles, plus the fair value of equity less the explicitly determined cost of capital tied up. The business in force is projected over its full term in accordance with the Principles and Guidance.

The embedded value reflects the portfolio in existence as of the valuation date. The embedded value comprises more than 90% of our life and long-term health insurance business, and does not take account of the value of future new business. Nevertheless, the valuation is carried out on the assumption of the continuation of business operations, i. e. particularly taking account of the related costs. Options and guarantees are valued explicitly via stochastic simulations. The value of all cash flows is determined based on so-called swap rates in the respective currency areas on the reporting date on 31 December 2009. The valuation of assets traded on the capital market is based on the market values observed as of the valuation date.

The development in the insurance portfolio is modelled taking into account current expectations in terms of biometrics, lapses and costs. The participation of policyholders in surplus is modelled in accordance with current planning and statutory regulations and hence taken into account in the valuation. We show the embedded value after deduction of taxes payable by the company in connection with the business valued. Apart from taxes and investment management costs, the cost of capital also includes the not explicitly modelled risks of the business and the participation of policyholders in surplus.

The change in the embedded value within a year – excluding the effects of exchange rate fluctuations, company acquisitions or sales as well as dividend distribution or injections of capital – is shown as the total embedded value earnings. If this is also adjusted by influences from changes to the fiscal and capital market parameters, it is referred to as the operational embedded value result. It is the measure of the success of operating business activities in a year.

Managing investments

Our investments are heavily geared towards the structure of the liabilities side of the balance sheet, and the "economically neutral position" is determined on the basis of asset-liability management. This synthetic investment portfolio forms – taking into account major constraints affecting investments, notably provisions of the regulatory authorities or the individual risk capacity of a company – the characteristics of the liabilities in relation to the policyholders as realistically as possible.

Bearing in mind our risk capacity as well as the consistency with our business strategy, we determine a benchmark portfolio on the basis of sustainably expected capital market returns in an optimisation process. Our asset manager, MEAG, is responsible for implementing this strategic benchmark portfolio through concrete asset management; it deviates from this solely within carefully defined limits and takes account of the market opinion for the respective financial year. The budgeted return, as the expected return from the benchmark portfolio, is compared with the return of the actual portfolio. The success of our asset manager MEAG is measured in terms of the degree of excess returns which it has achieved against the benchmark portfolio, taking into account the risk incurred.

Non-financial controlling variables

Apart from these purely financial controlling variables, non-financial variables, such as innovation, speed of processes, staff training level as well as productivity, customer satisfaction and sales service play a major part in the strategic management of ERGO. A company can only be successful in the long term if it operates on a sustainable basis and takes account of future-geared qualitative factors too.

We closely link strategy and operational planning by presenting our strategies in organised overviews, so-called scorecards, thereby deriving initiatives, variables and responsibilities. The scorecards cover four areas: "Finance", "Customers/Market/Sales Partners", "Processes" and "Staff". We encourage employees to think and act in an entrepreneurial manner by clearly assigning responsibilities and, as a result, making it clear how much the individual, a unit or an area of business contributes towards increasing value.

Our consistent integration of financial and non-financial goals into the incentive schemes for the Board of Management and executive staff supports the clear commitment to creating sustainable value for our Company.

Supervisory Board

Dr. Nikolaus von Bomhard
Chairman of the Board of Münchener Rückversicherungs-Gesellschaft AG
Chairman

Michael David, since 5 May 2009
Employee of ERGO
Deputy Chairman

Klaus Roth, until 5 May 2009
Employee of ERGO
Deputy Chairman

Waltraud Baier, until 5 May 2009
Employee of ERGO

Günter Bayerle
Personnel Specialist of DHV (Associated Union of Workers in German Trade and Industry)

Hans-Peter Claußen
Employee of ERGO

Dr. Karin Dorrepaal
Former Board member of Schering AG

Frank Fassin
District Chairman for NRW of ver.di NRW

Günter Greisinger, until 31. December 2009
Employee of ERGO

Harald Herber, since 5 May 2009
Employee of ERGO

Dr. Heiner Hasford
Board member of Münchener Rückversicherungs-Gesellschaft AG (retired)

Dr. Gerhard Jooss
Board member of ThyssenKrupp AG (retired)

Volker Kallé
Executive Employee of ERGO

Dr. Lothar Meyer
Chairman of the Board of Management of ERGO Versicherungsgruppe AG (retired)

Dr. Markus Miele
Managing Partner of Miele & Cie. KG

Silvia Müller, since 5 May 2009
Employee of ERGO

Marco Nörenberg
Employee of ERGO

Reinhard Pasch, until 5 May 2009
Employee of ERGO

Prof. Dr. Bernd Raffelhüschen
Director of the Institute for Public Finance at the University of Freiburg

Wolfgang Rusch, since 1. January 2010
Employee of ERGO

Prof. Dr. Theo Siegert
Managing Partner of de Haen Carstanjen & Sons

Richard Sommer
Head of the Federal Group “Insurance” of ver.di

Prof. Dr. Beatrice Weder di Mauro
Professor of Economics at the Johannes Gutenberg University in Mainz

Prof. Dr. Klaus L. Wübbenhorst
Chairman of the Board of GfK SE

The ERGO Insurance Group – Governing bodies

Audit Committee
Dr. Heiner Hasford
Dr. Gerhard Jooss
Marco Nörenberg

Board Committee
Dr. Nikolaus von Bomhard
Hans-Peter Claußen
Prof. Dr. Theo Siegert

Nomination Committee
Dr. Nikolaus von Bomhard
Dr. Lothar Meyer
Prof. Dr. Theo Siegert

Standing Committee
Dr. Nikolaus von Bomhard
Michael David, since 5 May 2009
Dr. Lothar Meyer
Marco Nörenberg, since 5 May 2009
Reinhard Pasch, until 5 May 2009
Klaus Roth, until 5 May 2009
Prof. Dr. Theo Siegert

Conference Committee
Dr. Nikolaus von Bomhard
Michael David, since 5 May 2009
Klaus Roth, until 5 May 2009
Prof. Dr. Theo Siegert
Richard Sommer

Board of Management

Chairman
Dr. Torsten Oletzky
Strategic Corporate Planning/
Group Development
Investor Relations, Press,
Corporate Communications
Legal Affairs
Internal Auditing

Dr. Bettina Anders
Customer Service,
Company Organisation and IT

Dr. Daniel von Borries
Finances and Investments
Life Insurance Germany
MEAG/ERGO-Interface

Günter Dibbern
Health Segment Germany and Abroad

Christian Diedrich
Non-Life Insurance
(Property-Casualty, Legal Expenses)
Germany

Dr. Ulf Mainzer
(Labour Director)
Domestic Human Resources as well as
Comprehensive Questions of Principle
General Services, Facility and Materials
Management/Purchasing and Logistics
Germany

Dr. Jochen Messemer
International Operations
(except for Health Segment)

Dr. Rolf Ulrich
Accounting, Taxes, Planning and
Controlling, Risk Management

Jürgen Vetter
Sales Germany, Competence Centre
Bank Sales Germany and International,
Strategic Marketing, Brand Management

General parameters

Our business operations take place in an environment that is becoming increasingly complex, which creates demanding challenges for the insurance industry. Consequently, it is essential to continually revise risk models and make use of new knowledge for actuarial purposes.

Fundamental changes are also being caused by demographic developments. The increasing life expectancy in conjunction with falling birth rates are putting an enormous burden on the pay-as-you-go social welfare systems. In Europe, two members of the active workforce will have to finance one person outside the labour force by 2030. Europeans will therefore only be able to maintain their standard of living and first-class medical care in the medium term if they take out additional private cover – a great opportunity for the private insurance industry.

Many states are adapting their social insurance systems in response to these demographic challenges. This frequently leads to uncertain legal and political conditions, and insurers will have to deal with these in the interim. In the most developed countries above all, insurers have to adapt to the growing new target group of older people with their specific needs. Flexibility and fast reactions in terms of product development and ongoing product adjustments therefore continue to be important factors for competitiveness.

The supervisory framework for insurance companies will also undergo considerable change. As a consequence of the financial crisis, supervisory bodies in Europe and around the world are having to redefine their stance. New European rules for state regulation – specifically, Solvency II – and new accounting standards are having an effect on capital requirements and external reporting for insurers.

As a result of the trends described, the supply and demand of insurance cover are changing. Companies such as ERGO, which is one of the leading companies for integrated risk management, are well placed to benefit from the resulting advantages and opportunities.

Economic parameters

As was expected, the global economic crisis strongly affected overall economic parameters. The German insurance industry, too, was affected by it, yet it still achieved growth in 2009.

In the year under review the global economy was subject to a severe recession. Although China and India continued to fuel growth, all the major industrial nations saw a reduction in economic performance. As early as mid-year, however, the first signs of an economic upturn appeared, and these increased as the year progressed. This meant that from the second quarter onwards, the global economy once again showed a positive growth trend.

Economic performance in the eurozone declined considerably during 2009. There were strong regional differences, but none of the member states achieved economic growth in real terms. Many Eastern European countries, such as the Baltic countries, experienced a drastic slump in economic output, though on the other hand some countries, such as Poland or Austria, managed to achieve a somewhat better trend.

The price-adjusted GDP for Germany in 2009 was down significantly by 5.0% (provisional estimate of the Federal Bureau of Statistics on 13 January 2010), whereas in the previous year there had still been slight growth at 1.3%. Private consumption, underpinned by state economic packages, had a stabilising effect on the economy. As from the second quarter, there was a slight economic improvement driven by the recovery of the global economy.

The trend on the labour market was strongly influenced by employment policy measures. For example, the extensive use of reduced working hours prevented a drastic increase in unemployment. Over the course of the year, the unemployment rate actually fell from 8.3% in January to 7.8% in December, with an average of 8.2% across the year.

Consumer price inflation in Germany was very low owing to the profound global economic crisis. The average rate of inflation over the year was 0.4%. In the third quarter, prices actually fell.

At 3.1% (provisional estimate of the Confederation of German Insurers, GDV), the overall volume of premiums in the German insurance sector rose more than in the previous year (1.0%). The principal cause of this was the growth in premiums within private health insurance as well as single premium business in life insurance.

Capital market trends

From March 2009 onwards, stock markets around the world recorded significant rises, following on the sharp falls in prices seen beforehand. Over the course of the year, the Euro Stoxx 50 was up 21.1%, and the DAX increased by 23.8% compared with the figure at the beginning of the year.

In the wake of positive trends on the stock markets, together with increasingly optimistic economic expectations, the return on ten-year government bonds in Germany increased from 2.9% at the beginning of the year to 3.4%. During 2009, returns on ten-year US government bonds rose from 2.3% to 3.8%.

Central banks also turned to unconventional fiscal measures in order to improve the situation on capital markets. In some cases government and private securities were bought in order to increase liquidity. In addition, key lending rates were repeatedly reduced. The European Central Bank reduced its base rate from 2.5% to 1.0% (end of December). The Bank of England reduced its key lending rate from 2.0% to 0.5% (end of December). The base rate of the US Central Bank remained at the same level of 0 to 0.25% as at the beginning of the year.

The insurance industry in Europe and Germany

The overall economic trend has a strong effect on the rise in premiums in the insurance industry, especially regarding non-life insurance, and the market cycle has an impact too. In the case of life and health insurance, an important factor in addition to the overall economic situation is changes in the legal and tax framework. This means that the European insurance markets operate according to very different parameters. The following sections go into more detail concerning our home market of Germany.

Life insurance in 2009

Despite the continuing difficult capital market conditions seen in 2009, the German life insurance sector remained very stable. In a context of financial crisis, customers have an increased appreciation of the advantages of life insurance: security, reliability and reasonable returns. Life insurance products are an excellent form of private provision for old age, because they alone are able to secure against biometric risks such as death, old age or invalidity while, at the same time, offering guaranteed provision.

The confidence of customers in the ability of life insurers to meet their benefit promises led to an unexpectedly high increase in single premiums for new business, making for a growth in premiums overall. According to provisional data from the Confederation of German Insurers (GDV), premium income for life insurance including staff pension funds and retirement funds rose by 7.1% to € 85.1 bn (79.4 bn). Payments made to life insurance customers grew by 1% to € 72.9 bn (72.1 bn) .

There is a very wide range of options for private provision in the form of life insurance, ranging from classic endowment policies and annuity insurance or unit-linked policies to products that include cover against occupational disability or long-term nursing care. In particular, insurance policies based on provision in the form of a pension are becoming increasingly popular. Classic annuity products paid for through a single premium were in very high demand during the 2009 financial year. Overall, regular-premium new business declined.

Company pensions are also a very important part of the private capital-based old age pensions market. These are supported by legislation in the form of numerous state subsidies and favourable parameters. The industry has proved to be particularly secure and adaptable under the current economic conditions. There are numerous hedging options available that continue to fulfil the company pension entitlements of employees even if their employer files for bankruptcy.

The business trend for company pensions in 2009 was noticeably affected by the difficult economic conditions. New policies with regular premiums also fell in this sector, though new business based on single premiums rose significantly.

Private health insurance in 2009

The transition to the new legal framework for private health insurance in Germany (see page 39) led to one-off special effects which produced an increase in new business; starting on 1 January 2009, this rose because those previously not insured were taking out private health and long-term nursing care policies. In addition, many customers had signed up to tariffs under the old framework with a policy commencement date in 2009. The negative headlines before the introduction of the health fund and the related increase in premiums for many of those with national health insurance also encouraged the move to private health insurance. There continued to be great interest in taking out private health insurance to make up for the limitations and cuts to the services of state health insurers.

In 2009, private health insurance premiums totalled €31.5bn (30.3bn), a rise of 4.0% on the previous year. Benefits paid out, including loss adjustment costs, was up by around 6.0% (5.3%) to €21.4bn (20.2bn).

Property-casualty insurance in 2009

Despite difficult overall economic parameters, German property-casualty insurance achieved a 0.2% increase in premiums in 2009, totalling € 54.7bn (54.6bn). Private, commercial and industrial property insurance, together with accident insurance played a major role here. The effects of the financial and economic crisis on premium income were relatively slight, in contrast to the picture for expenditure on claims. In 2009, claims expenditure for the year was up by 2.1% to € 42.8bn, caused by the adverse effect of the economic crisis on marine and legal expenses insurance, as well as credit, guarantee and fidelity insurance. Overall, at a combined ratio of 97.0% property-casualty insurers achieved a technical profit of € 1.4bn – though this was half the level of the previous year. The market figures are based on gross figures according to the German Commercial Code (HGB), so they are not necessarily comparable with figures according to IFRS or net of reinsurance.

Premium income for motor insurance fell for the fifth year in a row. Although the premiums were only down by 1.5%, 2009 did not see a reversal in the trend. The reasons for this included the continued intensity of price competition and the migration of the portfolio to better claims-free classes or lower-priced tariff segments. The so-called scrappage premium did not lead to any medium or long-term improvements. Overall, €20.1bn (20.4bn) was received in premiums. In terms of claims, the situation for comprehensive or partial motor own damage insurance improved markedly compared to 2008, principally because 2008 saw an unusually high level of claims due to hailstorm damage. At the same time, claims expenditure for third party liability insurance rose, meaning that the overall combined ratio for the motor segment rose from 101.6% to 104.0%.

Premiums for property insurance rose by 2.1% to €14.9bn (14.6bn). The driving force behind this was comprehensive buildings insurance which was up 5%, mainly due to premium increases. Despite an improvement of around 3.5%, the combined ratio in 2009 was still 106.0% for this sector. In property insurance as a whole, the combined ratio was reduced to 94.0% (95.4%).

Legal expenses insurance in Germany recorded slight growth of 0.5%, with premium income of €3.2bn (3.2bn). Continuing the positive trend that had begun to appear in 2007 and 2008, contract volume continued to rise in 2009, despite the financial crisis. Claims stemming from labour law cover increased significantly mainly due the crisis. The combined ratio rose to 103.0% (95.5%).

In comprehensive general third party liability and marine insurance, premium income remained on par with the previous year, while private accident insurance saw a slight increase in premiums of 1.0%. Marine insurance suffered a technical loss, but the other two lines of business remained in the black.

Legal parameters

Insurance companies are continually affected by changes in the legal parameters.

In the reporting year, the Accounting Law Modernisation Act (BilMoG) was passed in Germany. This will apply for accounts from 2010. A significant point for life insurers is that the evaluation of pension promises under German commercial law must now be carried out according to a procedure that more closely reflects actual market conditions. This means that pension liabilities of companies are set to increase significantly. Pension funds or provident funds (*Unterstützungskassen*) can offer the affected companies appropriate solutions for the external financing or outsourcing of these pension commitments. However, companies have so far generally not turned to these options because of the liquidity required for outsourcing.

The withholding tax on capital gains in force since January 2009 has tended to improve the competitive position of life insurance as compared to the investment sector. Legislation has also clarified important aspects arising from the 2009 Annual Tax Law. For instance, endowment policies must guarantee protection in the case of death of at least 50% of the agreed premiums. In the case of private annuity insurance, the Federal Finance Ministry requires that the guaranteed pension level, or else a pension factor, should be specified at the point of taking out the policy. Overall, the taxation parameters have thus been made more precise and the profile of life insurance has been made more strict.

Since 1 January 2009, private health insurance has entered a “new world”, notably the requirement for everyone living in Germany to be insured, the introduction of the basic tariff, and the fact that it is now possible for customers to transfer their old-age provisions when changing to a new insurer. During the first half of 2009 there were very few such transfers within private health insurance arising from the one-off transfer right for portfolio customers, which was one reason why the insurance sector’s appeal to the Federal Constitutional Court was rejected. However, at the same time the Court imposed a “duty of monitoring” on legislators, to guarantee that the health reform would not have “unreasonable consequences” for policyholders or insurance companies in the future either. This duty of monitoring relates to the basic tariff, the portability of old-age provisions, and compulsory insurance. The Constitutional Court expressly affirmed the coexistence of public and private health insurance, confirming the right of private health insurance to exist.

In terms of our international business, it is particularly significant that with effect from the 2009 financial year the so-called “Religa tax” in Poland, applicable to statutory third-party liability motor insurance, was repealed. This was a 12 percent supplement to the premiums of statutory third-party liability motor insurance. This additional tax was intended to compensate the health system for the cost of treating victims of road accidents. Since its introduction, the “Religa tax” had been hotly contested both within the government and by the representatives of the sector.

Regulatory parameters

National and international political efforts to avoid a repetition of the financial crisis by supervising financial markets and institutions more effectively continue. Solvency II, the new supervisory system for insurance, has been under discussion for some time. After extensive discussion with the bodies in charge, the European Framework Regulations were formally passed in November 2009; these must be implemented by October 2012 at the latest. This specifies future requirements for risk-appropriate capitalisation, as well as adequate qualitative risk management and requirements for reporting to supervisory bodies and to the public. Preparations are under way for promulgating the related implementation requirements.

In January 2009 MaRisk (VA) was published in Germany, a circular issued by the Federal Financial Supervisory Authority (BaFin) regarding minimum requirements for risk management in insurance companies. This circular anticipates certain requirements of Solvency II, and it, too, is conceived according to principles, meaning that insurers decide themselves how risk management should be organised in concrete terms, within the limits of the minimum requirements that must be met. Under this process, insurers consider risks specific to the company, the type and scope of business operations, and the business model. These minimum requirements also include setting up a suitable internal risk management and controlling system (IKS) with adequate identification, analysis, evaluation, management and monitoring of risks.

Around the world, national states tightened up the supervisory regulations for insurance. In Germany, the Act for Strengthening of the Financial Markets and Insurance Supervision of 1 August 2009 further extended the powers of BaFin to intervene and added to the reporting obligations of insurance companies. For example, BaFin can now interdict or limit payments to companies within the same group during a financial crisis of a company. In addition, the number of former management board members on an insurance company's supervisory board was limited to two, though the BaFin may allow further mandates elsewhere within a group. The law imposes requirements on members of supervisory boards concerning trustworthiness and sectoral expertise, and limits the number of supervisory mandates at regulated entities. A quarterly report must now also be submitted to BaFin regarding significant concentrations of risk at group level.

At European level, the EU Commission has made proposals for reorganising the regulatory architecture. Among other things, this is intended to promote the timely identification of systemic risks and more effective cooperation between regulatory bodies in emergency situations, so strengthening financial regulation. A new European Systemic Risk Board will be set up in order to detect risks for the financial system as a whole at a macroeconomic level and give warning of these well in advance. In addition, a European System of Financial Supervisors is to be set up that brings together the national regulatory bodies and three new European regulatory bodies for banking, securities trading and insurance.

Overview and key figures

2009 financial year witnesses positive trend

Overall, the ERGO Insurance Group experienced a good year in the 2009 financial year which was generally classified as a difficult one. At € 173m (73m), the consolidated result was significantly up on the previous year. When seen in the context of the current economic situation, this is a satisfactory result, but it does not come up to expectations for a normal year.

Nevertheless, 2009 was not a normal year. Significant turbulences continued on the capital markets at the beginning of the year, which once again led to adverse effects on the investment result due to our customary strict interpretation of the accounting regulations. Further, it became ever more apparent in the first quarter that the financial market crisis would have a major impact on the real economy. This fact led us to take a critical review of the business plans of our international companies and to carry out further write-downs for impairments of goodwill. Consequently, we started off the first part of 2009 with a quarterly loss.

We were able to achieve the turnaround during the course of the year and increase results significantly. Shareholders' equity, too, was up significantly and stood at € 3.9bn (3.6bn) at the end of 2009. The rate of return on equity was 4.8% (1.8%). We aim for a sustainable return on equity of between 12% and 15%.

The European Embedded Value (MCEV) for the entire life insurance business and domestic health insurance, which is based on market consistent principles, increased to € 5,126m (3,509m) at the end of 2009. This reflects the improvements in capital market parameters which are important for our business. Compared with the extremely low interest rates at the end of 2008 and historically high levels of interest rate volatility, the values recorded at the end of 2009 were better. Although the interest rates lie below last year's values at the short-term end of the yield curve, they have risen at the long end. There was also a decline in the volatility. These developments are beneficial for life insurers. Total European embedded value earnings stood at € 1,497m, and the figure for new business value was € 132m. Last year negative figures were recorded as a result of the extremely adverse economic situation.

Premium income

There has been a pleasing rise in overall premium income, up 7.6% to € 19.0bn (17.7bn). This situation has been helped by acquisitions at home and abroad, including the travel insurer ERV and the Austrian BA-CA Versicherung. However, exchange rates on the major international markets did not work in our favour in 2009. When adjusted for exchange rate effects and under the assumption that the acquired companies had already belonged to us in 2008, growth would have been 3.7%. Premiums written were up 5.4% to € 17.5bn (16.6bn). By contrast to total premium income, gross premiums written do not contain any savings premiums of unit-linked life insurance policies or capitalisation products. As a result of lower reinsurance ceded, net premiums earned rose more sharply: At € 16.1bn (15.2bn), they were 6.6% higher than last year.

The segments of international operations, direct insurance and health insurance were the main drivers of growth. On the other hand, there was a slight fall in premium income recorded for domestic life insurance.

In line with IFRS 8, our segment reporting has been broken down increasingly according to our internal reporting and management structure. Consequently, as from the 2009 financial year business is no longer subdivided into the segments of life, health, property-casualty and legal expenses nor according to a secondary segment division of Germany and international operations. Reporting is now undertaken for the segments of Life Germany, Health, Property-casualty Germany, Direct insurance, Travel insurance and International Operations; please also refer to the next section “Business segment development”.

By comparison with reporting carried out previously, it should be noted that only part of the business is summarised under “International Operations”, which is conducted by legal entities not based in Germany. Hence, international specialised business in health and travel insurance, in particular, is recorded in these segments. If premium income is listed according to the regional origin of the business, then total domestic premiums were € 13.9bn (13.6bn) – up by 2.2%. Our total premium income from abroad increased by 25.4% to € 5.1bn (4.1bn).

Claims and benefits

In the reporting year, we provided our policyholders with benefits worth € 16.1bn (13.9bn). This large increase of 16.0% is principally attributable to the improvement in our investment result, mainly benefitting our customers. The net balance of unrealised gains and losses arising from investments for the benefit and risk of policyholders in unit-linked life insurance increased alone by € 1.0bn.

What is more, the acquisitions have led to an increase in benefits. Finally, the claims situation worsened as a result of the impact

ERGO Insurance Group	2009 € million	2008 € million
Total premium income	**19,050**	17,711
Gross premiums written	**17,470**	16,578
Investment result	**4,401**	2,871
Net insurance benefits[1]	**16,114**	13,893
Net operating expenses	**3,476**	3,141
Consolidated result	**173**	73

[1] incl. Policyholders’ profit participation

of the financial market crisis on the real economy. For example, claims increased in employment law within legal expenses insurance. We felt the effect of the difficult circumstances most of all in our international activities in severely affected economies, such as in the CEE countries. The combined ratio for property-casualty insurance in the international operations segment rose to 102.4% (97.4%). For domestic property-casualty, however, the rise was not only significantly more moderate, but the level of the combined ratio was once again highly satisfactory at 88.3% (87.3%).

Costs

In terms of costs, we have made headway during the year under review. Administration costs (gross) were only up by 2.6%. If this development is viewed without including the recently acquired companies, a distinct fall was apparent, reflecting the successes due to our stringent cost management.

Acquisition costs were also down in proportion, and only rose by 3.3%. The fact that total costs had nevertheless increased by 10.7% can be attributed on the one hand to lower reinsurance commission as a result of higher retentions. On the other hand, compared to last year, there was no positive effect recorded from the change made to deferred acquisition costs. Last year this item still contained the positive effect caused by the final “Riester stage”, i. e. automatic adjustments of many Riester life insurance policies to the latest maximum government subsidy thresholds.

Investments and investment result

We will report on investments in greater detail below, because the trend of worldwide capital markets is tremendously important for us as a large institutional investor. This does not just apply to our business, where the return on customers’ money is a basic component for out success, especially as regards old-age provision or health insurance. The application of strict international accounting rules means that trends in interest and exchange rates on international markets also have a decisive impact on the income statement. This was especially true in the 2009 financial year, because the major turbulence on the capital markets continued into spring 2009.

By far the greatest part of our capital investments is managed by MEAG MUNICH ERGO Asset Management GmbH, a 100% affiliate of Munich Re and ERGO in which ERGO has a 40% stake. As at 31 December 2009, MEAG managed capital investments on our behalf worth €102.3bn (96.2bn). The remaining company-owned investments are internally managed. These are mainly mortgage loans and investments from unit-linked life insurance.

Principles of investment

In our investment strategy, our principle is to base it on the structure of our liabilities – essentially, our technical liabilities. On this basis, we develop an optimal investment strategy for each company in the Strategic Asset Management unit, taking particular account of the capital strength of the company in question, or its risk-bearing capacity. In addition, the guiding principles for each portfolio are the tried and tested ones of security, liquidity, and varied, widely distributed investments. Taking account of these strategic principles, the operating companies formulate mandates, which define investment categories, quality and limits. Parameters and thresholds for the management of these mandates are laid down as well.

We only invest in assets from which we can expect an appropriate return. We limit currency risks by making it a guiding principle to cover expected liabilities with investments in the corresponding currency. In addition, as regards our fixed-interest securities, we ensure that their terms of maturity are in keeping with the maturity profile of the liabilities. Besides this, we keep sufficient liquid funds to hand to be able to meet our payment commitments at any time.

In the risk report starting on page 80 we describe at length our management of risks arising from capital investments. This section also explains our approach to asset-liability management.

Our investment strategy is governed by the principle of sustainability. It is our aim to place at least 80% of the market value of our investments in assets that appear in a sustainability index or that satisfy the principle of sustainability according to generally recognised criteria. In this respect, we are advised by oekom research, an independent rating agency for sustainability.

Major developments and structure of investment categories

At the end of this reporting year, our investments were worth €113bn (108bn), an increase of 4.7%. €4.0bn (2.9bn) of this sum corresponds to investments for the benefit of life insurance policyholders who bear the investment risk; the increase of 40.1% is principally due to the positive trend of the stockmarkets. The following remarks on the make-up of our investments relate to the investment portfolio not including investments for the benefit of life insurance policyholders who bear the investment risk.

Our investments are mostly placed within Europe, with a 95% share of European investments. When investing liquid funds, we are guided by the currency structure of our liabilities from the insurance business. The focus of our business, and therefore also the focus of the reserves to be covered by investments, lies in Germany and other European countries.

As regards our real estate investments, we aim to achieve an appropriate return on the basis of regular income and increases in value. We regularly check existing properties and funds in terms of their long-term earnings power and risks arising from the property or its location. We did not extend our portfolio during the reporting period.

Our investment portfolio is largely made up of fixed-interest securities and loans; at €99.9bn (93.5bn), these made up 91.5% of our total investments at balance sheet values on 31 December 2009. This is equivalent to an increase of 2.7 percentage points compared to the beginning of the year, and as much as 10.9 percentage points compared to 31 December 2007.

In 2009, our investments in the form of loans rose perceptibly by 16.6% to € 46.3bn (39.7bn). These are mostly covered bonds, securities where the liability lies with public institutions and variable interest bonds with a minimum guaranteed rate. In the case of life insurance policies, the latter category contributes to securing the guaranteed interest level agreed in the contract. The majority of these capital investments are undertaken by our life and health insurance companies. At the same time, the share of fixed-interest securities available for sale in our overall capital investment portfolio decreased by 0.2% to € 53.7bn (53.8bn).

Our well-balanced investment policy is reflected in the portfolio in the form of the fixed-interest securities and loans including short-term investment funds at market values – over 37% of these are government bonds or equally secure investments vouched for by public institutions, and we extended this proportion during the financial year. What is more, some 41% are first-class collateralised securities and receivables, principally German covered bonds. Since the beginning of the reporting year, we cautiously expanded our portfolio of credit-exposed fixed interest securities. In the first half of the year in particular, risk premiums in relation to government bonds were heavily extended, and we took advantage of the opportunity to extend our position and secure higher interest income. We therefore selectively increased our portfolio of corporate bonds during the course of the year, which made up around 15% of our interest-bearing portfolio on the reporting date.

As in the past, our interest-bearing portfolio as a whole is characterised by a good rating structure. We describe this in more detail in the Notes on pages 150 and 151.

In order to cover our commitments stemming from insurance business through suitable capital investments, we match the term structure of our interest-bearing investments to these liabilities. In view of the long timeframe of life and health insurance, long-term investments predominate here. We have been meeting the risk of a relatively long-lasting period of low interest rates through our asset-liability management for several years by securing a minimum interest level when reinvesting through the use of appropriate hedging instruments, thereby guaranteeing that we can sustainably fulfil our underwriting commitments. The duration of these investments reflects the average period over which the capital in our bond portfolios is tied up. On the reporting date this was 6.3 (5.9) years, slightly higher than in the previous year.

The market value of our equity portfolio, including shares in affiliated and associated companies, had fallen to €3.7bn (5.7bn) on the reporting date – or 3.3% (5.3%) of all our capital investments at market values. As we were actively reducing our equity portfolio, we also reduced our hedging ratio as the stockmarkets rose. From the beginning of the year, therefore, our economic stock exposure increased slightly to 1.5% (1.0%). This meant that we only profited to a limited extent from stockmarket gains in 2009, some of which were considerable. However, in the context of the volatile capital market we preferred not to place confidence in share rallies in fragile economic conditions.

Valuation reserves

Capital market trends have a direct effect on our unrealised gains and losses as well as off-balance sheet valuation reserves.

The net balance of unrealised gains and losses in our equity portfolio has risen to € 0.5bn (0.2bn) since the beginning of 2009.

In terms of interest, the level for risk-free interest rates rose overall in 2009. Risk premiums for fixed-interest securities remained relatively high at first, but then declined; across all significant asset classes, these had fallen by the end of 2009, in some cases considerably. Our corporate bonds, in particular, benefited from the falling risk premiums. This also meant that the positive net balance from unrealised gains and losses for our fixed-interest securities in the category "available for sale" rose significantly in comparison with the level at the start of the year to € 1.8bn (0.7bn).

Developments for our loans valued at amortised cost were comparable. Their unrealised gains increased to € 1.3bn (0.6bn).

Overall, our off-balance-sheet valuation reserves (including owner-occupied property) rose to € 2.4bn (1.8bn).

Investment result

The net investment result rose to € 4.4bn (2.9bn) in the reporting period, which is satisfying although it is still a long way off the sum of € 5.4bn achieved in the 2007 financial year. This corresponds to a return of 3.9% in relation to the average investment portfolio at market value.

Regular income declined slightly by 0.9% to € 4.89bn (4.94bn). This reflects the long-term decline in interest rates. Given the calmer atmosphere of the capital markets in the second half of 2009, on the other hand, the net balance of gains and losses from disposals as well as write-ups and write-downs rose significantly by € 521m. Nevertheless, we were forced to carry out large write-downs on our interest-rate hedging instruments for life insurance after considerable write-ups caused by the steep decline in interest rates in 2008. The main reason for the increased investment result, with an

ERGO Insurance Group	2009 € million	2008 € million
Investment result	**4,401**	2,871
Thereof:		
Regular income	**4,892**	4,940
Write-ups/write-downs	**– 958**	– 1,235
Realised gains/losses	**377**	132
Other income/expenses	**91**	– 966

effect of € 1.0bn, was the change in unrealised gains and losses in investments for the benefit of life insurance policyholders who bear the investment risk.

The investment results for 2009, listed according to investment type, were as follows:

Investment income by type of investment	2009 € million	2008 € million
Land and buildings, including buildings on third-party land	**168**	194
Investments in affiliated companies	**– 17**	– 14
Investments in associate	**– 82**	– 4
Mortgage loans and other loans	**1,963**	1,553
Other securities	**2,187**	1,967
Other investments	**183**	– 825
Total	**4,401**	2,871

Results

Due to the fact that IFRS 8 has been applied for the first time, we have shown the sources of the income shown in the income statement by breaking down the operating result into two figures, the technical result and the non-technical result. The technical result includes an interest component in the form of income from technical interest. This is derived from interest on technical reserves and policyholders' entitlement to parts of the non-technical result.

The development of these components in comparison with the previous year is strongly affected by the capital market turbulence caused by the crisis. Consequently, the technical result fell to € 793m (1,282m), whereas the non-technical result saw an improvement to € –59m (–353m).

The sharp rise in the investment result to € 4.4bn (2.9bn) included € 1.0bn attributable to changes in unrealised gains and losses on investments for the benefit of life insurance policyholders who bear the investment risk. These have been reassigned from the non-technical component to the technical component in the form of interest income, being passed on in full to policyholders.

The remaining non-operating result improved because of a better currency result. The main item under non-technical income and expenditure are exchange rate gains and losses from investments. As we largely hedge against such exchange rate fluctuations, gains and losses arising from exchange rates are broadly similar in amount, as is usually the case.

The consolidated result after amortisation of goodwill and taxes – both items were considerably lower than in the previous year – rose to € 173m (73m).

Investments

Besides pure capital investments explained in detail in the previous section, other significant investments were made during the reporting period, principally in the form of shareholdings in affiliated companies.

On 1 January 2009, we acquired the travel insurer ERV as well as Mercur Assistance (known as almeda from 1 April 2009) from Munich Re. We paid a total of € 203m for a 100% stake; the purchase price was determined by an external valuation assessment.

In addition, we acquired the remaining shares in the Italian company ERGO Previdenza for the sum of € 28m during the first half of 2009.

Events after the reporting period

No events occurred subsequent to the accounting date that call for separate mention.

New segment reporting

With its operational insurers the ERGO Insurance Group is active in all lines of business. For the first time in the 2009 financial year we have broken down our segment reporting in accordance to our internal reporting and controlling structure which is in line with IFRS 8. Consequently, reporting is now divided into the following segments: Life Germany, Health, Property-casualty Germany (including legal expenses), Direct insurance, Travel insurance and International Operations.

Previously, business was subdivided into the segments of life, health, property-casualty and legal expenses and, according to a secondary segment division, German and international business.

Life Germany

The ERGO Insurance Group carries out all the common forms of life and annuity insurance in the ‘Life Germany’ segment. This also includes the state-subsidised pension schemes, unit-linked insurance, credit protection insurance as well as company pension products. The life insurance business of Hamburg-Mannheimer, Victoria and Vorsorge companies is recorded here.

In the year under review total premium income for ‘Life Germany’ was down 2.2%, from € 5.3bn in 2008 to € 5.2bn. Gross premiums written, excluding savings amounts from unit-linked life insurance policies or capitalisation products, fell by 1.8% to € 4.5bn (4.6bn). This development, which was below average for the market, shows that we could not compensate for the large number of maturities with the same level of new business. A contributory factor to this was the fact that we had scaled back our profit participation for customers in order to sustainably meet our benefit promises in the current low interest environment. What is more, we refrained from offering highly attractive conditions for capitalisation business with single premiums.

Although the new business for this segment did indeed increase slightly compared with 2008, notably up by 2.0% to € 1.24bn (1.21bn), this was mainly due to single premium business which we – especially with the traditional guaranteed products – increased by 17.9% to € 935m (739m). By contrast, new business with regular premiums fell by 27.9% to € 303m (420m). The reason for this sharp decline was first and foremost a basis effect: At the start of 2008, the fourth and final stage of the subsidised Riester policies had a positive impact on new business. If new business with regular premiums recorded on the balance sheet had been adjusted for this, it would still have meant it was 12.2% below last year’s figures. This reveals that people are unwilling to enter into long-term commitments due to the uncertain economic situation, which would actually be necessary for pension schemes. When measured using the internationally more common Annual Premium Equivalent (APE, i. e. ongoing premiums plus one tenth of the single premiums), our new business stood at € 396m (499m), meaning 20.6% less than last year.

The investment result for domestic life climbed to € 2.4bn, compared to € 1.8bn for 2008. However, this increase is solely related to the improved net sum from unrealised gains and losses in unit-linked life insurance policies which forms part of the investment result and improved it by € 740m in the reporting year compared to 2008. The effects of the capital market crisis and the ongoing trend of low interest rates made themselves felt for our own account. Regular income was down 4.9% to € 2.7bn (2.8bn). Due to the capital market crisis, continued write-downs were undertaken, above all to our interest rate hedges as a result of the rise in the interest rate and lower volatility in 2009; towards the end of 2008, the collapse in interest rates and increased volatility had resulted in considerable write-ups.

Benefits to customers increased by 12.0% compared to 2008, and now stand at € 5.6bn (5.0bn). Allocation to the provision for future policy benefits has, on balance, risen by almost one billion euros, primarily due to the positive development of unrealised gains and losses from unit-linked life insurance.

There was a renewed positive trend in net operating expenses in 2009. Administrative costs were curbed considerably, down 11.1% to a gross sum of € 153m (173m). Gross acquisition costs were 16.3% down on the previous year which was also due to the effect of last year’s final step of the Riester scheme. On the other hand, higher deferred acquisition costs and lower reinsurance commissions due to the effect of higher retentions had an adverse effect. Overall, there was a 2.1% drop in net operating expenses.

The technical result rose in the year under review to € 148m (90m), whereas the non-technical result fell to € 38m (172m), meaning an operating result of € 185m (262m). Following lower expenses on tax, the consolidated result was lower than the previous year at € 56m (106m).

Life Germay	2009 € million	2008 € million
Total premium income	**5,190**	5,309
Gross premiums written	**4,491**	4,572
Investment result	**2,419**	1,834
Net expenses for claims and benefits[1]	**5,606**	5,006
Net operating expenses	**715**	730
Consolidated result	**56**	106

[1] including policyholders’ dividends

Health

Both domestic and international health insurance are included in this segment. In Germany, the health insurers in this segment, namely DKV Deutsche Krankenversicherung and Victoria Krankenversicherung, carry out all types of private health insurance. They are also members of the compulsory nursing care insurance pool in Germany. Our international activities in the health segment are incorporated under the organisational unit of Munich Health which, in terms of organisational structure, is attached to the Munich Re.

In the health segment, there was a rise in premium income, up 3.8% to € 5.4bn (5.2bn). There was only a moderate rise in German business of 1.5% to € 4.5bn (4.4bn). Not only did the healthcare reform in Germany make itself felt here, but there were comparatively low premium adjustments in 2009. With an increase of 3.2%, German supplementary insurance business was up slightly more in the year under review than premium income in the comprehensive health cover segment which grew by 1.2%. International business showed strong growth of 16.1% to € 927m (798m). This was attributable first and foremost to the activities of DKV Seguros in the Spanish region of Denia. DKV Seguros, together with the hospital operator Marina Salud took over healthcare for this region in February 2009.

In the health segment, new business development was patchy: comprehensive health insurance in Germany rose by 1.2%. This is partly a reflection of the successful introduction of our new tariffs here. Supplementary insurance policies saw a drop of 19.3%. Apart from the subdued demand resulting from the economic crisis, this development was also due to the new optional tariffs which were introduced as part of the healthcare reform by a number of statutory health insurers. Overall, new business development in the domestic market came to € 198m (206m) (-4.1%). New international business was up a strong 5.3% to € 90m (85m).

Health segment	**2009 € million**	**2008 € million**
Gross premiums written	**5,424**	5,228
Investment result	**1,059**	541
Net expenses for claims and benefits[1]	**5,457**	4,786
Net operating expenses	**590**	568
Consolidated result	**70**	4

[1] including policyholders' dividends

The investment result for the health segment rose significantly to € 1.1bn (0.5bn). Although still negative at € –119m, the net amount from write-ups and write-downs as well as from gains and losses from disposals clearly improved compared to the previous year (€ –614m). There was a slight rise in regular income from investments, up 0.7% to € 1.26bn (1.25bn).

Largely as a result of improved investment income, benefits to customers were up 14.0% on last year's figure, and stood at € 5.5bn (4.8bn). Expenditure on premium refunds surpassed the previous year's level by € 312m. Claims expenditure was up 6.8% to € 3.8bn (3.6bn), caused by cost increases in German healthcare and the start of operations of Marina Salud.

Net operating expenses rose by 3.7%. As regards domestic business, we managed to reduce administrative expenses (gross) by 5.9% and also acquisition costs (-6.1%). Reduced compensatory effects resulting from deferred acquisition costs and reinsurance commissions had an adverse effect in the health segment too.

The technical result fell to € 369m (676m) in the year under review, whereas the non-technical result improved to € –156m (– 536m). The operating result rose to € 212m (140m) and the consolidated result increased to € 70m (4m).

Property-casualty Germany

As regards this segment, we carry out business in virtually all insurance sectors and types of property-casualty insurance, including most notably accident insurance, motor insurance, liability insurance, fire and property insurance, transport insurance and legal expenses insurance. Reinsurance business is also done on a very selective basis predominantly from Group companies. The main companies in this segment are the property-casualty insurers of Victoria, Hamburg-Mannheimer and D.A.S. as well as the legal expenses insurers of D.A.S. and Hamburg-Mannheimer.

Premium income in the segment rose by 1.7% to € 3.11bn (3.05bn) in the financial year, meaning that our growth rate was once again above the general level of the German market. Overall, however, the difficult macroeconomic landscape had an adverse effect on demand for insurance cover. Against this background, we managed to increase commercial and industrial business premiums by 4.5% – despite our still strictly profit-based underwriting policy according to which we only take risks which promise an adequate price/risk ratio. For private customer business, premium income was below last year's level (– 0.5%), largely due to motor insurance, which continued to be highly competitive and was again marked by a decline in business (– 3.4%). In contrast, accident insurance business recorded growth of 3.0%, and 0.7% for property lines of business. Domestic legal expenses insurance showed a decrease of 2.7%.

Property-casualty Germany	**2009 € million**	**2008 € million**
Gross premiums written	**3,107**	3,054
Investment result	**201**	110
Net expenses for claims and benefits	**1,686**	1,614
Net operating expenses	**911**	890
Consolidated result	**255**	252

Despite a slight increase, our combined ratio, at 88.3% (87.3%), remains yet again below our long-term and sustainable target level of 95%. This underscores the major importance which we attach to profit orientation and actuarial profit when underwriting risks. In addition, the continuing excellent ratio reflects the clearly profit-based orientation of our sales forces in all areas of property-casualty insurance. Total benefits to customers were up 4.5% to € 1.7bn (1.6bn). Claims expenditure rose by 3.3%. Operating expenses increased by 2.4%, but administrative expenses (gross) by only 0.1% whereas acquisition costs (gross) climbed by 5.3%.

There was a significant rise in the investment result for the property-casualty segment, which stood at € 201m (110m). Although regular income was down 13.1% to € 228m (262m), the net amount from write-ups and write-downs as well as from disposal gains and losses improved considerably at the same time (€ –7m after € –131m last year).

Due to the slight increase in the combined ratio as well as lower technical interest, the technical result was down to € 382m (446m), which equals –14.4%. With a clearly improved non-technical result of € 47m (–14m), this led to an operating result almost on par with the previous year (-0.6%) at € 429m (432m). At € 255m (252m), the consolidated result is 1.1% up on last year's figure.

Direct Insurance

The direct insurance segment essentially comprises the business of ERGO Direct Insurance, which used to operate under the name of KarstadtQuelle Insurance. The company was renamed in February 2010.

The ERGO Direct Insurance companies carry out the most important forms of life and annuity insurance for private individuals as well as property-casualty insurance, and specialise in offering products supplementary to statutory health insurance. Sales are made predominantly by means of personalised mailings and by phone, although policies can also be taken out online. The Neckermann insurance companies also form part of the direct insurance segment.

Compared to the previous year, total premium income for direct insurance rose significantly, up 15.0% to € 1.2bn (1.0bn), of which premium income for life insurance accounted for € 843m (+16.7%), € 230m (+13.7%) for health insurance and € 124m (+6.4%) for property-casualty insurance.

As regards life insurance, single premiums did very well at € 336m (211m), up 59.2%. This is almost exclusively due to the capitalisation product MaxiZins which was in great demand during the year despite the clearly reduced interest rates. Since savings premiums from such capitalisation products are not included in gross premiums written, growth across all segments was up by a more moderate 3.8% on last year's figure at € 854m (823m).

New business in life insurance rose by a strong 43.3% to € 378m (264m) due to good single premium business; the increase in the annual premium equivalent (APE) was accordingly lower, up 2.6% to € 77m (75m). There was a slight rise in new business in the health insurance segment, up 1.8% to € 49m (48m).

At € 164m (100m), the investment result was considerably better than in the previous year. Lower write-downs on investments in particular made a contribution here. Regular income virtually remained on par with the preceding year.

Direct Insurance	2009 € million	2008 € million
Total premium income	**1,197**	1,041
Gross premiums written	**854**	823
Investment result	**164**	100
Net expenses for claims and benefits[1]	**776**	687
Net operating expenses	**178**	182
Consolidated result	**26**	18

[1] including policyholders' dividends

Total benefits to customers were up 12.9% to € 776m (687m), especially due to significantly higher allocations to provisions for premium refunds. Claims expenditure was up 7.4%. We succeeded in pushing net operating expenses to a level below that of the previous year; they were down 1.8% to € 178m (182m). This is due first and foremost to lower acquisition costs.

The technical result fell to € 32m (47m), whereas the non-technical result increased to € 6m (–14m). Here, too, the changes are attributable to a large extent to the distortion of the capital markets in the previous year and the interplay with income from technical interest. The operating result rose to € 38m (33m), and the consolidated result increased to € 26m (18m).

Travel Insurance

The business of Europäische Reiseversicherung (ERV) is recorded in this segment. ERV is one of the international market leaders in travel insurance for private and commercial travel. Apart from conventional travel insurance products, such as cancellation insurance, baggage insurance, and international travel health insurance, it also includes items such as admission ticket insurance. This insurance is sold by travel agencies and other cooperation partners as well as online. The segment also includes almeda which provides assistance and health services worldwide.

We acquired ERV and Mercur Assistance (since April 2009: almeda) from Munich Re with effect from 1 January 2009. For this reason, figures for the previous year cannot be shown in the segmental balance sheet. The explanation of business development in this segment is based on an "as if perspective" in which the travel insurance segment is already assumed to have been part of ERGO in 2008.

On this basis, premium income for the financial year decreased to € 390m (395m) which corresponds to –1.3%. Whereas domestic

Travel Insurance [1]	2009 € million	2008 € million
Gross premiums written	**390**	395
Investment result	**1**	1
Net expenses for claims and benefits	**185**	193
Net operating expenses	**152**	151
Consolidated result	**– 1**	– 3

[1] Figures for the 2008 financial year on an "as if" basis

business showed a clear increase in the previous year at € 204m (177m), international business development was down to € 186m (218m). The difficult and uncertain economic parameters had a negative impact on the travel segment in particular.

Benefits to customers fell by 4.2% to € 185m (193m). Travel insurance is characterised by especially short procedures: on average, final settlement of claims takes only seven days, in 70% of the cases, settlement takes place within 48 hours. Consequently, the trend in benefits is almost exclusively accounted for by claims expenditure. Net operating expenses increased slightly by 0.7%, which is mainly due to slightly increased acquisition costs – up by 2.8%. Administrative costs were 0.9% higher than in the previous year, resulting in the combined ratio subsequently rising to an unsatisfactory 101.5% (99.7%).

Owing to the short-term nature of the business as described above, the investment result only plays a very subordinate role in this segment, totalling € 0.84m (0.86m). At € –0.4m (1.0m), the technical result was slightly worse than last year; the non-technical result was € –6m (–2m). In terms of operations, a loss of € –6m (–1m) was incurred. At € –1m (–3m), the consolidated result was also slightly negative.

International Operations

The international activities of the ERGO Insurance Group are combined in the International Operations segment. In individual cases, international activities were also assigned to other segments. The emphasis of activities in this segment is on life and property-casualty insurance. Geographically, the focus is on selected European and Asian markets.

In the year under review the International Operations segment once again witnessed strong growth. Total premium income rose by 21.3% to € 4.0bn (3.3bn). Life insurers made the strongest contribution to this development, as total premiums were up 56.1% to € 2.0bn; an important factor here was the acquisition of the Austrian BA-CA Insurance. This also made itself clearly felt in new business which rose from € 349m to € 903m. Since BA-CA Insurance is especially strong in single premium business, the increase in the annual premium equivalent (APE) only amounted to 45.5%.

By contrast, premium income in the property-casualty segment showed a slight decrease of 0.5% and stood at € 2.00bn (2.01bn). In markets such as Poland and Turkey, the increase in premium income in the original currency was countered by exchange rate losses. The markets in the Baltic States, which are especially important to us, were affected by the difficult economic situation – with correspondingly adverse effects on insurance premiums. As regards international legal expenses insurance, we again achieved good organic growth amounting to 6.9%.

Business segment development

International Operations	2009 € million	2008 € million
Total premium income	**3,978**	3,279
Gross premiums written	**3,441**	3,103
Investment result	**651**	402
Net expenses for claims and benefits [1]	**2,459**	1,836
Net operating expenses	**870**	705
Consolidated result	**– 65**	– 58

[1] including policyholders' dividends

Gross premiums written for the segment rose by 10.9% to € 3.4bn (3.1bn).

The investment result for the financial year rose to € 651m (402m); here, too, the increase is exclusively the consequence of the net amount from unrealised gains and losses in unit-linked life insurance policies.

All figures recorded in this segment are heavily influenced by the first-time consolidation of the Austrian BA-CA Insurance, which incidentally also brought about a change in the segment's business mix. Total benefits to customers rose by 33.9% to € 2.5bn (1.8bn), whereas pure claims expenditure increased by 24.8%. The marked deterioration in claims development in ERGO's core markets additionally made itself felt here. The combined ratio of the segment's property-casualty insurers rose by five percentage points to an unsatisfactory 102.4%. Net operating expenses were up 23.3%. The increase in administrative costs of 5.6% remained clearly below the rise in premiums.

The results situation is unsatisfactory. It was largely as a result of the negative development of the combined ratio that the technical result worsened to € –92m (53m). The non-technical result, too, fell; it stood at € 111m (143m). This means that the operating result, while still positive, was significantly weaker at € 19m (196m). In view of further impairment losses of goodwill worth € 62m (185m) - much lower compared to the previous year - this again gave rise to a negative consolidated result of € –65m (–58m).

Nevertheless, we successfully pushed the development our international activities in the reporting year. This is all the more pleasing, as the year began with a setback: in India, we will have to look for a new partner for the life insurance business. Our previous partner, the Hero Group, postponed its planned activities in this area indefinitely due to the difficult economic parameters. Since we are still confident that the Indian life insurance market holds great potential, we will continue to pursue our goal of market entry into India.

In Indian property insurance our joint venture HDFC ERGO advanced to the position of fifth-largest private insurer. In Poland, ERGO Hestia's position also improved: it became property-casualty insurer number 2 in the market.

We consistently and successfully expanded our bancassurance business, not least through the integration of Austrian BA-CA Insurance thanks to which we became number 3 in the Austrian life insurance market. Our banking cooperation with UniCredit and Volksbanken in Austria, as well as other markets in Central and Eastern Europe, is controlled by a competence centre in Vienna which was specifically set up for the purpose. This centre makes its superb know-how and its high-quality services available to the relevant local companies.

In Latvia and Lithuania our life insurance sales will be working closely with Bank DnB NORD in future. The cooperation, concluded at the end of 2009, is in force for at least five years. As part of this cooperation, it is planned that life insurance policies of the relevant ERGO companies will be initially sold in just under 120 branches of Bank DnB NORD in Latvia and Lithuania. In addition, plans exist to extend the cooperation to include Estonia and Poland. Within their respective markets, the Baltic ERGO companies as well as ERGO Hestia in Poland are among the leading providers of life and property-casualty insurance products. Bank DnB NORD, a joint venture of Norwegian company DnB NOR and German company NORD/LB Norddeutsche Landesbank, is one of the major banks in north-eastern Europe and has more than 900,000 customers.

In Greece, too, we extended our bank strategy in the reporting year. Since 1 January 2010, property insurance products of the Greek ERGO subsidiary, Victoria General, have been sold exclusively in just under 360 Piraeus Bank branches, the country's fourth largest bank. The exclusive cooperation is planned to last for at least ten years. Victoria General had already cooperated with Piraeus Bank since 2005, although not previously on an exclusive basis. In Greece, with its approximately 11 million inhabitants, Piraeus Bank has more than two million private and about 60,000 commercial customers.

Financial position

Analysis of capital structure

Our capital structure is essentially determined by our insurance activities: the liabilities side of the balance sheet is dominated by technical provisions (81.0% of the balance sheet total) – future payout commitments to our clients. Equity (2.8% of the balance sheet total) is the most important source of funds. The importance of strategic debt is increasing within the scope of our active capital management.

The majority of technical provisions is contained in the Life Germany (54.2%) and Health (25.9%) segments. Detailed information on these provisions may be found in the Notes to the financial statements on pages 166 to 177.

Compared to liabilities from loans and securities issued, we cannot foresee with certainty how high our liabilities from technical business will be and when they will occur. The payout pattern of technical provisions varies enormously from segment to segment and from one line of business to another. Travel insurance concerns extremely short-term business, and claims are settled on average after only seven days. As far as property-casualty lines of business are concerned, the majority of reserves are paid out after a year, whereas under certain circumstances substantial amounts accrue, such as in liability and accident insurance, even decades after concluding the respective policies. In life and health insurance we use the premiums to create actuarial and ageing provisions which make up the lion's share of technical provisions.

We ensure that our business is sufficiently capitalised at all times by monitoring the situation on an ongoing basis and taking suitable measures. These are dealt with in more detail in the 'capital management' section.

Debt capital shown in the balance sheet stems to a very large extent (29.9%) from Münchener Rückversicherungs-AG. The remaining subordinate capital is mainly the result of entering into a subordinate loan with Munich Re Finance B.V. in 2004; in December 2007, Münchener Rückversicherungs-AG took over the role of issuer.

All financial resources are invested according to the principles of asset-liability management described from page 80 onwards. The split of our investments is described on pages 44 to 46.

Group equity and capital management

In the financial year under review our equity rose to € 3.9bn (3.6bn) (for details, see page 94). This increase is based on Group results achieved in 2009 on the one hand, and an improved net balance from unrealised gains and losses on the other, which climbed to € 680m (288m) compared with the previous year.

As a result of our active capital management we guarantee that the level of ERGO's capital resources is adequate at all times. This means that all financial resources available cover all capital requirements which we determine according to our own internal risk model as well as the requirements laid down by the regulatory authorities and rating agencies. In addition, our financial strength should be sufficient for us to take advantage of measured opportunities for growth, to avoid significant impairments through normal fluctuations in capital market conditions, and should also be ensured in a reasonable scope at all times, even following major losses or substantial stock market falls. For us, however, adequate capital resources also mean that the equity basis of our Group does not exceed to a large extent the amount which is necessary to operate the business, as determined according to these criteria.

Apart from an adequate level of equity the efficient use of capital available is also a crucial factor. As a result of our value-based management approach (see page 30) we set the necessary management stimuli so that every investment achieves a return commensurate with risk in the long run. The results and capital base of operational companies are protected against unacceptable fluctuations by means of suitable reinsurance cover. The same purpose is served by our asset-liability management, together with numerous limits to restrict risks in terms of our capital investments.

Our internal risk model plays a key role in capital management. Our economic capital is determined based on internal risk model data. First of all, we calculate the risk capital required to absorb annual losses at a level that can only be expected every 200 years (99.5% value at risk). This policy is based on the Solvency II developments. We then set ourselves a minimum requirement of 1.75 times this 200-year loss (175% of the 99.5% value at risk).

Capital management also takes considerable account of steering aspects which chiefly stem from regulatory restrictions as well as the participation of policyholders in surplus. We review the assumptions on which the internal risk model is based on a regular basis and adjust them as required.

After not having paid a dividend last year, we will propose to this year's Annual General Meeting to agree to a dividend of € 0.60 per share.

Solvency

The individual insurance companies of the ERGO Group are subject to the regulatory requirements pertaining to the countries in question. The insurance companies of the ERGO Insurance Group complied with the local requirements concerning solvency in the year under review. At one company from the International Operations segment, a capital increase already decided will not be concluded until February 2010.

There is no supervision at Group level because the ERGO Insurance Group itself is part of the Munich Re Group which is subject, in turn, to supervision at Group level (group solvency).

Rating

ERGO's financial strength and that of its major subsidiaries are assessed by leading rating agencies. The ratings are of a high standard. The table on page 62 shows the results as at 31 December 2009.

Analysis of the consolidated cash flow statement

The cash flow of the ERGO Group is strongly influenced by our business in primary insurance. As a rule, we first collect the premi-

Financial strength ratings	Fitch	Moody's	S & P
ERGO Versicherungsgruppe AG			A
D.A.S. Rechtsschutz-Versicherungs-AG			A +
D.A.S. Austria			A
DAS Legal Insurance Co. Ltd.			A
DKV Deutsche Krankenversicherung AG	AA –		AA –
ERV Europäische Reiseversicherung AG	A +		
Hamburg-Mannheimer Sachversicherungs-AG			AA –
Hamburg-Mannheimer Versicherungs-AG	AA –	Aa 3	AA –
KarstadtQuelle Lebensversicherung AG			A +
Victoria Lebensversicherung AG	A –	Aa 3	A +
Victoria Versicherung AG			AA –
Vorsorge Lebensversicherung AG	A +		

ums for the risks assumed and do not make payments until later in the event of benefits or claims. The cash flow statements of insurance companies are therefore of limited relevance.

The cash flow statement (see page 95) was prepared using the indirect method; it was adjusted to eliminate influences from changes in the consolidated group as well as changes in exchange rates.

The basis for determining the cash inflow from operating activities is the consolidated result amounting to € 173m (73m). On the one hand, it is increased by the change in technical reserves of € 6.3bn (1.4bn). This was mainly due to the interest on life insurance and health insurance policies. Major items worth mentioning here include changes to deposits retained and accounts receivable and payable; their net amount went down by € –2.7bn (+0.3bn) reflecting higher retentions. In addition, other income and expenses without impact on cash flow should be mentioned. The latter, accounting for € 0.6bn (2.2bn) in the reporting year, consists mainly of write-ups and write-downs.

The cash outflow from investment activities generally determines payments for the acquisition of other investments or investments in unit-linked life insurance, and amount to € 3.7bn (3.2bn) and € 711m (380m) respectively. In addition, a sum of € 205m (818m) was withdrawn for purchasing consolidated companies, mainly ERV Europäische Reiseversicherung in the year under review: The purchase price of € 203m for 100% of the shares was paid for in cash and set off against cash holdings.

At € 81m (1,016m), the cash outflow from financing activities was very insignificant. In the year under review no dividend was paid out, whereas the previous year was marked with the cash outflow resulting from high special dividends as part of our capital management.

Cash in hand at the end of 2009 increased overall by € 85m to € 1.4bn; this figure includes operating balances with credit institutions, cheques and cash in hand. In the previous year it had decreased by € 355m.

Details pertaining to Section 315 para. 4 of the German Commercial Code (HGB)

The Company's share capital amounts to € 196,279,504.20 and comprises 75,492,117 no-par-value shares. With a stake of 99.69%, Munich Re is our majority shareholder.

At ERGO there are neither constraints on exercising votes or transferring shares nor are there controls on voting rights by employee shareholders. Our shares are not subject to any special rights of control.

On 9 May 2007, the Annual General Meeting gave the Board of Management permission, which is valid until 8 May 2012, to raise the Company's share capital by issuing new shares against cash deposits or investments, either as a lump sum or in instalments, to a total of up to € 97,500,000 (authorised capital) with the permission of the Supervisory Board. No use has been made of this empowerment up until 31 December 2009.

Furthermore, the Board of Management was empowered by the Annual General Meeting of 9 May 2007, with validity until 8 May 2012, to issue once or several times option bonds and/or convertible bonds with or without a limited period of validity of up to € 1bn as well as granting the owners or creditors of such bonds options or conversion rights to new Company shares with a proportional sum of the share capital up to € 97,500,000 with the permission of the Supervisory Board. To this end, there was a contingent increase in the Company's share capital of up to € 97,500,000. Once again no use has been made of this empowerment up until 31 December 2009.

The appointment and/or revoking of members of the Board of Management is in line with Sections 84, 85 of the German Stock Companies Act (AktG) and Section 31 of the German Co-Determination Act (MitBestG), and ERGO does not have any statutory provisions in this respect. Prerequisites governing an amendment to the Articles of Association are stipulated in Section 179 of the German Stock Companies Act. It is stipulated in Section 13 para. 4 of the Articles of Association that the corresponding resolution passed at the Annual General Meeting, as far as this is permissible under law, only requires a simple majority of the share capital represented at the time of passing the resolution, as well as the simple majority of votes. Additionally, use was made of the possibility permitted under Section 179 para. 1 sentence 2 of the German Stock Companies Act, which states that in accordance with Section 10 of the Articles of Association, the Supervisory Board is entitled to undertake changes to the Articles of Association that only involve the wording.

At ERGO, major Company agreements which concern a change in control as a result of a takeover do not exist; neither do Company compensation agreements with members of the Board of Management or staff in the case of a takeover bid.

Sustainability

We also intend to secure sustainable economic success for our Group with factors which cannot be measured in financial ratios. These include:

- open dialogue with our customers,
- our continued commitment to new, needs-oriented products and solutions,
- our corporate responsibility towards our employees, society and the environment, as well as
- efficient business processes for managing our Company as well as identifying and avoiding risks.

Clients and client relationships

Our products are geared towards all customer groups – private clients as well as small and medium-sized businesses and industrial clients. They can select from all product groups: life and health insurance, property-casualty insurance, as well as travel insurance. In addition, our agents offer fund products – available from MEAG as the asset management company of Munich Re and ERGO – and bank products from our cooperation partner, the UniCredit Group. Advisory activities and services round off the portfolio.

Our customers can thus cover their needs conveniently and comprehensively from one source in respect of the financial services of tried and trusted providers. Further, the entire range of sales organisations at ERGO ensures that our customers are able to approach the Group in a way which suits them best. The new brand strategy in Germany will make things even easier for our customers in the future.

We are making progress with the gradual introduction of a uniform IT platform for tied agents across all companies. It will assist the sales and administrative processes and speed up the introduction of new products. Broker sales of our German brands have been brought together at ERGO, as have bank sales.

Our field staff place great importance on support and service – not just during their sales pitch alone. Even after the contract has been signed our customers are convinced by the good service we provide, for example a fair and swift claims settlement process. Such situations in particular reveal the value of having a good insurance.

Customer satisfaction and service by professional client management of ERGO have been rated “good” in selected processes tested by the German Technical Inspection Association, TÜV. The quality of the claims management has been certified by the German Association for the Certification of Management Systems (DGS) according to DIN-EN-ISO9001 which involves controls and claims controlling, as well as regular onsite checks.

Research and development

Our main focus in research and development is to analyse and forecast demographic trends as these trends constitute important parameters for calculating policy terms and thus designing products. Furthermore, demographic change affects social security systems and thereby influences our clients’ needs for private provision. Our product development incorporates not only our own know-how but also the latest scientific findings.

The life insurers use to some extent their own mortality tables to have the customised data available for their specifically structured portfolios. The health insurers adopt the mortality tables developed by the Association of Private Health Insurers. The knowledge of our actuaries regarding life expectancy of customers is constantly extended and updated by liaising with the German Association of Actuaries.

Staff

Our staff provide the basis of our success with their expertise, motivation and commitment. That is the reason why we rigidly pursue a strategy of developing their skills.

There are more than 50,000 people working full-time for our Group, either as salaried employees or as self-employed representatives. We focus our attention on responsible tasks, a corporate culture which encourages performance and interesting opportunities for professional development in our internationally active organisation.

At the end of the reporting year there were 33,152 (31,508) salaried employees working for the ERGO Insurance Group, of which 26,577 (24,944) staff were employed in back-office and 6,575 (6,564) employees were salaried field sales staff. The rise in the number of staff is solely due to developments in international business.

The average age of our employees has become slightly younger compared with last year: 40.4 (40.6). The percentage of women stood at 56.8% (55.5%). The average length of service fell slightly to 11.5 (11.9) years.

The "Continuous Improvement of the Competitive Position" project, which was launched by ERGO in 2008, is aiming to achieve annual cost-savings of € 180m in material and personnel costs by 2010. This involves job losses totalling 1,800 full-time jobs in Germany. Agreements with the co-determination committees, which were necessary in order to implement the plan, were finalised in 2008 and 2009. This included ERGO agreeing not to make anybody redundant due to operational reasons before the end of 2012. As part of an ad hoc programme, more than half of the prescribed reduction was already achieved in 2009 by means of socially acceptable measures or by not filling vacancies. Provisions were set up for this in 2008 and 2009. The reduction of all 1,800 full-time jobs will be completed on schedule in 2010, which will result in permanent cost savings.

In the year under review the initiative, which was launched in 2008, was successfully implemented; its aim was to depict a uniform organisational structure of the Group in Germany as regards employment contracts. As regards the back-office staff of the various brands, they changed employers on 1 October 2009 and became employees of ERGO Versicherungsgruppe AG as far as they were not assigned to the respective brand's sales units. Having only one common employer enhances staff identification with ERGO and the continued shaping of joint corporate culture. Furthermore, within the scope of this plan, discussions were held with the co-determination councils and the trade union, ver.di, agreeing on a works council organisation to meet the requirements of an integrated company and with which the forthcoming works council elections will be organised in 2010.

In addition, we finalised the integration of the Europäische Reiseversicherung and Mercur (since April 2009: almeda) into the ERGO Insurance Group in the year under review.

We still attach great value to initial training, and wish to provide young people with a sound training and gain qualified and motivated staff for ERGO on a long-term basis. In 2009, the ERGO Insurance Group and its agencies in Germany trained 1,539 (1,399) school leavers, which equals a ratio to total working staff of 6.5% (5.8%).

The appropriate qualifications of our staff which are required for our industry still have high priority among our HR policy. Our goal is to extend our high level of quality and performance in order to reinforce our competitive position still further. That is the reason why we are constantly adapting our entire training and further education opportunities to meet current and future requirements. For the first time in 2009, all German staff working for the Group were offered the ERGO e-campus – the new, Group-wide uniform learning platform.

Social commitment

As a major internationally operating company the ERGO Insurance Group assumes social responsibility in many areas and countries, and is building on the long-standing tradition of many of its companies. In this respect, we feel committed to the model of sustainability, which corresponds with our long-term business: as an insurer, we give a promise for the future, and help people to shape their life.

Therefore, ERGO helps primarily where people take over responsibility for themselves and for others, and provides help in cases of need. We focus predominantly on the following areas: education and science, health, music and social affairs, where we are involved in numerous activities, large and small, both at home and abroad. A selection of our projects is described below.

As a member of the business community's innovation agency for science, "Stifterverband für die Deutsche Wissenschaft", ERGO supports the development of Germany as a science base. Further, ERGO sponsors talented students, and is the main sponsor of the current 2009/2010 competition for schools embracing the future "Schule macht Zukunft", organised by the FOCUS magazine publishing house. The competition's objective is to promote dialogue between schools and industry. Youngsters are motivated to take initiative for their actions and to actively plan their future. This aim is also pursued by the Hamburg-Mannheimer foundation "Jugend & Zukunft" (Youth and Future), set up in 1999. The foundation has been awarding a national sponsorship prize since 2006, and this year the prize is geared towards educational theatre projects with the motto "Theater bewegt" (theatre animates). The job locomotive is yet another project in which the foundation is involved. Socially deprived teenagers are helped in developing their job perspectives as well as making the transition between school and apprenticeship or job.

Another goal of social commitment pursued by ERGO is promoting health by means of sport, thereby improving achievement potential. "Brückenlauf," organised by DKV in Cologne, is an annual event to motivate thousands of people to get involved in sport. ERGO employees have used the "Brückenlauf" over the past years as their own personal sponsored run. ERGO donates three euros to a social project for every kilometre that has been run.

Music creates cultural identity, it links people and enables cultural barriers to be broken down. We would like to motivate young people to get actively involved with music. As part of its involvement with the association, Förderverein der Düsseldorfer Tonhalle e.V., ERGO is supporting the youth musical programme "Junge Tonhalle". The "Singpause" project consists of trained singers visiting pupils in classrooms of currently 32 junior schools and working together to produce a internationally inspired song repertoire.

We help fellow people who are in need through no fault of their own and who do not have the power to get themselves out of it, and support social projects, such as the children's cancer foundation known as "Madeleine Schickedanz-KinderKrebs-Stiftung". The "victorianer helfen" society has been involved in national and international social institutions and projects since it was set up in 1990, and has already donated several million euros. More than 5,000 staff are members of the society to date. In the "D.A.S.ler helfen" society ERGO employees actively help people in need as well.

In Spain, the customer services of DKV Seguros only employ disabled staff who look after customers' needs on the phone – this is supported by the in-house foundation "Fundación Integral". A great idea, which has now also been introduced by ERGO Hestia in Poland.

Environment

Protecting the environment has been an important topic to the ERGO Insurance Group for many years, and in terms of ecological components it is part of corporate responsibility. As far as the United Nation's commitment is concerned, notably the "Global Compact" initiative on environmental protection, we are checking potential for improvements and synergies, and reporting back the results to Munich Re. A progress report by Munich Re in 2009 is focusing on environmental protection, and is incorporating ERGO's developments and data into its report.

A major organisational change in 2009 has been the set-up of a separate central position for "occupational, health and environmental protection". This unit coordinates the extension of an environmental management system in ERGO geared towards the ISO 14001 worldwide standard. Moreover, environmental protection will be reinforced by a stronger link with occupational and health protection within the Group.

At the fore of environmental measures is the minimisation of resources and energy consumption in the business, utilisation of energy-efficient technology, as well as the optimisation of processes. However, options for action within the core business of conducted lines of business are also significant.

This is reflected by considerably more than 16,000 customers taking out a policy following the Environmental Damage Act over two years ago and the introduction of the environmental damage insurance (USV). This positive trend was actively encouraged during 2009 by generally including the USV in employer's liability insurance, particularly with commercial risks. This procedure will be continued in 2010, meaning that the portfolio penetration of USV will increase considerably.

For photovolatic systems, ERGO offers innovative supplementary cover for example against insufficient yield, which covers losses in yields as a result of a letdown in the level of efficiency or reduced global radiation by the sun. This guaranteed yield protects the forecast earnings of the system and can therefore have a positive effect on the financing aspect.

A specially tailored financial loss liability insurance will provide energy advisors cover against the financial consequences of a professional oversight. A special tariff has been on offer via dena to qualified energy consultants possessing the dena seal of approval since 2009.

Since July 2009, the revised German vehicle tax includes CO_2 emissions. In its motor tariff, ERGO has been encouraging vehicles with particularly low emissions of CO_2 since the beginning of this year, and is giving an incentive towards environmentally friendly mobility with a best-in-class approach which selects the respectively most economical vehicle types in eight segments.

In future, too, we will be assuming social responsibility by actively confronting major topics of environmental and climate protection, as well as sustainability, and reporting on them.

Information security management

Information management plays a central role at ERGO. Accordingly, great importance is attached to confidentiality, availability and integrity of information. In order to protect all electronic data, computers and networks, as well as all information which is not stored in our IT systems, ERGO has put in place effective security measures.

Our Group-wide IT security management comprises four levels: security policy, security directives, security concepts and their technical implementation. Managing information security lies in the hands of our Chief Information Security Officer.

We are continually developing our existing security management system, taking into account international standards, such as the security standard ISO 27001 and progress of Solvency II. We counter possible operational risks with qualified security measures. Thus risk management and IT compliance are also a part of the security organisation to ensure that the value of the ERGO Group is maintained in the long term. It provides support in strategic and operational plans in Germany and internationally, such as the set-up of a security or risk management system for our foreign subsidiaries.

There is an intensive exchange of information between ERGO and Munich Re concerning questions relating to security issues: in DISK (the German acronym for data protection and information security group) all parties responsible meet on a regular basis to discuss project results, risk assessments and experiences, to utilise synergy effects and address ideas for group-wide projects.

To ensure that persons, information, items and assets are protected is of principal importance to ERGO. Our data privacy policy, which regulates the handling of client data, contains binding statements on the protection of data pertaining to personal details. It serves as the basis for our staff when handling personal data and determines technical and organisational measures which are to be carried out to ensure that personal data is protected. At the same time, it forms the basis for principles, guidelines, instructions and company agreements for all data privacy topics. The legal basis for processing customer data is the contractual relationship and the consent given by customers when taking out insurance cover.

Reservations on statements about the future

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

All in all, looking ahead at the next two financial years, we continue to expect a positive trend in ERGO Insurance Group's business, despite the difficult economic environment. This assessment is based on a number of expectations which take into account major opportunities and risks, our economic environment and our strategic alignment.

General economic trend

Initial signs of economic recovery could be seen as early as mid-2009, and it is to be expected that this trend will continue in 2010. A comparatively strong dynamic force in growth is likely from the emerging economies, especially China and India. The majority of industrialised nations will probably see slightly improved economic performance. Nevertheless, the sharp increase in unemployment seen in these countries is unfortunately likely to continue for the time being.

The expected economic improvement should affect Germany and the whole of the eurozone. The scale of the recovery will be determined principally by the trend in foreign demand and in private consumption.

The economic parameters for the German insurance industry will remain tight even beyond 2009. There is a danger that the economic situation of private households will worsen because of the expected rise in unemployment, which would have a particularly adverse impact on life insurance and private health insurance business. Moreover, a renewed sharp economic downturn is still a possibility. Nonetheless, in recent years, insurers have demonstrated their capacity to do well even when economic conditions are unfavourable.

Capital market trend

2010 will be a year of transition for capital markets. The consequences of the crisis will need to be dealt with, alongside a reduction of the stimulus in terms of monetary and fiscal policy. Against this background, we are assuming that returns on long-term government bonds will rise moderately. Riskier investments are likely to continue to be volatile in 2010. This reflects the continued uncertainty regarding prospects for the economy, the stability of the financial system, and a scaling down of the expansive monetary policy carried out in such a way as to protect the markets.

Risks

Although prospects for the economy have markedly improved, commercial prospects remain relatively uncertain. It is still not clear whether the economic recovery will prove to be lasting. The possibility of a further sharp economic downturn, or long-term stagnation with deflationary results, cannot be excluded. Moreover, the consequences of the massive interventions on the part of national states and banks, and future reactions to these, are difficult to estimate. For example, one serious risk for the insurance industry is the possibility that failings in monetary policy could bring about higher inflation over the medium term as economic recovery continues. Further risks may arise from the long-term effects of the crisis, for instance in the form of reduced potential for growth in the future. The consequences for international trade, especially in relation to protectionist limitations, remain unclear.

Another question is whether future political decisions may place restrictions on the insurance sector, and if so to what extent. Indeed, business fields associated with social insurance, such as private health insurance, are subject to a political risk. The planned tightening up of the regulatory framework in the financial services sector also implies risks for the insurance industry. One concern is that changes principally conceived with the banking system in mind may be transferred without alteration to the insurance sector. Possibilities include excessive capitalisation requirements, disproportionate reporting regulations, or even restrictions on certain types of business.

Unexpectedly intense price competition in insurance markets is still a risk scenario. This could be promoted by a reduction in demand caused by the recession or by politically induced limitations on business activity. The key to success for the insurance industry remains emphasising profitability rather than size, and maintaining effective controlling systems.

The insurance industry in Europe and Germany

As a result of the very different parameters prevailing in the individual European insurance markets, the following sections take a closer look at the trends of the segments in our domestic market of Germany.

Life insurance in 2010 and 2011

The growing volatile status of premiums owing to the increasing role of single premiums makes the business trend over the coming year more difficult to predict. On the assumption that single premiums will remain high, the Association of German Insurers (GDV) estimates that premium income for life insurance (including retirement funds (*Pensionskassen*) and pension funds) will fall by around 3% in 2010.

Despite this expectation of a reduction in premiums over the short term, the importance of private pensions and cover against the financial consequences of biometric risks will continue to increase. The limited performance capability of pay-as-you-go social insurance systems is well known. The negative effects of lower gross domestic product on statutory pensions insurance will only become fully apparent with the passage of time. The life insurance industry, on the other hand, has proved its stability even during the financial crisis. This is also true in comparison with other service providers of private pensions, such as banks and investment funds.

We expect that products with payments in the form of a pension will continue to gain in significance over the coming years, whether in their classic form or as innovative unit-linked product solutions. The question of security continues to be very important to people. This means that in the area of unit-linked insurance, minimum guarantees will play an ever increasing role. Moreover, innovative capital investment concepts are becoming more and more important in this area of business, both because of the returns customers are coming to expect and in the context of security guarantees. Cover for invalidity or long-term care is also likely to make a positive contribution on business.

Private health insurance in 2010 and 2011

The coalition agreement of the new German government expressly recognises the coexistence of statutory and private health insurance. The new governing coalition intends to allow greater competition once more, abolish the three-year changeover imposition period and thus permit fair competition between statutory and private health insurance. In addition, certain questionable regulations relating to the basic tariff will be reviewed. As regards the optional and supplementary tariffs, the new government is demanding a clear demarcation between statutory and private health insurance. The intended introduction of supplementary funded long-term care insurance may be regarded as a historic watershed – assuming that policy actually goes down the path of a private fully funded system. The sector applauds this change of direction in health policy. It is expected that this new course in health policy will have a positive effect on business within the sector.

In 2010, the effects of the three-year changeover imposition period that has been in force since February 2007 will gradually begin to run out, and this will probably lead to a slight increase in new business from salaried employees. It is as yet not known from what point in time the new government will abolish the three-year changeover imposition period. Across the sector, the main cause of an increase in premium income in 2010 will be premium adjustments. The Citizen Relief Act ("Bürgerentlastungsgesetz") will have a positive impact on policyholders, because it means that a higher proportion of health insurance premiums are eligible for tax relief. As regards the disproportionate increase of claims expenses, private health insurers are fighting to ensure that things are set on the right course during this electoral cycle when it comes to the review of fee regulations for doctors and dentists. The expected result is a growth in premiums of 5% for private health insurers during 2010. Against the background of the present political environment in the health sector, the private health insurance industry should see opportunities for a positive development in 2011 as well.

Property-casualty insurance in 2010 and 2011

Prospects for property-casualty insurance may be regarded as stable even within an overall economic context that continues to be difficult. If the number of unemployed people increases significantly, it may however be assumed that the portfolios will become less resilient. Significant growth should also not be expected from private property-casualty insurance, because the high degree of market penetration and the intensive price competition in some areas, for instance motor insurance, mean there is no scope for growth.

Demand for insurance cover from commercial and industrial companies will be slightly reduced in the coming years because of the financial and economic crisis. The crisis will have a delayed impact in this sector as a result of policy structures, making itself felt in 2010. It may be assumed that production and transportation volumes will decline, while customers become much more sensitive to prices. This means that the prospective scope for premium increases remains low.

The overall market expectation is therefore that there will be a slight decrease of 0.5% in premium income. If economic recovery is swift, premiums may start growing again in 2011. In 2009, the level of claims in property-casualty insurance, which was previously moderate, deteriorated noticeably. It remains to be seen how claims will develop over the coming years.

ERGO's performance

We announced at the end of 2009 that we are changing our brand strategy, and we intend to reflect the needs of our customers even more strongly in future, win new customers and so achieve growth. In Germany, we will offer life and property-casualty insurance under the ERGO brand. Health insurance will be brought together under the DKV brand, while D.A.S. will cover legal expenses insurance. The ERV brand stands exclusively for travel insurance. By focusing brand appearance, ERGO's full spectrum of services will become more transparent for customers. The Victoria and Hamburg-Mannheimer brands will disappear from the market. Internationally, too, we aim to focus even more on the ERGO brand for life and property-casualty insurance.

The immediate reason for revising the brand strategy was the need for action in relation to the KarstadtQuelle Insurance brand because of the bankruptcy of Arcandor with its Karstadt and Quelle brands. KarstadtQuelle Insurance was renamed ERGO Direct Insurance in the first quarter of 2010, and the remaining alterations will take place during the course of 2010. These major changes may mean a possibility of reduced premium income over the short term.

We expect the following developments:

As regards the Life Germany segment, total premium income is planned to be more or less on par with last year's level. New business in 2010 should see a slight increase, both in regular premiums and in single premiums.

In the Health segment in Germany, we are aiming for an increase in premium income. In comprehensive health insurance above all, we expect to attain premium growth, because we had to increase premium rates at the beginning of 2010 as a result of health cost increases. International business should also achieve good growth.

As regards German property-casualty insurance, we are expecting a slight increase in premium income, while the market as a whole should see a slight decline. As for the combined ratio for property-casualty insurance, we aim to maintain the excellent level at well below 95%.

For Direct insurance, total premium income is planned to reach last year's level. On the one hand, we wish to continue to control the growth of our capitalisation product MaxiZins, while it will be a key focus of our activities in 2010 to build up the new brand ERGO Direct Insurance.

In the Travel insurance segment we expect premiums to remain stable, in keeping with the predicted economic recovery.

As regards our International Operations segment we expect total premiums in 2010 to be somewhat lower than last year's figures. On the one hand, there are no acquisitions on the horizon for 2010, and on the other hand we do not expect to write similarly high single premiums in 2010 as we did in 2009. All this is based on the assumption that the economic environment in our key markets will stabilise and that exchange rates will remain stable.

In 2010, our total premium income should lie between € 19bn and € 20bn, higher than last year's level of € 19bn. We are aiming for a consolidated result of between € 350m and € 450m. This positive trend is expected to continue in 2011.

In 2009, Munich Re acquired additional shares in ERGO Versicherungsgruppe AG from Bayerische Hypo- und Vereinsbank AG through a capital management company. This meant that the share held directly and indirectly in ERGO's issued share capital rose to more than 99.69%. At ERGO's next Annual General Meeting on 12 May 2010 it is intended to introduce a resolution for the exclusion of minority shareholders (squeeze-out). ERGO's minority shareholders will receive appropriate cash compensation for their shares.

Objectives of risk management

Risk management is an important element in corporate management. In addition to the function of early recognition of developments that could endanger the continued existence of the Company (Section 91 para. 2 of the German Stock Companies Act, AktG), a task of risk management is to maintain the financial strength required to meet our obligations to customers and to create sustainable value for our shareholders. This is achieved by means of risk management that encompasses all divisions, where we adhere to the German Control and Transparency Law (KonTraG) as well as to the requirements of Section 64a of the German Insurance Supervisory Law (VAG).

Organisational set-up of risk management

To ensure efficient risk management, the ERGO Insurance Group has set up specific risk management functions and bodies. The central Integrated Risk Management (IRM) unit ensures risk management throughout the Group and is supported in its role by decentralised risk management structures in all divisions of the Group. This risk management organisation is headed by the Chief Risk Officer (CRO) to whom the individual, local risk managers report. The duties of the CRO include the identification, assessment and monitoring of risks, as well as reporting them to the Risk Committee as a standing committee of the Board of Management of ERGO. This Committee is responsible for setting up and monitoring the risk management strategies, systems and processes. The Risk Committee also ensures that the entire risk management system, consisting of risk criteria, limits and governance processes, complies with the regulatory requirements and the guidelines applicable throughout the Group. Risks are recognised at an early stage and managed adequately.

Risk strategy

Risk strategy is derived from business strategy and portrays the risks which arise. It is checked and approved annually by the Board of Management. The risk strategy specifies the upper risk threshold of the ERGO Insurance Group by containing requirements and decisions on risk tolerance which are geared towards the capital and liquidity available and earnings volatility. The risk strategy is closely tied to operational and strategic planning, and enables the ensuing limits to be monitored. In this respect, account is taken of both criteria for the overall portfolio as well as for supplementary criteria with which peak risks, concentrations, loss accumulations and systematic risks can be limited and managed throughout the Group.

The task of our risk management is not only in limiting risks, but also in making use of business opportunities. Calibrating the limits set out in the risk strategy takes into account both the interests of our customers and our shareholders. Consequently, the main criteria focus on securing our strength of financial resources and limiting the probability of an economic loss in a business year. Then there are supplementary limits for particular risks, such as concentration limits for natural catastrophes or pandemic risks, and criteria for market, credit and liquidity risks.

The upper risk limit set by the Board of Management enables limits and rules relevant to risk management to be included as early as the business planning stage and to anchor these in the operational management process. In the event of capital bottlenecks or conflicts with the limit and regulation system, fixed escalation and decision-making processes are pursued which ensure that business interests and risk management aspects are brought into line. If necessary, risks are externalised.

Risk management cycle

The practical implementation of risk management includes the identification, analysis and assessment of risks and the resulting risk reporting, limitation (reduction to a consciously desired level) and monitoring. Our risk management system ensures that all risks are monitored on an ongoing basis and actively managed wherever necessary.

Risk identification is carried out using appropriate systems and indicators (quantitative component) as well as via bottom-up and top-down risk surveying which is supplemented by expert opinions (qualitative component). Our ad-hoc reporting process enables employees of the ERGO Insurance Group to report risks to the central IRM unit at any time.

Risk analysis and assessment is carried out at the highest level in the central IRM unit in consultation with a number of experts from various units of the ERGO Insurance Group. This enables us to obtain an assessment that is both quantitative and qualitative, and which also takes into account possible interdependencies between the risks.

Risk measurement: Instruments used to measure risks are tailored to the specific segment in question and are continually developed. Our primary risk measures are based on economic principles and therefore best reflect the risk in our portfolio. The results of our risk models are regularly compared with those determined by supervisory authorities and rating agencies. This takes place at different levels, such as in segments, companies, type of risk, geographical location and business line. Outside-in benchmarking of the results of our risk models is conducted regularly, and we take part in surveys relevant to our industry in order to check our instruments and continually improve them. Furthermore, we compare our model with the latest capital requirements of Solvency II and participate in the so-called quantitative impact studies.

Risk limitation fits in with risk strategy and the 'limit and trigger manual' applicable throughout the Group. Risk-reducing measures are decided and implemented on the basis of the defined upper risk threshold.

Risk monitoring is carried out at central points in terms of quantitative monitoring based on indicators, e. g. at MEAG for investments, and both centrally and locally for risks recorded on a qualitative basis depending on the materiality and classification of the risks.

Control and monitoring systems

The Group-wide project launched in the 2008 financial year to develop our internal risk control system (IKS) was continued in 2009.

It aimed to bring the various control mechanisms and monitoring systems in the ERGO Insurance Group further into line with each other. The IKS system is a standard system used by the entire Group to manage operational risks which meets corporate management requirements as well as complying with local legislation and rules set out by the regulating bodies. The Board of Management has overall responsibility for IKS, and it falls structually under the responsibility of the CRO.

This holistic approach means that risks and control measures are identified, analysed and assessed for processes and divisions across the Group, as well as determining initiatives for improving and controlling measures. In this respect, we focus on major processes, risks and control methods.

By systematically linking risks and processes together, a risk map has been developed for the ERGO Insurance Group which indicates all the relevant risk checkpoints. This means that even cross-divisional risks and checks can easily be recognised. Staff in particular units are incorporated so that they are able to contribute their knowledge and experience directly to IKS. This results in a high acceptance rate among the employees for the necessity of risk checks and risk management. Hence we create the basis for a common understanding for risks and increase the awareness for risks and controlling them. The effectiveness of IKS and any necessary adjustments as a result of changes to underlying conditions are undertaken at least once per year.

IKS is gradually being introduced throughout the Group, and will be fully operational by 2012.

Besides operations and compliance, IKS and risk management also affect accounting. As part of the current IKS, adequate internal checks are set up and maintained for any risks relating to accounting. This means that the completeness of reports by companies as part of preparing financial statements is achieved using electronic checks. This then ensures adequate certainty of the reliability of financial reporting on the one hand, and guarantees that the end-of-year accounts can be prepared on the other.

The consolidated financial statements are produced centrally in Düsseldorf after the individual financial statements prepared in line with IFRS or the integrated subgroup financial statements have been received. Underwriting transactions and general business are in principle accounted for through the companies included in the consolidated financial statements. Investment accounting is carried out centrally by MEAG or by an external service provider.

For the ERGO Insurance Group, there are a number of thresholds on materiality to ensure the adequacy of internal control checks. These are ascertained using the following criteria: significance, risk experience and compliance. All risks for financial reporting, which are deemed major by the ERGO Insurance Group, are included in the IKS in accordance with uniform criteria.

Munich Re sets out uniform rules as regards the approach, assessment and recording of all items in the balance sheet and income statement in its IFRS Accounting Manual and provides regular updates on any changes to requirements.

A change in the accounting process is subject to a strict procedure, taking into account current regulations, responsibilities and lines of communication. By using a standard internal enforcement process and the declaration by the legal representatives in accordance with Section 297 para. 2 sentence 4 of the German Commercial Code (HGB), the implementation and adherence to accounting rules are ensured and documented.

The process of preparing a fast close consolidated financial statement is based on a central system solution. There are precise and clearly written instructions, processes and checks for preparing the financial statements.

For companies included in the consolidated report, business is recorded by using Munich Re's standard general ledger with harmonised basic data, standard processes and posting rules, as well as standardised interfaces for the underwriting and the investment books. Access regulations pertaining to accounting systems are clearly defined using authorisation concepts.

The consolidated financial statements are compiled and then double-checked. For all stages involved in compiling the financial statements, e. g. data transfer of the reporting units, elimination of internal transactions within the Group and other stages involved in compiling the consolidated financial statements, systematic checks are made to the contents. Any mistakes found are analysed, pursued and quickly eradicated.

Risk reporting

The central unit of Integrated Risk Management is in charge of risk reporting, which complies with current legal requirements (e. g. based on Section 55c German Insurance Supervisory Law, VAG). It also informs the public and internally creates transparency for management.

Internal risk reporting informs management regularly (quarterly) on the risk situation in terms of the individual risk categories. Ad hoc reporting to the management is assured in the event of a significant change in the risk situation as well as in cases of particular losses and occurrences, meaning that management is able to react in good time to threatening developments. Consequently, even weak signals and negative trends can be recognised quickly and appropriate countermeasures taken.

Major risks

Major risks are those deemed to be serious enough to threaten the existence of the ERGO Insurance Group as a whole. This definition has been rigorously applied – taking the individual risk capacity into consideration – to the individual business activities and legal entities. Whether or not a risk is to be classified as a 'major risk' for a unit is made in the risk management unit IRM, and mainly depends to what extent the risks have an adverse effect on our main criteria, notably financial strength and earnings volatility.

Our external risk report is drawn up based on the calculation and accounting principles or our Company, and fully meet the requirements of the German Accounting Standard DRS 5–20.

In line with DRS 5–20, the overall risk is broken down into five categories: underwriting risks, risks caused by default on receivables from insurance business, investment risks, operational risks and other risks.

Underwriting risks

Management of underwriting risks takes a prominent position. The key elements here include control of risk patterns and ongoing monitoring of accounting principles for calculating technical provisions. Premiums and reserves are calculated using carefully selected calculation methods, meaning we can ensure that we meet our obligations on a sustained basis.

We underwrite private and corporate client insurance business which results in an overall heterogeneous portfolio of risks incurred. General parameters exist in terms of the segment or line of business for calculating tariffs and underwriting on the level of the individual companies in order to ensure a balanced portfolio among all those insured. Furthermore, each actuarial office ensures that the calculation of tariffs is carried out properly and that sufficient provisions have been set up to meet any obligations incurred.

These measures and processes ensure our primary insurers monitor and control risks sufficiently. By using independent controlling processes, the adequacy of the guidelines is checked on a regular basis and adjusted where necessary.

In spite of calculating the tariffs carefully and allocating sufficient sums to provisions, further risks may arise which need to be contained. Thus, for example, the longevity risk is of major importance for annuity policies. The safety margins in our annuity insurance portfolio have declined in the past. If, compared with our assumptions, the trend towards higher life expectancy continues, additional amounts may, under certain circumstances, have to be allocated to the provisions for future policy benefits. Further risks may include, for instance, the ERGO Insurance Group in its entirety or each operational insurance company being exceptionally called upon as a result of high individual claims or due to an accumulation of loss-entailing occurrences. The interaction of risks of change and risk concentrations may also lead to considerable loss potential. This not only involves regional concentrations but can also occur both within a line of business or across several lines.

The IRM unit is in charge of identifying, assessing, monitoring and coordinating cumulative items and concentrations which occur across multiple segments and balance sheets. The unit works together very closely with the specialists in the various segments in order to advise the Risk Committee concerning the impact of these types of cumulative effects on our Group-wide exposure.

These types of risk are observed using scenarios and model calculations which are there to provide information regarding the maximum total liability for the ERGO Insurance Group based on a corresponding extreme scenario. To protect ourselves against such risks and to limit fluctuations in earnings, we take out reinsurance policies.

Life insurance	Health insurance	Property-casualty insurance
■ Biometric risk ■ Interest rate risk ■ Other market risk ■ Lapse risk	■ Biometric risk ■ Lapse risk ■ Claims risk ■ Technical interest rate risk	■ Premium risk ■ Major and very large loss risk ■ Reserve risk ■ Interest rate risk

When choosing our reinsurer, a high degree of solvency is an essential criterion, enabling us to limit the contingency risk and risks pertaining to cash flow fluctuations. Our outwards reinsurance is mainly placed within the Munich Re Group.

The table above depicts the specific features of the underwriting risk with our operational insurance companies depending on the particular line of business.

A differentiated analysis of the underwriting risks and relevant factors specific to the business segment in question, as well as explanations on their management, can be found in the Notes to the consolidated financial statements. This complies with the requirements of IFRS 4 and – where applicable – IFRS 7.

Risks from default on receivables from insurance business

Receivables from reinsurers, agents and clients are basically subject to risk from default.

On the reporting date, accounts receivable, where payment due was more than 90 days old, accounted for € 152m (140m). To hedge the risk we have therefore taken precautionary measures by making adjustments to the value of receivables. On average, 9.8% (9.4%) of total receivables were adjusted in value on the balance sheet date over the past three years. This share is equivalent to a three-year period average of 0.7% (0.7%) of premiums earned. Experience has shown our precautionary measures to be adequate.

36.7% of our accounts receivable stem from Munich Re which has been awarded the second highest rating by the international rating agency Standard & Poor’s. Overall and based on the rating classification of Standard & Poor’s, the spread of receivables from reinsurers is as follows:

Receivables from reinsurers according to rating classes	2009 € million	2008 € million
Rating class 1 (AAA)	**1**	1
Rating class 2 (AA)	**25**	30
Rating class 3 (A)	**13**	4
Rating class 4 (BBB and less)	**–**	–
No rating	**6**	7

Investment risks

Investments undertaken by the ERGO Insurance Group represent a major source of income and can basically be grouped into four major investment categories: fixed-interest securities, equities, property and shareholdings. Besides the criteria of return, security and credit-rating, aspects of liquidity, reasonable diversification as well as, above all, underwriting obligations are also taken into consideration. This is ensured at an institutional level by our asset-liability teams. Representatives from the actuarial office, strategic asset allocation, investment controlling, integrated risk management and the asset management company – MEAG, part of the Munich Re Group – are responsible for the asset-liability management for each operational unit.

Basic investment decisions (strategic asset allocation) are undertaken at the individual company level. Mandates are then formulated by the ERGO investment management unit from these strategic directives, with MEAG acting in an advisory capacity. These mandates define the asset categories, quality and limits by taking into account tax, accounting and supervisory parameters. Moreover, key figures and threshold values are prescribed in the mandates for controlling purposes. Implementation of the mandates is the responsibility of MEAG. Monitoring and advice concerning strategic investment decisions are undertaken by the asset-liability teams (AL teams).

In-house managed assets (including shareholdings and real estate as well as property, refinancing, policy, civil servants and staff loans), deposits retained and surpluses from unit-linked life insurance are monitored as part of projections and internal reporting, as are assets managed by MEAG. Any deviations from the projection are looked into by the AL team.

Adherence to the company-specific mandate requirements is monitored by MEAG on a daily basis via the early warning system of the ERGO Insurance Group. Triggers have been implemented for the various sources of risk, which activate strictly defined processes. This trigger landscape, which is in operation throughout the Group, differentiates between three danger levels involving different measures. The levels are derived from the risk capacity of the companies in question. The early warning system is supplemented by an analysis of long-term trends and scenarios, particularly as regards interest-rate and share markets.

Proactive risk management has enabled a considerable reduction in the adverse effects of the financial market crisis for the ERGO Insurance Group. Last year we already significantly reduced the percentage of equities held by our companies. Permanent monitoring of the risks of default by a contract partner is ensured by means of a Group-wide counterparty limit system.

In the 2009 financial year, too, ongoing development took place as regards risk management activities in investments, notably further improvements with early warning systems concerning liquidity and credit risks. It was possible to reduce the risk of default by a contract partner from standalone derivatives by introducing and developing collateral management.

Investment risks are mainly market risks, credit risks and liquidity risks.

Market risks

Market risk is defined as the risk of losses or adverse effects on the financial strength of the company as a result of price amendments and fluctuations on the capital markets. Fluctuations to market prices affect investments and liabilities and include, among other things, risks caused by a change to the interest rate, share price risk, risks due to changes in value and the exchange rate risk.

Market price fluctuations do not only have an impact on our investments, they also have an effect on our underwriting liabilities, particularly as regards life insurance. The fact that the interest rate is sometimes guaranteed for a long term and the numerous options which policyholders have with traditional life insurance policies result in a major dependence on the value of liabilities on the capital markets.

Market risks are handled by applying appropriate limiting and early warning systems as well as our asset-liability management. This is done by limiting the divergences of current investments from those which are economically necessary to cover underwriting liabilities (so-called replicating portfolio). In addition, risk-relevant restrictions for investments are taken into account which stem from accounting in line with the German Commercial Code (HGB) or IFRS.

Market risks form the lion's share of capital investment risks, and result from a possible drop in market values which, depending on the investment category, may have varying causes. At 93.6% (91.4%), the major share of our investments is fixed-interest investments. Consequently, the development of general interest rate levels and the issuer-specific credit spreads have a considerable effect on the value of the investments. To secure investment returns in the long term, our activities in asset-liability management are regularly adjusted in line with changing parameters.

Derivatives are used to extend the investment horizon for interest-bearing investments. To limit the risks as a result of the equity markets, the share exposure was significantly reduced during the past financial year. The adverse effects of the downward trend in share prices at the start of the year was also mitigated by means of hedging. In spite of the slight recovery detected on the capital markets, we are still pursuing a defensive investment strategy due to continued volatile developments in the market.

Market rates are not always readily available in order to ascertain real estate values. Consequently, surveys or other appropriate and generally recognised and verified assessment procedures are necessary. Adjustments were made to figures insofar as value impairments were deemed to be of a permanent nature.

Currency risks in the ERGO Insurance Group are hedged for the main part by forward exchange transactions. Additional risks stem mainly from long-term investments where there are no adequate or economically viable hedging mechanisms available. These risks are constantly monitored to be able to counteract any wrong movements early on. Exchange rate gains or losses recorded in accordance with IFRS are calculated by separating the change in market values in euros and the original currency on the one hand and the effects of the exchange rate written against the income statement on the other.

Risk potential as regards fluctuations in the market value of investments is regularly assessed using scenario analyses – so-called stress tests. These stress tests take into account blanket changes to market values regarding fixed-interest securities, equities and currencies. A detailed example of a scenario analysis is to be found in the Notes under "Market risks from financial instruments".

A host of other tools are used to determine potential market risks. The investment result, in particular, is forecast at the next balance sheet date subject to changing capital market conditions. The assessment and quality of our investments indicate that there are currently no apparent dangers threatening the existence of the ERGO Insurance Group and the fulfilment of obligations against policyholders. Risk management is structured in such a way that we can anticipate any possible problem areas at an early stage in order to be able to adapt the investment policy accordingly and in time.

Credit risks

Credit risks stem from the danger that debtors are unable to keep up with their payment obligations or deteriorations in creditworthiness lead to economic losses. As regards our fixed-interest investments, we keep the credit risk associated with it in check by choosing issuers with adequate quality and take note of the contracting party's limits. The rating undertaken by external rating agencies is only one of a number of risk criteria taken into account. Moreover, in-house analyses are carried out and external ratings of issuers are undertaken in addition to an internal plausibility check. Both our own assessment as well as that of the external rating agency have to be positive for an investment to successfully pass the risk appraisal procedure and be eligible for investment. Our very high demands placed on issuers are reflected in the underlying principles governing investment across the Group. Investments in structured products are additionally limited depending on the particular risk profile. Our securities portfolio is distinguishable by the fact that most of the securities are from issuers with outstanding creditworthiness.

The quality of our credit-rating management can be seen, among other things, by the fact that, even in a negative market environment, write-downs related to interest-bearing investments account for € 147m or less than 0.2% of overall investments.

As regards bond portfolios, 93.4% (95.7%) recorded a rating of at least the third highest category "strong" at the end of the financial year (for details, please refer to [6 h] to [6 j] in the Notes). This can be compared with the rating category "A" used by Standard & Poor's. The breakdown according to investment categories is shown below:

Bonds portfolio according to individual categories	Share in all interest-bearing investments %	Rating at least category “strong”[1)] %
Bank bonds/loans against promissory notes	10.1	86.4
Covered bonds/pfandbriefs	37.5	100.0
Government bonds	38.2	93.5
Corporate bonds	6.6	66.0
Other	7.6	97.3

[1)] This corresponds to the rating category “A” of Standard & Poor’s.

The diversification of the investment portfolio is deemed adequate. The default risk of fixed-interest investments rises if the creditworthiness of the borrower deteriorates. Borrowers with a poor credit-rating must therefore offer a higher coupon or rate of interest to stay attractive in spite of the default risk. The risk of deterioration in the credit-rating is taken account of by risk management with a corresponding trigger.

Unlisted registered bonds make up the main part of interest-bearing investments. The assessment of their market value is based on yield curves and, following a conservative approach, also takes specific credit spreads of individual issuers into account. For listed interest-bearing investments, we draw on given quotations.

A Group-wide limit system is used to monitor and control our risk from contract partners defaulting on payments. The individual limits are based on the financial position of the contract partner as well as on the risk tolerance defined by the Board of Management. Account was taken of the ongoing critical situation in the banking sector in the 2009 financial year through constant verification of the maximum limits with in part proactive lowering of the individual limits and the introduction of collateral management.

Permanent monitoring ensures the risk control of subordinated securities, dormant equity holdings and profit-participation certificates in the portfolio. We do not currently see any risk for future defaults as regards our investments in subordinated securities.

Liquidity risks

We make sure that we are in a position to meet our payment obligations at any moment in time. This is guaranteed with our detailed liquidity planning. Our asset-liability management manages cash flows from our investments and the premiums in terms of time and quantity in accordance with obligations which arise from insurance contracts. Further, the liquidity reserve safeguards against any unexpected liquidity shortages (e. g. a sudden rise in cancellations).

Liquidity risks are integrated into our control and limit system, which is updated every year.

Major hedging operations

Financial derivatives are mainly used by the ERGO Insurance Group for hedging market risks in capital investments. These include most notably interest rate and currency exchange risks which are tackled making intensive use of our risk management system and, where necessary, using financial derivatives. The counterparty risk in hedging business is primarily countered by choosing only issuers with a good credit-rating.

A sustained fall in the rate of interest bears the risk that funds have to be reinvested at a lower rate of interest (reinvestment risk). This risk was taken account of by the permanent ongoing development of the hedging strategy using structured products. For our personal lines insurers, these products ensure a reinvestment at a minimum interest for the case of falling interest rates, thus guaranteeing lasting fulfilment of underwriting obligations even in prolonged periods of low interest rates. According to accounting requirements of the respective financial tools, fluctuations in the market value are either recorded in the income statement or in equity without an impact on profit or loss. The counterparty risk stemming from the products is spread between several issuers and is additionally minimised by the deposit of covered bonds (pfandbriefs).

Variable external financing by banks has been hedged in part using interest rate swaps. Variable rates are exchanged for fixed rates with most of the interest rate swaps or interest rate currency swaps.

Investments in foreign currencies are mainly hedged using financial derivatives against currency risks.

On the one hand, financial derivatives used are monitored within the framework of our trigger system and, on the other hand, are also included in the qualitative components of the risk controlling of investments and financial shareholdings of the ERGO Insurance Group. An assessment of the market, credit and liquidity risks is made in this context. The monitoring of the issuer risk is part of the limit system for contracting parties.

The hedging operations applied fulfil their function. There are currently no major risks which can be recognised as a result of the hedging carried out.

Operational risks

The ERGO Insurance Group considers operational risks to be risks of losses associated with inappropriate processes, technological failure, human error or external events.

These risks are reduced by means of systematic, cause-related risk management. Our declared corporate objective, and one that is resolutely pursued, is to make employees aware of possible risks and to establish an appropriate risk culture.

The “Continuous Improvement of the Competitive Position” project has enabled us to optimise ERGO’s processes and structures. And we are taking a proactive approach towards the ensuing measures concerning staff implementation as well as the reduction in the number of staff by making use of, for example, adapted change management and qualification instruments. The resulting reduction in staff has been implemented using socially acceptable measures. Human resources risks (for example the risk of shortages of personnel) are reduced by targeted human-resources marketing measures, procedures for estimating employees' potential, personnel development and systematic succession planning. Modern management instruments together with adequate monetary and non-monetary incentive systems ensure that our employees are highly motivated.

Companies are under an increasing threat from white-collar crime (fraud). With the Code of Conduct, the Board of Management has laid down the fundamental rules and principles for legally correct and responsible conduct on the part of the legal representatives, managers and all other employees. Additional rules and principles have been laid down which are aimed at ensuring appropriate and effective prevention, discovery and reaction concerning white-collar crime.

ITERGO, which is part of the ERGO Group, is in charge of the management of IT systems and the risks associated with them. This company operates its own risk management system which is incorporated in the Group-wide risk management organisation.

At the forefront is IT security, which can be put at risk especially as a result of operational breakdowns and interruptions, data loss and external attacks on our systems. These risks are dealt with by means of undertaking extensive precautionary measures, contingency planning, back-up solutions and access controls.

Implementation of the business continuity management was completed to a large extent. Apart from an adequate organisational structure with emergency committees, there are also uniform and binding emergency management plans available at the relevant locations of the ERGO Insurance Group.

Other risks

Amendments to legal and supervisory parameters can be of major significance. Over the course of time, these amendments result in opportunities as well as risks. All of these developments are therefore the subject of constant monitoring. We also counter these risks by being actively involved in industry bodies and on committees.

On 29 July 2009, a consent decree was announced by the Federal Supreme Court (BGH) to one member company of the German Insurance Association (GDV) concerning information required for instalment payment clauses. As regards other insurers or other products, this decree will not currently have any direct legal consequences.

The future regulatory requirements on risk management have become more transparent, as the Solvency II project of the European Union has made headway. The Solvency II Framework Directive adopted in 2009 created greater clarity. The ERGO Insurance Group encourages a speedy development and implementation of the intended set of rules which corresponds to our risk management approach in all major aspects. Internally, we are proactively pushing for an in-house Group-wide risk model, and are gearing our integrated risk management system towards Solvency II. As regards planning and in comparison with our competitors, the creation of systems to model the risks in our business models is running according to plan.

Risks associated with bad business decisions, poor implementation of decisions or the inability to adapt to changes in the corporate environment are defined by ERGO as strategic risks. There are strategic risks concerning existing and new profit potential of the Group and its lines of business. These risks mainly occur after a lead-in time as well as in conjunction with other risks, and contain the probability of a sustained and significant reduction in the franchise value. We counter these risks through the close interlinking of strategic decision processes and risk management. This includes both cultural as well as organisational aspects.

As already mentioned in this annual report, the ERGO Insurance Group has opted for a new brand strategy.

Following intensive internal and external communication, we will counter any possible negative impact of the new ERGO brand strategy from the outset by presenting the motives and changes in a transparent fashion.

This will mean that any uncertainties experienced during the course of the changeover are avoided and the trust, which our customers as well as back-office staff and field representatives place in us, remains intact.

By adapting our structures, processes, technical systems and our reporting at an early stage, we intend to create a smooth transition. The timely implementation of all measures will be monitored within a special project structure. In addition, all risks, which may arise as a result of the amended ERGO brand strategy, will be monitored as part of our risk management in the risk management cycle.

The risk of losses as a result of a worsening reputation of the Company amongst the public, clients, shareholders or other parties, such as supervisory bodies, is referred to as reputation risk. To monitor this risk, we have set up identification processes in various parts of the Company (e. g. in the central External Communication unit). The aim of the defined compliance guidelines is the protection of the ERGO Insurance Group and its employees. Compliance means acting in accordance with the applicable laws as well as internal company regulations and principles. Among other things, implementation should avoid reputation risks, risks of criminal punishment for employees and members of governing bodies, liability risks, official sanctions and litigation risks, as well as conflicts of interest between the company and its clients and/or its employees.

The early risk warning system as per KonTraG also covers so-called emerging risks – i. e. risks which arise as a result of changing parameters (such as legal, social policy or scientific and technical parameters) and which can therefore have effects on our portfolio that have not yet been registered or recognised. Here, uncertainty in terms of the extent of the damage and the likelihood of occurrence is naturally very high. We identify trends and weak signals in a variety of ways, for example through systematic trend research by our Group Development unit, our knowledge management or enquiries concerning emerging risks.

Summary of the risk situation

In short, we can state that the existence of the ERGO Insurance Group and the interests of policyholders were not in danger at any time. Furthermore, we are not currently aware of any developments which could result in an adverse risk to the continued operation or asset, liability, financial and earnings situation of the Group in the long run. All companies in the Group have sufficient financial security in place and have enough resources to more than cover solvency requirements.

The risk management system is guaranteed to work at a high level. Risk developments are recognised at an early stage and risk management is applied using the implemented structures and procedures.

We check our investments continually with a Group-wide early warning system which takes care of different risk and key income data for each company. This enables us on the level of our individual companies and at Group level to ensure that target results are achieved and requirements pertaining to solvency are met, as well as providing sufficient protection for our equity. This happens within the framework of our Group-wide risk management process which is practised by the central risk management team together with the decentralised risk management units in all Group companies. We consider the risk situation of the ERGO Insurance Group to be manageable, under control and sound.

Shares in ERGO Versicherungsgruppe AG

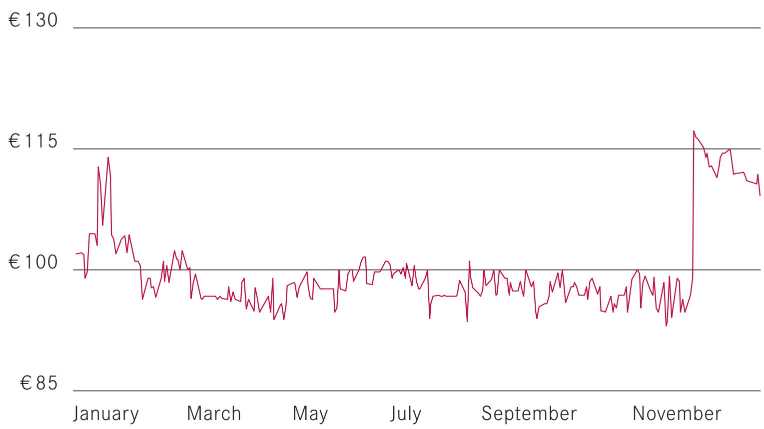
Information relating to the ERGO share

The ERGO share in 2009

Starting with a share price of € 102.00 at the end of 2008, the ERGO share experienced a short but sharp upwards trend at the beginning of 2009. Thereafter, it suffered a continual fall until the publication of the financial figures at the end of March, and then went through a longer period of a sideways movement until the fourth quarter. The general upwards trend on the stock markets, which set in as from March, did not encompass the ERGO share. This illustrates the fact that the small proportion of ERGO shares held in a free float makes it appear relatively meaningless for a comparison with the trend of national and international indices.

Following the announcement made by Munich Re on 25 November 2009 that it had increased its stake to 99.69% and was working towards purchasing the remainder of the ERGO shares, the share price climbed to € 116.00 before giving way a little. The closing price at the end of the year was € 108.50.

Movement in the price of ERGO shares in 2009



Dividend for 2009 is € 0.60

The balance sheet profit of the holding company, ERGO Versicherungsgruppe AG, which is a major variable for determining the dividend amount, rose by 13.2% to € 45m (40m). The Supervisory Board and Board of Management will therefore propose to the Annual General Meeting to pay a dividend of € 0.60 per share, meaning that the payable amount will reach € 45m (–).

Information on the ERGO share		2009	2008
Earnings per share in accordance with IFRS	€	**2.14**	0.76
Dividend	€	**0.60**	–
Total dividend amount	€ million	**45**	–
Year-end share price	€	**108.50**	102.00
Type of share		**No-par value**	No-par value
Number of shares	million	**75.49**	75.49

ISIN: DE0008418526 · Securities Identification Number: 841 852 · Reuters Code: ERGG.DE

Investor Relations

Besides our annual and interim financial reports, further topical information on the ERGO Group is available on www.ergo.de. For more information, please also contact Investor and Rating Relations on +49 (0)211/477-1510 or at ir@ergo.de.

Consolidated Financial Statements

Consolidated balance sheet as at 31 December 2009

Assets	Notes to the consolidated financial statements	2009 € million	2008 € million	Opening balance sheet 2008 € million
A. Intangible assets				
I. Goodwill	[1] p. 138	**384.4**	444.9	404.1
II. Other intangible assets	[2] p. 141	**614.9**	625.9	268.6
		999.3	1,070.8	672.7
B. Investments				
I. Land and buildings, including buildings on third-party land	[3] p. 142	**2,691.7**	2,778.1	2,781.3
Thereof: investment property held for sale		**42.9**	16.2	78.2
II. Investments in affiliated companies and associates	[4] p. 144	**614.7**	836.6	802.9
III. Mortgage loans and other loans	[5] p. 144	**46,278.7**	39,700.2	35,163.0
IV. Other securities	[6] p. 145			
1. Held to maturity		**83.9**	142.8	200.0
2. Available for sale		**57,478.5**	58,265.2	59,574.3
3. Held for trading		**768.4**	1,989.4	393.6
		58,330.8	60,397.4	60,167.9
V. Other investments	[7] p. 155	**1,335.7**	1,604.9	3,144.7
		109,251.5	105,317.2	102,059.9
C. Investments for the benefit of life insurance policyholders who bear the investment risk		**4,025.7**	2,873.9	2,178.4
D. Reinsurers' share in technical provisions	[8] p. 156	**4,727.7**	7,666.3	7,419.8
E. Receivables	[9] p. 156			
I. Current tax receivables		**441.5**	464.8	431.0
II. Other receivables		**4,072.9**	3,626.7	3,615.5
		4,514.4	4,091.4	4,046.4
F. Cash at bank, cheques and cash in hand		**1,438.6**	1,354.0	1,727.0
G. Deferred acquisition costs	[10] p. 158			
– Gross		**6,437.1**	6,654.8	6,577.9
– Reinsurers' share		**230.2**	452.2	448.2
– Net		**6,206.9**	6,202.6	6,129.7
H. Deferred tax assets	[11] p. 160	**1,964.2**	2,094.4	1,371.5
Thereof: deferred tax assets relating to disposal groups		**0.3**	–	2.7
I. Other assets	[12] p. 160	**2,396.8**	2,305.7	2,174.5
Total assets		**135,525.3**	**132,976.4**	**127,779.9**

Equity and liabilities	Notes to the consolidated financial statements		2009 € million	2008 € million	Opening balance sheet 2008 € million
A. Equity					
I. Issued capital and capital reserve			**841.4**	841.4	841.4
II. Retained earnings			**2,122.5**	2,306.6	3,348.2
III. Other reserves			**577.1**	182.8	441.2
IV. Consolidated result attributable to ERGO equity holders			**161.6**	57.1	–
V. Minority interests			**154.9**	180.1	326.6
	[13]	p. 162	**3,857.4**	3,568.0	4,957.3
B. Subordinated liabilities	[14]	p. 165	**437.7**	437.0	382.8
C. Gross technical provisions					
I. Unearned premiums	[15]	p. 166	**1,677.2**	1,517.8	1,439.4
II. Provision for future policy benefits	[16]	p. 166	**91,011.1**	89,076.3	84,223.6
III. Provision for outstanding claims	[17]	p. 170	**7,300.3**	6,810.6	6,520.0
IV. Provision for premium refunds and policyholders' dividends	[18]	p. 174	**9,706.0**	9,007.0	10,213.5
Thereof: provision for deferred premium refunds relating to disposal groups			**– 1.1**	–	– 172.3
V. Other technical provisions	[19]	p. 176	**112.5**	94.0	79.4
			109,807.1	106,505.8	102,475.8
D. Gross technical provisions for life insurance policies where the investment risk is borne by the policyholders	[20]	p. 178	**4,117.2**	2,969.7	2,308.0
E. Other accrued liabilities					
I. Provisions for post-employment benefits	[21]	p. 179	**1,077.8**	844.1	891.8
II. Tax provisions	[22]	p. 184	**1,262.6**	1,106.6	1,103,4
	[23]	p. 185	**2,340.4**	1,950.7	1,995.2
F. Liabilities	[24]	p. 186			
I. Current tax receivables			**964.7**	909.7	822.7
II. Other receivables			**11,410.6**	13,832.8	12,778.0
			12,375.3	14,742.5	13,600.8
Thereof: amounts due to banks relating to disposal groups			**–**	18.8	19.2
G. Deferred tax liabilities	[25]	p. 187	**2,590.2**	2,802.6	2,060.0
Thereof: deferred tax liabilities relating to disposal groups			**1.1**	–	0.6
Total equity and liabilities			**135,525.3**	**132,976.4**	**127,779.9**

Consolidated Financial Statements

Consolidated income statement for the financial year 2009

	Notes to the consolidated financial statements		2009 € million	2008 € million
1. Gross premiums written	[26]	p. 188	**17,469.5**	16,578.2
2. Earned premiums				
– Gross			**17,388.0**	16,461.8
– Ceded share			**1,238.9**	1,311.4
– Net			**16,149.2**	15,150.4
3. Income from technical interest			**4,234.3**	3,166.2
4. Expenses for claims and benefits	[27]	p. 192		
– Gross			**16,729.8**	14,755.9
– Ceded share			**615.4**	862.5
– Net			**16,114.3**	13,893.4
5. Operating expenses	[28]	p. 194		
– Gross			**3,909.8**	3,441.0
– Ceded share			**433.6**	299.5
– Net			**3,476.2**	3,141.5
6. Technical result (2. – 5.)			**792.9**	1,281.7
7. Investment result	[29]	p. 196		
– Investment income			**7,047.4**	8,937.6
– Investment expenses			**2,646.2**	6,066.4
– Total			**4,401.1**	2,871.2
Thereof: income from associates			**– 82.4**	– 3.5
8. Other operating income	[30]	p. 202	**287.4**	355.6
9. Other operating expenses	[30]	p. 202	**513.3**	413.2
10. Decuction of income from technical interest			**– 4,234.3**	– 3,166.2
11. Non-technical result (7. – 10.)			**– 59.1**	– 352.6
12. Operating result			**733.8**	929.1
13. Other non-operating result	[31]	p. 204	**– 319.0**	– 358.3
14. Impairment losses of goodwill	[32]	p. 204	**62.2**	184.8
15. Finance costs	[33]	p. 206	**62.6**	60.8
16. Taxes on income	[34]	p. 206	**117.3**	252.0
17. Consolidated result			**172.7**	**73.3**
Thereof:				
– Attributable to ERGO equity holders			**161.6**	57.1
– Attributable to minority interests			**11.1**	16.2
Earnings per share in €	[35]	p. 207	**2.14**	0.76

[1] Previous year's figures adjusted pursuant to IFRS 8.

Statement of recognised income and expense from 1 January to 31 December 2009

	2009 € million	2008 € million
Consolidated result	**172.7**	**73.3**
Currency translation		
Gains (losses) recognised in equity	**3.1**	– 124.7
Included in the income statement	**–**	–
Unrealised gains and losses on investments		
Gains (losses) recognised in equity	**518.5**	– 3.9
Included in the income statement	**– 113.2**	– 142.6
Change resulting from valuation at equity		
Gains (losses) recognised in equity	**– 0.5**	– 0.4
Included in the income statement	**–**	–
Change resulting from cash flow hedges		
Gains (losses) recognised in equity	**– 1.4**	2.8
Included in the income statement	**–**	– 0.1
Actuarial gains and losses on defined benefit plans	**– 101.5**	55.5
Other changes	**– 166.3**	28.9
Income and expense recognised directly in equity	**138.7**	**– 184.5**
Total recognised income and expense	**311.4**	**– 111.2**
Thereof:		
– Attributable to ERGO equity holders	**304.1**	– 128.1
– Attributable to ERGO minority interests	**7.3**	16.9

Changes in Group equity

	Equity attributable to ERGO equity holders					
	Issued capital and capital reserve	Retained earnings	Other reserves: Unrealised gains and losses	Other reserves: Reserve from currency translation	Other reserves: Valuation result from cash flow hedges	Consolidated result
	€ million	€ million	€ million	€ million	€ million	€ million
Status at 31 December 2007	**841.4**	**2,609.6**	**428.6**	**12.4**	**0.2**	**738.6**
Allocation to retained earnings	–	– 261.7	–	–	–	261.7
Consolidated result	–	–	–	–	–	57.1
Income and expense recognised directly in equity	**–**	**73.2**	**– 143.4**	**– 117.7**	**2.7**	**–**
Currency translation	–	–	–	– 117.7	–	–
Unrealised gains and losses on investments	–	–	– 143.0	–	–	–
Change resulting from valuation at equity	–	–	– 0.4	–	–	–
Change resulting from cash flow hedges	–	–	–	–	2.7	–
Actuarial gains and losses on defined benefit plans	–	51.6	–	–	–	–
Other changes	–	21.6	–	–	–	–
Total recognised income and expense	**–**	**73.2**	**– 143.4**	**– 117.7**	**2.7**	**57.1**
Change in shareholdings in subsidiaries	–	– 123.1	–	–	–	–
Change in consolidated group	–	8.6	–	–	–	–
Dividend	–	–	–	–	–	– 1,000.3
Share buy-backs	–	–	–	–	–	–
Status at 31 December 2008	**841.4**	**2,306.6**	**285.2**	**– 105.3**	**2.9**	**57.1**
Allocation to retained earnings	–	57.1	–	–	–	– 57.1
Consolidated result	–	–	–	–	–	161.6
Income and expense recognised directly in equity	**–**	**– 251.9**	**393.5**	**2.3**	**– 1.4**	**–**
Currency translation	–	–	–	2.3	–	–
Unrealised gains and losses on investments	–	–	394.0	–	–	–
Change resulting from valuation at equity	–	–	– 0.5	–	–	–
Change resulting from cash flow hedges	–	–	–	–	– 1.4	–
Actuarial gains and losses on defined benefit plans	–	– 96.3	–	–	–	–
Other changes	–	– 155.6	–	–	–	–
Total recognised income and expense	–	**– 251.9**	**393.5**	**2.3**	**– 1.4**	**161.6**
Change in shareholdings in subsidiaries	–	–	–	–	–	–
Change in consolidated group	–	10.7	–	–	–	–
Dividend	–	–	–	–	–	–
Share buy-backs	–	–	–	–	–	–
Status at 31 December 2009	**841.4**	**2,122.5**	**678.6**	**– 103.0**	**1.5**	**161.6**

Consolidated cash flow statement from 1 January to 31 December 2009

Minority interests	Total equity
€ million	**€ million**
326.6	**4,957.3**
–	–
16.2	73.3
0.7	**– 184.5**
– 7.0	– 124.7
– 3.5	– 146.5
–	– 0.4
–	2.7
3.9	55.5
7.3	28.9
16.9	**– 111.2**
– 171.7	– 294.8
12.0	20.6
– 3.7	– 1,004.0
–	–
180.1	**3,568.0**
–	–
11.1	172.7
– 3.8	**138.7**
0.8	3.1
11.3	405.3
–	– 0.5
–	– 1.4
– 5.2	– 101.5
– 10.7	– 166.3
7.3	**311.4**
– 27.6	– 27.6
– 4.9	5.8
–	–
–	–
154.9	**3,857.4**

Changes in cash	**2009**	**2008**
	€ million	**€ million**
Consolidated result	**172.7**	73.3
Net change in technical provisions	**6,324.1**	1,378.3
Change in deferred acquisition costs	**– 2.3**	– 75.7
Change in deposits retained and accounts receivable and payable	**– 2,655.3**	303.8
Change in other receivables and liabilities	**– 286.0**	518.6
Gains and losses on the disposal of investments	**– 379.3**	– 132.0
Change in securities held for trading	**868.5**	1,000.5
Change in other balance sheet items	**352.6**	– 90.2
Other income/expenses without impact on cash flow	**594.6**	2,161.8
I. Cash flows from operating activities	**4,989.6**	**5,138.4**
Inflows from the sale of consolidated companies	**0.7**	–
Outflows from the acquisition of consolidated companies	**– 204.8**	– 817.9
Change from the acquisition, sale and maturities of other investments	**– 3,735.4**	– 3,205.1
Change from the acquisition and sale of investments for unit-linked life insurance	**– 710.7**	– 379.6
Other	**– 173.5**	– 75.0
II. Cash flows from investing activities	**– 4,823.7**	**– 4,477.6**
Inflows from increases in capital	**–**	–
Dividend payments	**– 2.4**	– 1,004.0
Change from other financing activities	**– 78.9**	– 12.1
III. Cash flows from financing activities	**– 81.3**	**– 1,016.1**
Cash flows for the financial year (I. + II. + III.)	**84.6**	**– 355.3**
Effect of exchange rate changes on cash	**–**	12.2
Cash at the beginning of the financial year	**1,354.0**	1,721.5
Cash at the end of the financial year	**1,438.6**	1,354.0
Additional information:		
Income tax paid (net)	**– 71.2**	299.3
Interest paid	**516.7**	543.4
Interest received	**4,444.9**	4,181.8
Dividends received	**195.5**	574.6

Assets[1]	Life Germany 2009 € million	Life Germany 2008 € million	Health 2009 € million	Health 2008 € million	Property-casualty Germany 2009 € million	Property-casualty Germany 2008 € million
A. Intangible assets						
I. Goodwill	**2.5**	2.5	**79.6**	79.6	**25.9**	25.9
II. Other intangible assets	**6.7**	6.7	**42.5**	45.7	**–**	–
	9.2	9.3	**122.2**	125.3	**26.0**	26.0
B. Investments						
I. Land and buildings, including buildings on third-party land	**1,620.4**	1,698.7	**625.0**	596.6	**59.3**	59.2
Thereof: investment property held for sale	**42.9**	–	**–**	–	**–**	–
II. Investments in affiliated companies and associates	**184.9**	265.7	**159.1**	172.8	**198.3**	240.0
III. Mortgage loans and other loans	**29,218.4**	25,570.2	**14,477,8**	12,025.3	**2,042.1**	2,030.4
IV. Other securities						
1. Held to maturity	**82.4**	138.5	**–**	–	**–**	–
2. Available for sale	**25,988.8**	27,970.5	**12,995.7**	13,193.8	**3,698.9**	3,520.6
3. At fair value through profit or loss	**246.3**	1,028.0	**31.9**	225.4	**2.8**	34.0
	26,317.4	29,137.0	**13,027.6**	13,419.3	**3,701.6**	3,554.6
V. Other investments	**1,487.1**	1,803.6	**58.9**	109.1	**443.4**	280.2
	58,828.2	58,475.2	**28,348.5**	26,323.1	**6,444.7**	6,164.4
C. Investments for the benefit of life insurance policyholders who bear the investment risk	**1,972.2**	1,422.1	**0.9**	0.8	**–**	–
D. Reinsurers' share in technical provisions	**516.1**	3,536.6	**1,071.2**	1,050.0	**584.2**	591.9
E. Deferred acquisition costs						
– Gross	**3,565.2**	3,853.1	**1,670.8**	1,687.3	**369.9**	366.8
– Reinsurers' share	**191.3**	429.7	**0.4**	0.4	**8.9**	10.4
– Net	**3,373.9**	3,423.4	**1,670.5**	1,686.9	**361.0**	356.3
F. Other segment assets	**4,412.8**	4,314.1	**1,792.4**	1,725.0	**1,768.0**	1,735.5
Thereof: other segment assets relating to disposal groups	**0.3**	–	**–**	–	**–**	–
Total segment assets	**69,112.4**	**71,180.7**	**33,005.5**	**30,911.1**	**9,183.8**	**8,874.1**

[1] Previous year's figures adjusted pursuant to IFRS 8.

Direct insurance		Travel insurance		International Operations		Other/ consolidation		Group value	
2009	2008	2009	2008	2009	2008	2009	2008	2009	2008
€ million	€ million	€ million	€ million	€ million	€ million	€ million	€ million	€ million	€ million
35.8	35.8	**1.1**	–	**239.4**	301.0	**–**	–	**384.4**	444.9
17.1	23.2	**5.5**	–	**492.3**	520.2	**50.7**	30.0	**614.9**	625.9
52.9	59.1	**6.6**	–	**731.8**	821.2	**50.7**	30.0	**999.3**	1,070.8
0.4	0.9	**–**	–	**127.3**	140.3	**259.2**	282.5	**2,691.7**	2,778.1
–	–	**–**	–	**–**	–	**–**	16.2	**42.9**	16.2
39.5	42.9	**7.1**	–	**68.2**	82.5	**– 42.3**	32.7	**614.7**	836.6
2,090.2	1,436.4	**69.6**	–	**435.0**	426.6	**– 2,054.5**	– 1,788.8	**46,278.7**	39,700.2
–	–	**–**	–	**1.5**	4.4	**–**	–	**83.9**	142.8
2,233.7	2,412.0	**125.0**	–	**12,310.3**	11,147.5	**126.2**	20.7	**57,478.5**	58,265.2
4.0	65.9	**0.7**	–	**480.9**	630.8	**1.8**	5.3	**768.4**	1,989.4
2,237.7	2,477.9	**125.7**	–	**12,792.6**	11,782.7	**128.0**	26.0	**58,330.8**	60,397.4
21.6	110.3	**9.3**	–	**318.3**	398.3	**– 1,002.8**	– 1,096.6	**1,335.7**	1,604.9
4,389.4	4,068.4	**211.7**	–	**13,741.5**	12,830.3	**– 2,712.4**	– 2,544.1	**109,251.5**	105,317.2
23.8	15.5	**–**	–	**2,028.9**	1,435.5	**–**	–	**4,025.7**	2,873.9
67.3	63.6	**20.3**	–	**3,644.8**	3,649.3	**– 1,176.1**	– 1,225.2	**4,727.7**	7,666.3
302.6	274.4	**10.3**	–	**728.3**	687.3	**– 210.0**	– 214.1	**6,437.1**	6,654.8
2.0	–	**1.7**	–	**236.0**	225.8	**– 210.0**	– 214.1	**230.2**	452.2
300.6	274.4	**8.6**	–	**492.3**	461.6	**–**	–	**6,206.9**	6,202.6
299.3	347.5	**172.6**	–	**2,026.4**	1,941.8	**– 157.3**	– 218.2	**10,314.1**	9,845.6
–	–	**–**	–	**–**	–	**–**	–	**0.3**	–
5,133.4	**4,828.4**	**419.7**	**–**	**22,665.6**	**21,139.7**	**– 3,995.2**	**– 3,957.5**	**135,525.3**	**132,976.4**

Liabilities[1]	Life Germany 2009 € million	Life Germany 2008 € million	Health 2009 € million	Health 2008 € million	Property-casualty Germany 2009 € million	Property-casualty Germany 2008 € million
A. Subordinated liabilities	**–**	–	**–**	–	**–**	–
B. Gross technical provisions						
I. Unearned premiums	**0.3**	0.2	**103.8**	102.4	**481.9**	485.5
II. Provision for future policy benefits	**55,654.8**	55,605.8	**21,654.4**	20,333.5	**390.8**	341.9
III. Provision for outstanding claims	**1,363.9**	1,213.7	**1,077.7**	1,021.6	**3,309.3**	3,202.8
IV. Provision for premium refunds and policyholders' dividends	**2,638.9**	2,618.9	**6,642.5**	6,146.2	**57.3**	53.5
Thereof: provision for deferred premium refunds relating to disposal groups	**– 1.1**	–	**–**	–	**–**	–
V. Other technical provisions	**9.9**	11.2	**9.6**	8.2	**36.3**	30.0
	59,667.8	59,449.8	**29,488.1**	27,611.9	**4,275.7**	**4,113.8**
C. Gross technical provisions for life insurance policies where the investment risk is borne by the policyholders	**2,101.5**	1,566.1	**0.9**	0.8	**–**	–
D. Other accrued liabilities	**346.1**	387.5	**223.7**	271.8	**253.7**	250.2
E. Other segment liabilities	**5,602.8**	8,638.5	**2,272.1**	2,125.6	**1,333.7**	1,380.6
Thereof: other segment liabilities relating to disposal groups	**1.1**	–	**–**	–	**–**	–
Total segment liabilities	**67,718.1**	**70,041.8**	**31,984.7**	**30,010.1**	**5,863.1**	**5,744.7**
Equity[2]						
Total equity and liabilities						

[1] Previous year's figures adjusted pursuant to IFRS 8.

[2] The equity is merely stated for the Group as a whole. A breakdown into segments would result in an inappropriate representation of the capital resources due to inter-segment capital interlocking.

Direct insurance		Travel insurance		International Operations		Other/ consolidation		Group value	
2009	2008	2009	2008	2009	2008	2009	2008	2009	2008
€ million	€ million	€ million	€ million	€ million	€ million	€ million	€ million	€ million	€ million
–	–	**22.5**	–	**69.2**	62.8	**346.0**	374.2	**437.7**	437.0
69.5	63.9	**70.2**	–	**982.6**	894.6	**– 31.3**	– 28.8	**1,677,2**	1,517,8
3,463.8	3,419.9	**–**	–	**10,876.8**	10,477.3	**– 1,029.4**	– 1,102.1	**91,011.1**	89,076.3
104.0	93.9	**70.0**	–	**1,484.4**	1,371.7	**– 108.9**	– 93.0	**7,300.3**	6,810.6
189.2	107.2	**–**	–	**271.6**	96.8	**– 93.6**	– 15.7	**9,706.0**	9,007.0
–	–	**–**	–	**–**	–	**–**	–	**– 1.1**	–
17.0	15.1	**3.9**	–	**42.3**	30.8	**– 6.6**	– 1.4	**112.5**	94.0
3,843.5	3,700.0	**144.1**	–	**13,657.7**	12,871.2	**– 1,269.7**	– 1,240.9	**109,807.1**	106,505.8
23.8	15.5	**–**	–	**1,991.0**	1,387.4	**–**	–	**4,117.2**	2,969.7
43.9	37.8	**64.3**	–	**258.4**	184.9	**1,150.2**	818.5	**2,340.4**	1,950.7
958.7	841.6	**107.3**	–	**4,326.9**	4,313.9	**364.0**	244.8	**14,965.5**	17,545.1
–	–	**–**	–	**–**	–	**–**	18.8	**1.1**	18.8
4,869.9	**4,594.9**	**338.3**	**–**	**20,303.2**	**18,820.2**	**590.5**	**196.7**	**131,667.9**	**129,408.4**
								3,857.4	**3,568.0**
								135,525.3	**132,976.4**

Consolidated income statement	Life Germany		Health		Property-casualty Germany	
	2009	2008	2009	2008	2009	2008
	€ million	€ million	€ million	€ million	€ million	€ million
1. Gross premium written						
From insurance transaction with other segments	**118.0**	111.6	**0.1**	0.2	**116.5**	85.7
From insurance transactions with external third parties	**4,372.6**	4,460.1	**5,424.4**	5,227.6	**2,990.7**	2,968.2
	4,490.6	4,571.8	**5,424.4**	5,227.8	**3,107.2**	3,053.9
2. Earned premiums						
– Gross	**4,490.5**	4,571.9	**5,421.8**	5,223.1	**3,111.0**	3,050.1
– Ceded share	**340.0**	377.3	**194.1**	233.8	**242.8**	233.7
– Net	**4,150.5**	4,194.6	**5,227.7**	4,989.3	**2,868.2**	2,816.3
3. Income from technical interest	**2,317.4**	1,631.2	**1,187.5**	1,041.3	**110.9**	133.6
4. Expenses for claims and benefits						
– Gross	**5,656.6**	5,272.3	**5,598.3**	4,937.1	**1,834.0**	1,778.1
– Ceded share	**50.8**	266.7	**141.2**	150.9	**148.1**	164.4
– Net	**5,605.8**	5,005.6	**5,457.0**	4,786.3	**1,685.9**	1,613.7
5. Operating expenses						
– Gross	**980.6**	824.5	**627.0**	636.8	**973.5**	950.5
– Ceded share	**266.0**	94.5	**37.5**	68.5	**62.4**	60.6
– Net	**714.5**	730.0	**589.5**	568.3	**911.1**	889.9
6. Technical result (2. – 5.)	**147.6**	90.2	**368.6**	676.0	**382.1**	446.3
7. Investment result						
– Investment income	**3,869.7**	5,418.4	**1,453.9**	1,930.0	**420.4**	580.4
– Investment expenses	**1,450.5**	3,584.8	**394.8**	1,388.7	**219.3**	470.9
– Total	**2,419.2**	1,833.6	**1,059.1**	541.2	**201.1**	109.5
Thereof: Interest and similar income	**2,428.9**	2,337.6	**1,122.9**	1,032.8	**231.9**	218.0
Interest charges and similar expenses	**41.8**	85.8	**14.5**	28.0	**0.5**	1.6
Write-downs of investments	**747.5**	1,824.7	**126.9**	691.7	**100.4**	282.8
Write-ups of investments	**123.7**	1,272.4	**29.9**	307.1	**25.0**	46.1
Income from associates	**– 36.6**	– 14.5	**2.0**	– 8.1	**– 38.6**	– 0.6
8. Other operating income	**494.4**	491.9	**88.2**	68.8	**63.0**	112.4
Thereof: Interest and similar income	**6.6**	34.4	**5.4**	10.6	**1.9**	5.0
Write-ups of other operating assets	**3.7**	1.4	**–**	1.1	**0.1**	–
9. Other operating expenses	**558.4**	522.3	**116.3**	105.1	**105.9**	102.8
Thereof: Interest charges and similar expenses	**19.7**	19.4	**15.8**	12.0	**3.9**	13.4
Write-downs of other operating assets	**30.0**	22.8	**9.6**	4.9	**7.4**	7.5
10. Deduction of income from technical interest	**– 2,317.4**	– 1,631.2	**– 1,187.5**	– 1,041.3	**– 110.9**	– 133.6
11. Non-technical result (7. – 10.)	**37.8**	172.0	**– 156.4**	– 536.3	**47.3**	– 14.5
12. Operating result	**185.4**	262.3	**212.2**	139.6	**429.4**	431.9
13. Other non-operating result, finance costs and amortisation losses of goodwill	**– 97.3**	– 68.9	**– 85.3**	– 106.7	**– 66.9**	– 77.9
14. Taxes on income	**32.2**	87.0	**56.5**	28.4	**108.0**	102.3
15. Consolidated result	**55.9**	**106.3**	**70.4**	**4.5**	**254.5**	**251.7**
Thereof: Attributable to ERGO equity holders	**56.9**	102.6	**72.1**	4.8	**254.7**	251.5
Attributable to minority interests	**– 1.0**	3.7	**– 1.7**	– 0.4	**– 0.2**	0.1

Direct insurance		Travel insurance		International Operations		Other/ consolidation		Group value	
2009	2008	2009	2008	2009	2008	2009	2008	2009	2008
€ million	€ million	€ million	€ million	€ million	€ million	€ million	€ million	€ million	€ million
–	–	2.2	–	0.3	3.1	– 237.0	– 200.6	–	–
853.8	822.5	387.4	–	3,440.6	3,099.7	–	–	17,469.5	16,578.2
853.8	822.5	389.6	–	3,440,9	3,102.8	– 237.0	– 200.6	17,469.5	16,578.2
848.2	814.1	387.3	–	3,364.6	3,002.0	– 235.2	– 199.4	17,388.0	16,461.8
12.2	13.5	54.3	–	630.8	652.4	– 235.2	– 199.4	1,238.9	1,311.4
836.0	800.6	333.0	–	2,733.8	2,349.6	–	–	16,149.2	15,150.4
150.1	115.1	3.2	–	503.2	245.0	– 38.0	–	4,234.3	3,166.2
786.9	704.0	208.9	–	2,845.4	2,231.5	– 200.3	– 167.2	16,729.8	14,755.9
11.0	16.8	24.1	–	386.5	395.4	– 146.3	– 131.7	615.4	862.5
775.9	687.2	184.8	–	2,458.9	1,836.1	– 54.0	– 35.4	16,114.3	13,893.4
177.7	184.6	172.0	–	988.1	838.5	– 9.1	6.1	3,909.8	3,441.0
– 0.7	2.9	20.2	–	118.5	133.4	– 70.5	– 60.4	433.6	299.5
178.4	181.7	151.8	–	869.6	705.1	61.3	66.6	3,476.2	3,141.5
31.8	46.8	– 0.4	–	– 91.6	53.4	– 45.4	– 31.1	792.9	1,281.7
255.1	356.7	8.6	–	1,078.4	728.1	– 38.8	– 76.1	7,047.4	8,937.6
91.2	257.0	7.8	–	427.2	325.7	55.4	39.2	2,646.2	6,066.4
164.0	99.8	0.8	–	651.2	402.4	– 94.2	– 115.4	4,401.1	2,871.2
185.8	169.4	6.3	–	535.4	475.2	– 69.3	– 117.0	4,441.9	4,115.9
–	0.3	0.1	–	5.0	0.2	5.1	5.2	67.0	121.2
41.6	142.8	3.5	–	279.0	106.3	50.7	16.2	1,349.7	3,064.5
21.6	80.3	0.1	–	184.1	110.1	2.4	4.9	386.7	1,820.9
–	0.5	– 1.5	–	– 1.4	5.1	– 6.2	14.1	– 82.4	– 3.5
7.8	6.9	29.4	–	50.0	49.8	– 445.5	– 374.3	287.4	355.6
0.4	1.3	0.3	–	4.2	11.6	– 0.1	3.0	18.8	65.9
–	–	0.4	–	0.1	0.1	–	–	4.3	2.6
15.8	5.9	33.0	–	87.0	64.5	– 403.1	– 387.4	513.3	413.2
0.3	0.2	4.2	–	5.5	4.0	53.4	70.3	102.7	119.2
1.4	0.6	0.7	–	14.8	10.6	33.6	1.0	97.4	47.4
– 150.1	– 115.1	– 3.2	–	– 503.2	– 245.0	38.0	–	– 4,234.3	– 3,166.2
5.8	– 14.3	– 5.9	–	111.0	142.7	– 98.7	– 102.2	– 59.1	– 352.6
37.7	32.5	– 6.3	–	19.4	196.1	– 144.0	– 133.4	733.8	929.1
– 0.3	– 8.0	5,9	–	– 93.6	– 199.4	– 106.2	– 142.9	– 443.8	– 603.8
11.3	6.6	0.9	–	– 8.9	55.2	– 82.6	– 27.5	117.3	252.0
26.1	18.0	– 1.3	–	– 65.3	– 58.4	– 167.6	– 248.7	172.7	73.3
26.1	18.2	– 1.4	–	– 73.9	– 72.2	– 172.8	– 247.9	161.6	57.1
–	– 0.2	0.1	–	8.6	13.8	5.2	– 0.9	11.1	16.2

Gross premiums written[1) 2)]

	Life		Health		Property-casualty	
	Germany				Germany	
	2009	2008	2009	2008	2009	2008
	€ million	€ million	€ million	€ million	€ million	€ million
Germany	**4,370.2**	4,458.0	**4,497.7**	4,429.3	**2,990.7**	2,968.2
International	**2.4**	2.1	**926.7**	798.3	**–**	–
Total	**4,372.6**	**4,460.1**	**5,424.4**	**5,227.6**	**2,990.7**	**2,968.2**

1) Figures based on fully consolidated Group values.
2) Previous year's figures adjusted pursuant to IFRS 8.

The breakdown of gross premiums written according to regions is determined by geographical origin.

Non-current assets by country	2009	2008
	€ million	€ million
Germany	**3,740.8**	3,716.9
Austria	**471.3**	583.6
Spain	**237.0**	233.7
Singapore	**218.9**	225.4
The Netherlands	**181.6**	185.0
Turkey	**150.6**	166.3
Portugal	**118.6**	123.9
Poland	**116.2**	108.5
Other	**322.5**	262.4
Total	**5,557.4**	**5,605.7**

	Direct insurance		Travel insurance		International Operations		Group value	
	2009	2008	2009	2008	2009	2008	2009	2008
	€ million	€ million	€ million	€ million	€ million	€ million	€ million	€ million
	840.4	809.9	**178.7**	–	**–**	–	**12,877.8**	12,665.4
	13.4	12.7	**208.7**	–	**3,440.6**	3,099.7	**4,591.7**	3,912.8
	853.8	**822.5**	**387.4**	–	**3,440.6**	**3,099.7**	**17,469.5**	**16,578.2**

International accounting rules

The consolidated financial statements of ERGO Versicherungsgruppe AG are based on Section 315 a para. 1 of the German Commercial Code (HGB) in conjunction with Article 4 of the Regulation (EC) no. 1606/2002 of the European Parliament and Council of 19 July 2002 concerning the application of international accounting standards. The international accounting principles stated in Articles 2, 3 and 6 of the aforementioned Regulation were observed, as well as the rules designated in Section 315 a para. 1 of the German Commercial Code. The consolidated financial statements also comply with all requirements as laid down by the IFRS. The currency of the report is the euro (€). Figures are rounded to million euros, and figures in brackets refer to the previous year.

The standards adopted by the International Accounting Standards Board (IASB) have been referred to as "International Financial Reporting Standards (IFRS)" since 2002; the standards from previous years continue to bear the name "International Accounting Standards (IAS)". As far as we do not explicitly refer to a particular standard, we use the two terms synonymously. The underwriting items are recognised and measured in accordance with the regulations of IFRS 4 on the basis of US GAAP (United States Generally Accepted Accounting Principles). The German accounting standards (DRS) approved by the German Accounting Standards Committee (*Deutscher Standardisierungsrat*, DSR) were also observed provided they do not contradict the applicable IFRS.

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

The Board of Management and Supervisory Board signed an updated declaration of conformity with the German Corporate Governance Code (Section 161 German Stock Companies Act) in December 2009 and made this declaration permanently available to the shareholders on the Company's website.

Figures for previous year

The completion of the initial accounting for a business combination pursuant to IFRS 3.62 and the changes pursuant to IAS 8 made it necessary to retrospectively adjust the balance sheet as at 31 December 2008, the consolidated income statement for the financial year 2008 and the respective items of the notes. Details are provided in the sections "Consolidated group" and "Changes in accounting and valuation methods". Otherwise, the previous-year figures have been calculated on the same basis as the figures for the financial year 2009.

Consolidated group

In accordance with IAS 27, the consolidated financial statements include ERGO Versicherungsgruppe AG (parent company) and all entities where ERGO Versicherungsgruppe AG owns, directly or indirectly, more than half of the voting power or over which it has the factual ability to exercise control (subsidiaries). This applies analogously to the special funds held by the subsidiaries.

Hamburg-Mannheimer Versicherungs-AG, Hamburg, Hamburg-Mannheimer Sachversicherungs-AG, Hamburg, Hamburg-Mannheimer Rechtsschutzversicherungs-AG, Hamburg, Hamburg-Mannheimer Pensionskasse AG, Hamburg, Victoria Versicherung AG, Düsseldorf, Victoria Lebensversicherung AG, Düsseldorf, Victoria Krankenversicherung AG, Düsseldorf, Victoria Pensionskasse AG, Düsseldorf, ERGO Pensionsfonds AG, Düsseldorf, Vorsorge Lebensversicherung Aktiengesellschaft, Düsseldorf, ERGO International Aktiengesellschaft, Düsseldorf, DKV Deutsche Krankenversicherung AG, Cologne, D.A.S. Deutsche Automobil Schutz Versicherungs- AG, Munich, D.A.S. Deutsche Automobil Schutz Allgemeine Rechtsschutz-Versicherungs-AG, Munich, EUROPÄISCHE Reiseversicherung AG, Munich, almeda Versicherungs-AG, Munich, almeda GmbH, Munich, ERGO Immobilien-GmbH 5. Hamburg-Mannheimer & Co. KG, Kreien, ERGO Immobilien-GmbH 14. Victoria & Co. KG, Kreien and ITERGO Informationstechnologie GmbH, Düsseldorf, make full or partial use of the exemption in accordance with Section 264 para. 3 of the German Commercial Code for their own financial statements, but are still included in the consolidated financial statements.

Bank Austria Creditanstalt Versicherung AG

On 30 September 2008, through its subsidiary ERGO Austria International AG , the ERGO Insurance Group increased its stake in Bank Austria Creditanstalt Versicherung AG (BACAV) and included it in the consolidated group. The figures disclosed at the time of first consolidation were of a provisional nature. In the third quarter of 2009, the provisional figures at the date of first consolidation for the following items were adjusted retrospectively in accordance with IFRS 3.62:

a) At the time of first consolidation, the value of the insurance portfolio acquired (PVFP) was approximated on the basis of embedded-value methodology. The conversion of this figure, determined in accordance with local accounting rules, to a projection according to US GAAP resulted in an increase of € 30.3m in the carrying amount.

b) The deferred acquisition costs were also determined on the basis of approximations at the date of first consolidation. This provisional figure has been adjusted in the same manner as the value of the insurance portfolio acquired (PVPF).

c) Full conversion of the measurement of actuarial reserves to US GAAP has resulted in a reduction of € 30.1m in the carrying amount at the date of first consolidation. The resultant reallocation according to unit- and index-linked life insurance on the one hand and participating life insurance on the other led to a shift within the relevant balance sheet items of the gross technical provisions.

d) The aforementioned change in valuation resulted in an increase of € 24.1m in the provision for deferred premium refunds and an increase of € 9.1m in deferred tax liabilities at the time of first consolidation.

e) These adjustments have an impact on the goodwill recognised in the opening balance sheet and its later impairment.

The effects of the adjustments in accordance with IFRS 3.62 on the consolidated balance sheet at 31 December 2008 are as follows:

Consolidated balance sheet € million	Changes following adjustments in accordance with IFRS 3.62 31 December 2008
Assets	
A. I. Goodwill	– 24.5
A. II. Other intangible assets	15.3
G. Deferred acquisition costs	
Gross	6.5
Reinsurers' share	– 0.4
Net	6.9
I. Other Assets	–9.7
Equity and liabilities	
A. II. Retained earnings	– 2.2
A. III. Other reserves	7.6
A. IV. Consolidated result attributable to ERGO equity holders	– 15.7
A. V. Minority interests	1.6
C. II. Provision for future policy benefits	– 61.4
C. IV. Provision for premium refunds and policyholders' dividends	22.8
D. Gross technical provisions for life insurance policies where the investment risk is borne by the policyholders	30.1
G. Deferred tax liabilities	5.2

The effects on the consolidated income statement for the 2008 financial year are as follows:

Consolidated income statement € million	Changes resulting from adjustments in accordance with IFRS 3.62 on 31 December 2008
4. Expenses for claims and benefits	
Gross	– 1.5
Reinsurers' share	–
Net	– 1.5
5. Operating expenses	
Gross	14.0
Reinsurers' share	0.7
Net	13.3
14. Impairment losses of goodwill	8.0
16. Taxes on income	– 2.5
17. Consolidated result	–16.8
Thereof:	
– Attributable to ERGO equity holders	– 15.7
– Attributable to minority interests	– 1.1

The initial accounting for Bank Austria Creditanstalt Versicherung AG is thus complete.

On 1 January 2009, the ERGO Insurance Group took over the EUROPÄISCHE Reiseversicherung Aktiengesellschaft, Munich, and Mercur Assistance Deutschland GmbH, Munich (renamed almeda GmbH, Munich) from Munich Re. The purchase price of € 202.6m was determined by an external appraisal report. The takeover on 1 January 2009 was recorded in the consolidated financial statements of the ERGO Insurance Group at the same carrying values as in the consolidated financial statements of the Munich Re Group on 31 December 2008. Both companies are under the "uniform management" of Munich Re and will continue to be included in the consolidated financial statements of the Munich Re Group. The amount exceeding the proportionate equity of the companies taken over of € 142.3m was set off against retained earnings (recorded under "Other changes" in the statement of recognised income and expense).

The ERGO Insurance Group acquired the remaining shares in ERGO Previdenza for € 27.6m during the financial year. In addition, ERGO increased its stake in ERGO Daum Direct by another 3.8%. The purchase price was € 11.3m. These purchases took place as an equity transaction among shareholders, allowing the differential amounts (ERGO Previdenza: € 2.6m; ERGO Daum Direct: € –2.6m) to be set off against retained earnings (recorded under "Change in shareholdings in subsidiaries" in the Group statement of changes in equity).

In the year under review the following companies were included in the consolidated group after being set up: D.A.S. Legal Protection Incorporated Company, Seoul; Victoria Osiguranje d.d, Zagreb; ERGO ASIGURARI DE VIATA SA, Bukarest; and San Marino Life Impresa sammarinese di assicurazione sulla vita S.p.A., San Marino.

The following companies were included for the first time in the consolidated group, backdated to 31 December 2002: Queensley Holdings Limited, Singapore, and Capital Square Pte. Ltd., Singapore (see also page 110).

Besides HGE Haus- und Grundbesitzgesellschaft Elsterwerda mbH, Elsterwerda, another four companies were no longer included in the consolidated group in the reporting year.

The overview starting on page 222 provides details of the consolidated group and other important shareholdings. It can also be viewed on the company register website.

Number of consolidated subsidiaries

Development during the financial year	Germany	International	Total
31 December previous year	59	93	**152**
Additions	5	11	**16**
Reductions	5	–	**5**
31 December financial year	**59**	**104**	**163**

In addition, four special funds were included in the consolidated group, whilst another seven special funds were left out.

Consolidation methods

As a general rule, the balance sheet date of the consolidated companies is 31 December. Some special funds have other balance sheet dates; these funds are consolidated as of 31 December on the basis of interim financial statements.

Basically, we consolidate subsidiaries and special funds as soon as the Group holds a majority of voting rights and/or effectively has other means of control. Acquisitions are accounted for by the purchase method. In order to determine the equity capital at the time of acquisition, we measure the assets and liabilities of the subsidiary or special fund at fair value. The acquisition costs of the shares are set off against the equity capital apportionable to the Group at the time of acquisition. Any residual positive amount is capitalised as goodwill.

Profits earned by the subsidiaries or special funds after their first consolidation are included in Group equity. Amounts relating to intra-Group transactions (receivables and liabilities, expenses and income between consolidated companies) are eliminated unless they are determined as not being material.

Associates

Pursuant to IAS 28, associates are generally all entities which are not subsidiaries but on whose financial and operating policies the investors can exercise a significant influence.

In the case of shareholdings amounting to between 20% and 50% of the voting power, the entities in question are deemed to be associates. Where we hold less than 20% of the voting power, entities are classified as associates nevertheless if there is existence of significant influence on our part, mainly as a result of representation on the board of directors or equivalent governing body of the investee in accordance with IAS 28.7 (a). Investments in associates are valued at equity unless they are not material for assessing the Group's financial position.

Number of companies valued at equity

Development during the financial year	Germany	International	Total
31 December previous year	21	14	**35**
Additions	1	4	**5**
Reductions	4	–	**4**
31 December financial year	**18**	**18**	**36**

Accounting and valuation methods

The annual financial statements of the consolidated subsidiaries and special funds are subject to uniform accounting and valuation methods.

Appropriate adjustments have been made to ERGO's accounting and valuation methods for the financial statements of major associated companies in accordance with IAS 28.27. Valuations used in the financial statements of associates not classified as significant are maintained.

In the course of preparing the consolidated financial statements, we have to use our judgement in applying accounting policies and to make estimates and assumptions that affect the year-end items shown in the consolidated balance sheet, the consolidated income statement and the disclosures on contingent assets and liabilities. Details are provided in recognition and measurement methods for the individual items.

Changes in accounting and valuation methods

The application of recognition, measurement and disclosure methods follows the principle of consistency. In the 2009 financial year the following new IFRSs had to be applied for the first time:

Published in March 2009, the amended IFRS 7, Financial Instruments: Disclosures, requires additional disclosures on financial instruments measured at fair value. Based on the new three-level hierarchy for such measurement, information must be supplied on which level of the hierarchy has been used for valuation. A distinction has to be made here between valuation at quoted prices in active markets (Level 1), valuation using inputs based on observable market data (Level 2), and valuation using inputs not based on observable market data (Level 3). Reallocations between the individual levels have to be disclosed. For instruments valued in accordance with Level 3, a reconciliation from the beginning balances to the ending balances must be published. As far as disclosures in the liquidity risk are concerned, the amended IFRS 7 also clarifies that the maturity analysis for non-derivative financial liabilities includes issued financial guarantee contracts. The maturity analysis for derivative financial liabilities must include their remaining contractual maturities insofar as these are essential for understanding the timing of the cash flows. Disclosure of comparative information may be dispensed with for the financial year 2009, and ERGO is availing itself of this option.

The implementation of IFRS 8, Operating Segments, to be applied for the first time as from 1 January 2009, has resulted in additional disclosures in the notes and a modified disclosure of items in our segment reporting. The business fields in which we operate continue to form the basis for identifying the segments to be reported. In accordance with the "management approach", the way in which ERGO is managed internally constitutes the basis for the changes in disclosure described in the following.

Accordingly, we report on the segments of Life Germany, Health, Property-casualty Germany, Direct insurance, Travel insurance and International Operations. The companies of KarstadtQuelle Insurance and Neckermann Insurance are both included in the direct insurance segment, and even though internally they are under the same management responsibility as is the segment of Life Germany, they are nonetheless recorded separately due to the special nature of the business model (direct sales), although it is not compulsory to report on their scope of business. The companies of Europäische Reiseversicherung and Mercur Assistance Deutschland (renamed almeda) as well as their subsidiaries, which were taken over on 1 January 2009, are recorded as a separate segment under "Travel insurance". This segment does not meet with requirements for reporting under IFRS 8, but due to the special nature of the business model and in line with internal management and reporting this has been carried out voluntarily. The international business included in the health segment forms part of the activities of the new brand "Munich Health" within the Munich Re Group. As a result of the direct or indirect majority stakes held by ERGO Versicherungsgruppe AG in the companies within this segment, they will continue to be included in the consolidated financial statements of the ERGO Insurance Group. As this segment does not meet the materiality criteria of IFRS 8, it is recorded together with the German health insurance business.

At ERGO Insurance Group entities, different performance indicators and measures are used, depending on the type and duration of the business. Besides this, IFRS result contributions are a central feature of planning and strategy in all segments. Therefore the uniform assessment basis used for the measure of segment result is the operating result adjusted to eliminate non-operating components (e.g. foreign currency gains and losses, income and expenses from the sale of intangible assets).

In line with our internal management approach, the operating result has been split into a technical and a non-technical result as from the first quarter of 2009, with an interest component allocated to the underwriting business in the form of income from technical interest. This interest income derives from investment of the premium income and the entitlement of policyholders to portions of the non-technical result (see information on income from technical interest in the next paragraphs). There continues to be comparability with prior periods, since it is possible to reconcile the current figures to the previous IFRS segment results by reallocating the result components.

Depending on the type of insurance activity conducted and the legal provisions associated with it, technical interest income has various interpretations:

As far as German life insurance is concerned, the technical interest income refers to gains and losses from unit-linked life insurance and to guaranteed interest for policyholders and profit-sharing based on investment income according to IFRS, derived from provisions as set out by supervisory bodies.

Technical interest income for domestic business in the health segment refers to the allotment of interest to ageing reserves (technical interest rate) as well as the appropriation to provisions for premium refunds. This is based on the allocation of interest to the non-performance-related provision for premium refunds, on investment income exceeding the technical interest rate as well as the participation of policyholders in the other non-technical components of the result.

As regards domestic property-casualty business and international insurance business, it represents the risk-free interest on our technical provisions which, in terms of domestic business, is derived from the replicating portfolio, and is based on country-specific long-term interest rates concerning international business. In terms of discounted provisions (accident insurance with return of premiums, employees‘ accident insurance), it corresponds to their normal interest effect. As regards international life insurance business, surplus-sharing as well as the net amount from unrealised gains and losses stemming from unit-linked life insurance are taken into consideration as far as there are corresponding contract models.

For reasons of consistency and comparability, we have adjusted the structure of our consolidated income statement in accordance with our segment income statement. Differences merely exist in the degree of detail of individual items and, in particular, in the disclosure of the non-operating result components. In the segment disclosure, the latter components are combined, since they are not part of the defined performance measure and were not planned on a segment-related basis. To meet the IFRS 8 requirements for additional segment disclosures of certain income and expense components, we provide extra “thereof” items in the segment income statement.

The main change to IAS 1 (rev. 2007), Presentation of Financial Statements, is that tax effects included in income and expenses recognised directly in equity are disclosed separately in the notes to the consolidated financial statements. In addition, IAS 1 now requires the publication of the opening balance sheet of the earliest comparative period, plus the relevant disclosures in the notes, when an accounting policy is applied retrospectively with significant adjustments. Non-owner changes in equity must now be disclosed in a separate statement of recognised income and expense, with only the total to be shown in the changes in equity. We already met this requirement last year. Also, we do not make use of the option to rename individual components of the financial statements or to publish a single statement of income combining the income statement and the statement of recognised income and expense. The first-time application of the additional new or amended IFRS and IFRIC interpretations did not have any major impact. Otherwise, the recognition, valuation and consolidation principles comply with those used in the consolidated financial statements for the year ending 31 December 2008.

There was no significant impact on ERGO's financial statements from the mandatory first-time application of IFRS 2 (rev. 01/2008), Share-based Payment, IAS 23 (rev. 03/2007), Borrowing costs, or IAS 32 (rev. 05/2008), Financial Instruments: Presentation. The same applies to the mandatory first-time application of interpretations IFRIC 9 (rev. 03/2009), Reassessment of Embedded Derivatives, in conjunction with IAS 39 (rev. 03/2009), Financial Instruments: Recognition and Measurement, IFRIC 13, Customer Loyalty Programmes, IFRIC 15, Agreements for the Construction of Real Estate, IFRIC 16, Hedges of a Net Investment in a Foreign Operation, and IFRIC 18, Transfers of Assets from Customers. The minor changes to a total of 19 standards published as part of the IASB's Annual Improvement Process in May 2008 had no significant implications for ERGO either.

The first-time application of the additional new or amended IFRS and IFRIC interpretations did not have any major impact. Otherwise, the recognition, valuation and consolidation principles comply with those used in the consolidated financial statements for the year ending 31 December 2008.

In the 2009 financial year a backdated adjustment was made to the previous years' figures for the following in line with the provisions governing IAS 8:

In the past, our participations in the companies Queensley Holdings Limited, Singapore, and Capital Square Pte. Ltd., Singapore, were recognised as securities available for sale. These participations have been reclassified retrospectively, and the companies included in the consolidated group.

The consolidated balance sheets for the financial years 2007 and 2008 are affected by the adjustments pursuant to IAS 8 in the following manner:

Consolidated balance sheet		31 Dec 2007 as originally recognised € million	Changes due to adjustments pursuant to IAS 8 € million	31 Dec 2007 adjusted € million
Assets				
B. I.	Land and buildings, including buildings on third-party land	2,562.3	219.1	2,781.3
B. IV.2	Other securities – Available for sale	59,812.8	– 238.5	59,574.3
E. II.	Other receivables	3,627.7	– 12.3	3,615.5
F.	Cash at bank, cheques and cash in hand	1,721.5	5.4	1,727.0
I.	Other assets	2,174.3	0.2	2,174.5
Equity and liabilities				
A. II.	Retained earnings	2,633.8	– 24.2	2,609.6
A. III.	Other reserves	541.3	– 100.1	441.2
A. IV.	Consolidated result attributable to ERGO equity holders	738.4	0.2	738.6
C. IV.	Provision for premium refunds and policyholders' dividends	10,265.6	– 52.2	10,213.5
F. I.	Current tax receivables	822.5	0.3	822.7
F. II.	Other receivables	12,628.0	150.0	12,778.0
G.	Deferred tax liabilities	2,060.2	– 0.2	2,060.0

Consolidated balance sheet		31 Dec 2008 as originally recognised € million	Changes due to adjustments pursuant to IAS 8 in 2008 € million	31 Dec 2008 adjusted € million
Assets				
B. I.	Land and buildings, including buildings on third-party land	2,552.9	225.2	2,778.1
B. IV.2	Other securities – Available for sale	58,546.6	– 281.4	58,265.2
E. II.	Other receivables	3,640.4	– 13.7	3,626.7
F.	Cash at bank, cheques and cash in hand	1,343.0	11.0	1,354.0
I.	Other assets	2,315.3	0.1	2,315.4
Equity and liabilities				
A. II.	Retained earnings	2,333.1	– 24.3	2,308.8
A. III.	Other reserves	306.4	– 131.1	175.3
A. IV.	Consolidated result attributable to ERGO equity holders	74.9	– 2.1	72.8
C. IV.	Provision for premium refunds and policyholders' dividends	9,045.2	– 61.0	8,984.2
F. I.	Current tax receivables	909.3	0.4	909.7
F. II.	Other receivables	13,673.0	159.8	13,832.8
G.	Deferred tax liabilities	2,798.0	– 0.7	2,797.3

The effects on the consolidated income statement for the 2008 financial year are as follows:

Consolidated income statement	2008 as originally recognised € million	Changes due to adjustments pursuant to IAS 8 in 2008 € million	2008 adjusted € million
4. Expenses for claims and benefits			
– Gross	14,758.1	– 0.7	14,757.4
– Ceded share	862.5	–	862.5
– Net	13,895.6	– 0.7	13,894.9
7. Investment result			
– Investment income	8,922.8	14.8	8,937.6
– Investment expenses	6,052.3	14.1	6,066.4
– Total	2,870.5	0.7	2,871.2
8. Other operating income	355.4	0.2	355.6
9. Other operating expenses	411.2	2.0	413.2
13. Other non-operating result	– 357.1	– 1.2	– 358.3
16. Taxes on income	254.5	0.4	254.9
17. Consolidated result	92.2	– 2.1	90.1
Thereof:			
– Attributable to ERGO equity holders	74.9	– 2.1	72.8
– Attributable to minority interests	17.3	–	17.3

Furthermore, there were additional adjustments arising from IAS 8, but these effects were so minor on the consolidated balance sheet, that there is no need to mention them in detail. Retained earnings included a total of € –2.6m.

Standards or changes in standards not yet entered into force

Application of the following amended standards is mandatory for financial years beginning on or after 1 July 2009:

The revision of IFRS 3 (rev. 01/2008), Business Combinations, and that of IAS 27 (rev. 01/2008), Consolidated and Separate Financial Statements, mainly involve changes in the balance sheet recognition of non-controlling interests, successive share purchases, acquisition-related costs and contingent consideration. Effects of the new rules for ERGO will, owing to their prospective application, result only for future acquisitions of shareholdings and will be dependent on the conditions of the respective acquisition.

The change in IAS 39 (rev. 07/2008), Financial Instruments: Recognition and Measurement – Eligible Hedged Items, provides guidance on designating a portion of cash flows or a risk as a "hedged item" and the extent to which inflation risks may be designated "hedged items". The new rules will have no impact for ERGO. Application of the following amended standard is mandatory for financial years beginning on or after 1 January 2010:

The change to IFRS 2 (rev. 06/2009), Share-based Payment, clarifies the recognition of cash-settled share-based payment transactions. The new rules mainly concern the question of how individual subsidiaries in a group are to recognise (cash-settled) share-based payment agreements in their own financial statements. Under these agreements, the subsidiary receives goods or services from employees or suppliers which the parent or another group company pays for. The new rules do not have any implications for ERGO.

The changes published under the IASB's Annual Improvement Process in April 2009 are also to be applied for the first time for financial years beginning on or after 1 January 2010. Involving a total of ten standards and two interpretations, they are of subordinate importance for ERGO.

Besides this, the interpretation IFRIC 17, Distributions of Non-cash Assets to Owners, has not yet entered into force.

Long-term assets held for disposal and disposal groups

The real estate and buildings of HGE Haus- und Grundbesitzgesellschaft Elsterwerda mbH which had been summarised into disposal groups in the second quarter of 2007 left the consolidated group in the second half of 2009 following the company's sale. There was a disposal profit amounting to € 5.4m from this transaction.

Furthermore, ERGO Versicherungsgruppe AG realised the sale of its shares in Victoria Bauspar AG (VVB) in the second half of 2009. There was a disposal profit of € 0.5m from this transaction.

In the fourth quarter of 2009 we sold residential property used by third parties with a carrying value of € 20.6m; the transfer of economic ownership will occur on 1 April 2010. In addition, the sale of commercial property used by third parties with a carrying value of € 22.3m was decided upon in the fourth quarter of 2009. The transaction is expected to be concluded until the end of the first half of 2010.

Assets

Intangible assets

In accordance with IFRS 3, goodwill from the first-time consolidation of subsidiaries is tested for impairment at least once annually, i.e. the carrying amount of goodwill is compared with the recoverable amount and, if this recoverable amount is lower, a write-down is made for impairment equivalent to the amount of the difference.

Other intangible assets mainly comprise purchased and internally generated software and acquired insurance portfolios. The software is carried at cost less straight-line amortisation. The useful life assumed is generally three to five years, in exceptional cases up to ten years. Acquired insurance portfolios are recognised at their present value of future profits (PVFP). This is determined as the present value of expected profits from the portfolio acquired without consideration of new business and tax effects. The items in question are amortised in accordance with the realisation of the profits from the insurance portfolios underlying the PVFP calculation. Other intangible assets are tested for impairment at each balance sheet date and write-downs made if required. Depreciation and amortisation undertaken to software and other intangible assets are distributed in the consolidated income statement between investment expenses, expenses for claims and benefits and operating expenses. As far as it is impossible to attribute costs to areas of activity, they are shown under other non-operating expenses. Write-downs of purchased insurance portfolios are recognised under operating expenses. Write-ups to software and other intangible assets are included in other non-operational income.

Investments

Land and buildings shown under investments comprise property used by third parties and are carried at cost. Maintenance expenses are recognised as an expense. Structural measures equivalent to 5% or more of the historical cost of a building are generally assessed with regard to whether they have to be capitalised. Buildings are depreciated on a straight-line basis in accordance with the component approach, depending on the weighted useful life for their specific building class. If the recoverable amount of land and buildings falls below their carrying amount, the carrying amount is written down to the recoverable amount. Impairment losses are recognised as investment expense in the consolidated income statement and write-ups as investment income.

In the 2001 financial year, the companies Victoria Grundstücksverwaltungs-Gesellschaft GbR, Düsseldorf, Hamburg-Mannheimer Grundstücksgesellschaft HV2 GbR, Hamburg, and Hamburg-Mannheimer Erste Bürogebäude-Verwaltungsgesellschaft mbH & Co. KG, Kreien, leased the extension at Fischerstraße 2 in Düsseldorf and two buildings located at Überseering 45 in Hamburg to the Wilmington Trust Company, Wilmington, for 99 years and then rented back their rights of use for the same period. However, the companies have the option of repurchasing the rights leased to the Wilmington Trust Company, Wilmington, after 29.5 years by making a final payment determined in advance. The companies Hamburg-Mannheimer Grundstücksgesellschaft HV2 GbR, Hamburg, and Hamburg-Mannheimer Erste Bürogebäude-Verwaltungsgesellschaft mbH & Co. KG, Kreien, were merged into Hamburg-Mannheimer Versicherungs-AG, Hamburg. Consequently, Hamburg-Mannheimer Versicherungs-AG, Hamburg, has taken over the rights of these companies.

In the 2000 financial year, Victoria Grundstücksverwaltungs-Gesellschaft GbR leased the building complex of Victoriaplatz 1, 2 and Fischerstraße 8 to 10 in Düsseldorf (excluding the extension) to BNY International Leasing LLC, New York, for a period of 99 years and rented back the rights of use on it for the same period. However, the company has the option to repurchase the rights leased to BNY International Leasing LLC, New York, after a period of 27 years by making a final payment determined in advance.

Under German fiscal and commercial law, Victoria Grundstücksverwaltungs-Gesellschaft GbR and Hamburg-Mannheimer Versicherungs-AG remain the equitable owners of the buildings. They own the entire rights of use and are responsible for maintenance. The financial side of the transactions was undertaken by banks with excellent credit-ratings. The ERGO Insurance Group has contingent liabilities amounting to € 79.7m (135.2m) for risks associated with the transaction. On 31 December 2009 the economic risk of the transactions stood at USD114.2m.

Shares in affiliated companies which we do not consolidate are recognised at fair value, insofar as these can be reliably measured. As far as shares are quoted on the stock exchange, the listed rates on the cut-off date are taken (market value); for other shares, the fair value is determined according to the discounted earnings or net asset value method. Changes to the fair value are recognised in "other reserves" under unrealised gains and losses.

Investments in associates are valued by the equity method at the Group's proportionate share of their net assets. The associate's earnings attributable to the Group are included in the investment result. As a rule, the equity and annual result from the most recent individual or consolidated financial statements of the associate are used; exceptional transactions of material importance for a true and fair picture of the associate's financial position are recognised in the same financial year. Investments in associates which are not valued at equity are accounted for at fair value insofar as this can be reliably measured. To determine the fair value, we use the share prices at the balance sheet date if the investments are quoted on a stock exchange; for other investments, the fair value is measured using the discounted earnings or net asset value method.

Loans are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are carried at cost in accordance with the effective interest method. Write-downs for impairments are made in cases where the repayment of a loan can no longer be expected.

Fixed-interest securities held to maturity are measured at amortised cost.

Fixed-interest or non-fixed-interest securities available for sale that are not held for trading or recognised under loans are accounted for at fair value. If there are no stock market prices available, fair values are based on recognised valuation methods in line with the present value principle. Unrealised gains or losses are calculated taking into account interest accrued and, after deduction of deferred taxes and the amounts apportionable to policyholders by the life and health insurers on realisation (provision for deferred premium refunds), are recognised directly in equity.

Securities at fair value through profit or loss comprise securities held for trading and securities designated at fair value through profit or loss. Securities held for trading comprise all fixed-interest and non-fixed-interest securities that we have acquired for trading purposes to earn short-term profits from price changes and differences; in addition, they include all derivative financial instruments with positive fair values which we have acquired for hedging purposes but which do not meet the strict requirements of IAS 39 for hedge accounting, and the positive fair values of the derivative components of variable annuities. Securities designated as at fair value through profit or loss comprise structured securities. Such classification can only be made at the time of acquisition; a reclassification to this category in later periods is not possible. Securities held for trading are accounted for at fair value at the balance sheet date. If there are no stock market prices available, fair values (particularly with derivatives) are based on recognised valuation methods. ERGO Versicherungsgruppe AG uses a range of valuation models for this purpose, details of which may be obtained from the following table.

All unrealised gains or losses from such valuation are included in the investment result.

Valuation models

Derivatives	Pricing method	Parameters	Pricing model
Stock options traded on the stock exchange	Quoted price	–	–
OTC stock options	Theoretical price	Listing of underlying shares, effective volatilities, money-market interest rate, dividend yield	Black-Scholes (European), Cox, Ross and Rubinstein (American)
Stock index futures	Quoted price	–	–
Equity forwards	Theoretical price	Money-market interest rate, share price, dividend yield	Present-value method
Total return swaps (hedge fund certificates)	Theoretical price	Market value of the funds, interest-rate curve	Present-value method
Swaptions	Theoretical price	At-the-money volatility matrix and skew, swap curve, money-market interest-rate curve	Black-76
Interest rate swaps	Theoretical price	Swap curve, money-market interest-rate curve	Present-value method
Insurance derivatives (excl. variable annuities)	Theoretical price	Market values of the CAT bonds, interest-rate curve	Present-value method
Insurance derivatives (variable annuities)	Theoretical price	Biometric rates and lapse rates, volatilities, interest-rate curve, currency spot rates	Present-value method
Credit default swaps	Theoretical price	Credit spreads, recovery rates, interest-rate curve	Present-value method
Currency options	Theoretical price	Volatility, currency spot rates, money-market interest-rate curve	Garman-Kohlhagen
Currency forwards	Theoretical price	Currency spot rates, money-market interest-rate curve	Present-value method

Determining fair values

IAS 39 defines the fair value of a financial instrument as the amount for which a financial asset could be exchanged, or a financial liability settled, between knowledgeable, willing parties in an arm's length transaction.

All financial instruments recognised at fair value are allocated to one of the valuation hierarchy levels of IFRS 7. This valuation hierarchy provides for three levels. The initial basis for the allocation is the "economic investment class". Only if this does not result in an appropriate allocation do we deviate from such an approach in individual cases.

The allocation reflects which of the fair values derive from transactions in the market and where valuation is based on models because market transactions are lacking.

In the case of Level 1, valuation is based on unadjusted quoted prices in active markets for identical financial assets which ERGO can refer to at the balance sheet date. A market is deemed active if transactions take place with sufficient frequency and in sufficient quantity for price information to be available on an ongoing basis. Since a quoted price in an active market is the most reliable indicator of fair value, this should always be used if available. The financial instruments we have allocated to this level mainly comprise equities, investment funds and fixed-interest securities (bearer bonds) for which either a stock market price is available or prices are provided by a price quoter on the basis of actual market transactions. We have also allocated derivatives traded on the stock market to Level 1.

Securities allocated to Level 2 are valued using models based on observable market data. For this, we use inputs directly or indirectly observable in the market, other than quoted prices. If the financial instrument concerned has a fixed contract period, the inputs used for valuation must be observable for the whole of this period. The financial instruments we have allocated to this level mainly comprise borrowers' note loans, pfandbriefs, subordinated securities and derivatives not traded on the stock market.

For securities allocated to Level 3, we use valuation techniques not based on inputs observable in the market. This is only permissible insofar as no observable market data are available. The inputs used reflect ERGO's assumptions regarding the factors which market players would consider in their pricing. We use the best available information for this, including internal company data. The portfolios allocated to this level of the fair value hierarchy largely comprise investments in private equity and certain credit structures.

Owing to their leverage effect, changes in individual inputs may significantly affect the fair value shown for instruments measured under Level 3. If we make such adjustments in measuring fair value in the individual case, we explain the resultant effects.

Other investments are measured at amortised cost.

Financial assets in our direct portfolio are generally accounted for at the settlement date. Investments held in special funds are accounted for at the trade date.

Securities that we lend by way of securities lending continue to be recognised in our balance sheet, as the main risks and rewards remain with ERGO Versicherungsgruppe AG; securities that we have borrowed are accounted for by the lender. Fees from securities lending are shown in the investment result.

The net investment result comprises regular income, income from write-ups, gains and losses on the disposal of investments, other income, writedowns of investments, management expenses, interest charges and other expenses. Regular income and expenses from investments not measured at fair value through profit or loss are calculated in accordance with the effective interest method, i. e. any premiums or discounts are deducted from or added to the acquisition costs, with impact on profit or loss, until maturity.

Impairment

Regularly, at each balance sheet date, we assess whether there is any substantial objective evidence of impairment in a financial asset or group of financial assets.

In the case of all fixed-interest securities held to maturity or available for sale, as well as all non-fixed-interest securities, impairments in value – in contrast to temporary diminutions – are recognised as an expense in the income statement. IAS 39.59 contains a list of factors providing substantial objective evidence of impairment of such financial assets. In addition, IAS 39.61 states that for equity investments, a significant or prolonged decline in the fair value of the investment below its acquisition cost is objective evidence of impairment. These rules are given more concrete form by means of internal guidelines. For equities quoted on the stock exchange, we assume a significant decline in fair value if the market value at the review date is at least 20% below the average purchase price or has been lower than this amount for at least six months. In the case of fixed-interest securities and loans, the main basis for establishing evidence of impairment is the rating of the issue, the rating of the issuer or creditor and the market assessment.

We determine acquisition cost on the basis of the average purchase price. In the case of an impairment, a write-down is made to the fair value at the balance sheet date, i.e. generally the publicly quoted market price. If there is a further fall in the fair value of equity investments that have already been written down once, a further write-down recognised in the income statement is made again immediately, even if the impairment is only temporary. Impairments recognised in profit or loss may not be reversed through profit or loss.

In impairment tests of our financial assets (with the exception of equity investments), we generally first assess whether objective evidence of impairment exists for items that are individually significant. If this is not the case, and also in the case of individually insignificant items, the impairment test is carried out collectively on the basis of groups of similar financial assets. Assets that are individually assessed for impairment are not included in the collective assessment. The amount of the probable loss is measured as the difference between the amortised cost of the asset or group of assets and the present value of estimated future cash flows. The impairment thus determined is recognised as an expense. We generally deduct impairments directly from the items concerned on the assets side, without using a value adjustment account. If, in a subsequent period, the reasons for the impairment cease to apply, the impairment is reversed, with impact on the income statement. The resultant carrying amount may not exceed the original amortised cost.

Investments for the benefit of life insurance policyholders who bear the investment risk

These are investments for policyholders under unit-linked life insurances. They are measured at fair value. Unrealised gains or losses from changes in fair value are included in the investment result. These are matched by corresponding changes in the technical provisions, which are included in the technical result. Recognising these investments at fair value, with impact on profit or loss, avoids valuation mismatches that would otherwise occur due to different measurement of the corresponding provisions.

Other investments

Other investments include deposits retained and deposits with banks. Deposits retained stem from reinsuring other insurers to the amount of the retained cash deposits. They are valued at par or at acquisition cost respectively. Credit risks are taken into account accordingly.

Deferred acquisition costs

Deferred acquisition costs comprise commissions and other variable costs directly connected with acquisition or renewal of insurance contracts. In life business and long-term health insurance, acquisition costs are capitalised and amortised over the duration of the contracts. In accordance with FASB Accounting Standards Codification Subtopic 944-30, this is done either proportionally to the premium income (formerly FAS 60) or proportionally to the respective contracts' expected gross profit margins calculated for the relevant year of the contract term (formerly FAS 97, 120). The allocation of individual contracts to the US GAAP standards concerned is shown in the notes to technical provisions. In determining the amount of amortisation, we take into account an actuarial interest rate and changes resulting from the disposal of contracts from the portfolio. In property-casualty business and short-term health insurance, the deferred acquisition costs are amortised on a straight-line basis over the average term of the policies, from one to five years. Deferred acquisition costs are regularly tested for impairment using a liability adequacy test as per IFRS 4.

Deferred tax assets

Under IAS 12, deferred tax assets must be recognised in cases where asset items have to be valued lower, or liability items higher, in the consolidated balance sheet than in the tax accounts of the Group company concerned and these differences will be eliminated at a later date with a corresponding effect on taxable income (temporary differences). Also included are tax assets deriving from tax loss carry-forwards. We take into account the tax rates of the countries concerned and the company's respective tax situation; in some cases, for purposes of simplification, we use uniform tax rates for individual circumstances or subsidiaries. Where unrealised losses on securities available for sale are recognised in equity (see notes on investments – Other securities available for sale), the resulting deferred tax assets are recorded but not recognised in income. Deferred tax assets are reversed if a realisation of the corresponding receivable is not probable.

Other assets

Accounts receivable and cash holdings are recorded at par value. Impairments are only carried out where there is a suggestion of substantial impairments to value, see Section Impairment, page 116.

Property, plant, equipment and stock appear in the balance sheet at amortised cost. Land and buildings for own use, which are shown here, are valued as for asset item B.I. land and buildings, including buildings on third-party land. Impairment losses and impairment losses reversed in the Group's owner-occupied property are distributed between the underwriting functional areas.

Other receivables

Current tax receivables comprise actual tax on income from individual companies stemming from the respective national taxation. Other tax receivables are noted under other receivables.

Liabilities

Equity

The item issued capital and capital reserve contains the amounts that ERGO Versicherungsgruppe AG equity holders have paid in on shares.

Under retained earnings, we show the profits which consolidated companies have earned and retained since becoming part of the Group, and income and expenses resulting from changes in the consolidated group. In addition, the adjustment amount resulting from changes in accounting policies for earlier periods not included in the consolidated financial statements is recognised in the opening balance of the retained earnings for the earliest prior period reported.

Other reserves contain unrealised gains and losses resulting from the recognition of other securities available for sale at fair value and from investments in unconsolidated affiliated companies and in associates that we do not value at equity. These reserves also include unrealised gains and losses from the valuation of associates at equity, differences resulting from the currency translation of foreign subsidiaries' figures, and the valuation result from the hedging of cash flows. Write-ups of equity investments available for sale are also recognised in this equity item.

Minority interests are accounted for in the balance sheet as part of equity. These are the shares of third parties in the equity of consolidated subsidiaries that are not wholly owned directly or indirectly by ERGO Versicherungsgruppe AG. Direct minority interests in special funds are recognised under "other liabilities". The portion of the result attributable to minority interests is shown in the consolidated result.

Subordinated liabilities

Subordinated liabilities are liabilities which, in the event of liquidation or insolvency, are only satisfied after the claims of other creditors. They are measured at amortised cost in accordance with the effective interest method.

Technical provisions

Unearned premiums

Unearned premiums are accrued premiums already written for future risk periods. These premiums are generally calculated separately for each insurance policy pro rata temporis. The posting of unearned premiums is restricted to short-term underwriting business, and concerns property insurance as well as parts of accident and health insurance.

Provision for future policy benefits

The provision for future policy benefits in long-term underwriting business is posted for the actuarially calculated value of obligations arising from policyholders' guaranteed entitlements. As well as life insurance, this concerns portions of health and personal accident insurance, insofar as the business is conducted like life insurance. Measurement is usually based on the prospective method, by determining the difference between the present values of future benefits and future premiums. The actuarial assumptions used for their calculation include, in particular, assumptions relating to mortality, disablement and morbidity, as well as assumptions regarding interest-rate development, lapses and costs. These are estimated on a realistic basis at the time the insurance contracts are concluded, and they include adequate provision for adverse deviation to make allowance for the risks of change, error and random fluctuations. The actuarial assumptions are adjusted if this is shown to be necessary by a liability adequacy test in accordance with IFRS 4.

The measurement of the provision for future policy benefits in accordance with FASB Accounting Standards Codification Subtopic 944–40 depends on the type of contract:

For life insurance without performance-related participation in surplus, health insurance (formerly FAS 60), the provision for future policy benefits is calculated from the present value of the estimated future policy benefits (including claims adjustment expenses) less the present value of the future net level premiums. Net level premium is that part of the gross premium that is needed to finance future policy benefits. Life insurance contracts with limited premium payment are generally valued in the same way.

For life insurance contracts on the universal life model and unit-linked life insurance (formerly FAS 97), an account is kept to which net level premiums and interest earnings are credited and from which risk premiums and administration expenses are debited, not all credits and debits being contractually fixed at the time the contracts are concluded. The provision for future policy benefits for life insurance where policyholders bear the investment risk themselves (unit-linked life insurance) is shown separately under equity and liabilities item D.

In the case of life insurance contracts with performance-related participation in surplus (formerly FAS 120), the provision for future policy benefits comprises the net level premium reserve and liabilities for terminal dividends. The net level premium reserve is calculated from the present value of guaranteed policy benefits (including acquired bonuses but excluding claims adjustment expenses) less the present value of future net level premiums. Here the same technical interest rate and biometric calculation principles are employed which were used as the basis to calculate tariff premiums or surrender values. Additionally, a reserve is set up to cover administration expenses for non-contributory periods. The calculation principles of tariffs are regularly verified by the regulatory authorities or actuarial associations and include safety margins which take into account risks caused by change, error or chance. To the extent that safety margins in the biometric calculation principles have been used up in full, there may be a need to set up additional provisions or to conduct an unscheduled amortisation of deferred acquisition costs. This kind of adjustment is carried out together with the IFRS 4 adequacy test if the adequacy of technical provisions can no longer be guaranteed when taking all calculation principles into account. A possible deficit is recognised in the income statement. The adequacy of the provision for future policy benefits is assessed on a regular basis using current, realistic estimates on the calculation principles, the proportionate amount of the investment return as well as future surplus-sharing for contracts which include this aspect.

The biometric calculation principles used for life insurance policies are considered adequate. The actuaries in charge consider the mortality tables used to be adequate and to contain a sufficient safety margin for policies with mortality risk. However, narrower safety margins have been observed in the annuity portfolio. Should the trend towards a sustained improvement in life expectancy continue, a transfer of additional sums to the provision for future policy benefits cannot be ruled out in future.

The accrual of the provision for terminal bonuses is carried out as scheduled over the term of the contracts by means of annual transfers and interest. For life insurance policies which are shown in the balance sheet in accordance with FASB Accounting Standards Codification Subtopic 944-40 (formerly FAS 120 or FAS 97), transfers are based on the income already realised in the past as well as future expected income which has already been calculated for capitalising deferred acquisition costs. The assumptions applied here are checked regularly and adjusted where necessary. The provision for terminal bonuses is recalculated following a necessary adjustment to the actuarial calculation principles. This normally leads to a change in the amount which is transferred. The revaluation of the provision for terminal bonuses is carried out within the provision for premium refunds without affecting income. It is for this reason that fluctuations do not have any effect on the consolidated result.

For contracts primarily of an investment nature, e. g. unit-linked life policies and AltZerG products (products with prospective entitlement in accordance with the German law on the Certification of Old-Age Provision Agreements), assessment of the provision for future policy benefits is based on FASB Accounting Standards Codification Subtopic 944–40 (formerly FAS 97). The provision for future policy benefits is made up from additions of the amounts invested, the performance of underlying investments and withdrawals in line with contracts plus provision for the terminal bonuses and provision for “unearned parts of premiums“ for these products.

As regards the assessment of the provision for future policy benefits in health insurance, FASB Accounting Standards Codification Subtopic 944–40 (formerly FAS 60) is used. The main reasons for using this are the absence of causality in the generation and utilisation of surpluses, and the usually lifelong term of health insurance policies calculated in the same manner as life insurance policies.

The provision shown is calculated as the difference between the present value of future insurance benefits including claims adjustment expenses and the present value of future premiums. Here that share of the gross premium is taken into account which is required to finance future insurance benefits including the costs of claims settlements (net level premium). The provision is calculated on current actuarial calculation bases. These include adequate safety margins in either direction.

The provision which is based on Section 12 a para. 2 of the German law on the Supervision of Insurance Companies (VAG), is not part of the provision for future policy benefits, but rather recorded in the provision for premium refunds.

Provision for outstanding claims

The provision for outstanding claims is set up on the balance sheet date for payment obligations arising from insurance contracts. Part of the provision is for known claims for which individually calculated provisions are posted. Another part is for expenses for claims whose occurrence is not yet known (e. g. because they have not been reported yet or have not yet manifested themselves). A third class of provisions covers claims which are known but whose extent has turned out to be greater than originally foreseen. All these provisions include expenses for internal and external loss adjustment expenses. The provision for outstanding claims is based on estimates: the actual payments may be higher or lower. The amounts posted are the realistically estimated future amounts to be paid; they are calculated on the basis of past experience and assumptions about future developments (e. g. social, economic or technological factors).

In the areas of industrial, property and transport business, provisions are set up for individual claims. In these lines of business provisions for as yet unreported claims are based on past experience. The provision for business taken over generally follows declarations by the previous insurers. The provision for outstanding claims is largely not discounted with the exception of some provisions set up using actuarial calculation for pensions concerning occupational disability, liability and personal accident insurance. In the cases of these exceptions a discount rate is applied which is allowed by the regulatory authorities, and the provisions in question are discounted.

<u>Provision for premium refunds</u>

Apart from non-performance-related premium refunds this item contains in particular performance-related premium refunds for life, health and personal accident insurance. In health insurance the non-performance-related premium refunds also comprise sums which must be set up in accordance with Section 12 a of the German Insurance Supervision Act (VAG). According to national regulations the provision only has to be set up for the German insurance business. Provided that the provision for premium refunds has been set up, a valuation is conducted retrospectively based on regulations imposed by the regulatory authorities or as a result of provisions governing the individual contract. For those life insurance and pension fund companies which are subject to supervision by the Federal Financial Supervisory Authority (BaFin), the supervisory regulations of the German Insurance Supervision Act and the regulation pertaining to minimum appropriation need to be observed.

Furthermore, a provision is set up for deferred premium refunds in favour of life and health insurance policyholders. It is made up of the differences between the reporting of assets and liabilities according to national laws and the valuation in line with IFRS or US GAAP. In this respect, as far as unrealised gains and losses from marketable securities are recorded directly in shareholders' equity, this provision for deferred premium refunds is set up without affecting profit or loss. In other cases, changes to the provision are reported in the income statement. To ascertain this amount, the portion is taken with which policyholders participate in the realisation based on national statutory or contractual provisions or individual plans of the companies. The amount varies depending on the business segment as well as the country in which the policy was taken out, and it can amount to between 50% and 92.5%. As regards Hamburg-Mannheimer Versicherungs-AG and Victoria Lebensversicherung AG, the percentage was adjusted during the last financial year following an amendment to the management rule on policyholders' participation in the surplus. The revaluation of the provision for deferred premium refunds resulting from the application of these amended latency rates appeared in the income statement either with or without an impact depending on the origin.

Provisions for terminal bonuses are transferred from the provision for premium refunds into the provision for future policy benefits without affecting profit or loss. Here the funds reserved for terminal bonuses and available funds in the provision for performance-related premium refunds are used. If the provision for terminal bonuses exceeds these amounts, parts of the provision for deferred premium refunds are reclassified as well.

All technical provisions are regularly subjected to a liability adequacy test in accordance with IFRS 4. If current experience shows that the provisions posted on the basis of the original assumptions – less the related deferred acquisition costs and the present value of the related premiums – are inadequate to cover the expected future benefits, we adjust the relevant technical provisions with recognition in profit or loss and disclose this under impairment losses / unscheduled changes in the notes to the consolidated financial statements. The appropriateness of unearned premiums and of the provision for outstanding claims is assessed in relation to the realistically estimated future amount to be paid. The appropriateness of the provision for future policy benefits is assessed on the basis of realistic estimates of the actuarial assumptions, the proportional investment result and, for contracts with participation in surplus, the future profit-sharing.

Technical provisions for life insurance policies where the investment risk is borne by the policyholders

This item encompasses the provision for future policy benefits in life insurance where policyholders bear the investment risk themselves (unit-linked life insurance). The value of the provision for future policy benefits essentially corresponds to the market value of the relevant investments shown under assets item C. Besides this, in accordance with FASB Accounting Standards Codification Subtopic 944–40 (formerly FAS 97), they may include additional premium components. Changes in this provision are fully recognised in the technical result. Insofar as these changes derive from unrealised gains and losses from alterations in the fair values of the related investments, they are matched by opposite changes of the same amount in the investment result. Recognising these provisions at fair value, with impact on profit or loss, avoids valuation mismatches that would otherwise occur due to different measurement of the corresponding investments.

Provisions for post-employment and similar benefits

The companies within ERGO Insurance Group generally give commitments to their staff in the form of defined contribution plans or defined benefit plans. The type and amount of the pension obligations are determined by the conditions of the respective pension plan. In general, they are based on the staff member's length of service and salary. Under defined contribution plans, the companies pay fixed contributions to an insurer or a pension fund. This fully covers the companies' obligations. Under defined benefit plans, the staff member is promised a particular level of retirement benefit either by the companies or by a pension fund. The companies' contributions needed to finance this are not fixed in advance.

Pension obligations are recognised in accordance with IAS 19, using the projected unit credit method and based on actuarial studies. They are calculated using modified probability of mortality from Group company pensioner portfolios, as well as current invalidity and fluctuation probabilities and expected increases in salary, entitlements and pension. The calculation includes not only the pension entitlements and current pensions known on the balance sheet date but also their expected future development.

The interest rate at which the pension obligations are discounted is based on the yields for long-term good-quality bonds (e. g. commercial bonds). Actuarial gains or losses from pension obligations result from the deviation of actual risk experience from estimated risk experience. They are recognised directly in equity, without impact on profit or loss.

Other provisions

Other provisions are established in the amount of the probable requirement; such amounts are not discounted if the interest-rate effect is insignificant.

Liabilities

This item comprises bonds and notes issued, deposits retained on ceded business, current tax liabilities, and other liabilities. Financial liabilities are generally recognised at amortised cost. Derivatives (derivative financial instruments and derivative components of variable annuities) are recognised at fair value. Current tax liabilities comprise current taxes on income of the individual companies, based on their respective national taxation. Other tax liabilities are shown under "Other liabilities". Tax liabilities for current taxes are posted – without discounting – in accordance with the probable tax payments for the year under review or previous years. Deferred tax obligations are shown under equity and liabilities item G. Direct minority interests in special funds are measured at fair value.

Deferred tax liabilities

Under IAS 12, deferred tax liabilities must be recognised if asset items have to be valued higher, or liabilities items lower, in the consolidated balance sheet than in the tax accounts of the reporting company and these differences will be eliminated at a later date with a corresponding impact on taxable income (temporary differences).

Reinsurance

Reinsurers' shares in the technical items are shown on the assets side of the balance sheet and based on the contracts with reinsurers. The reinsurers' shares in deferred acquisition costs and in technical provisions are detailed in the notes. The reinsurers' shares are reported separately in the income statement.

Segment reporting

The annual accounts figures are broken down into the internal reporting and management structure of ERGO Insurance Group, and consist of Life Germany, Health, Property-casualty Germany, Direct insurance, Travel insurance and International Operations.

Specific business segments are presented after consolidation of internal transactions within the individual business segments but prior to consolidation across the segments. Profit transfer agreements have been signed with virtually all domestic insurance companies. Profit transfer is deemed as appropriation of profits in the segment reporting. Profit transfers are thus eliminated prior to segment reporting. This is shown in the "Other/consolidation" column where expense and income from profit transfer agreements are eliminated. Group values are derived by adding the "Other/consolidation" column. Apart from consolidation entries, this column also includes figures of companies which cannot be clearly attributed to the business segments listed. This includes, for instance, the activities of the ERGO Versicherungsgruppe AG as the holding company for the Group. This form of presentation was chosen to truly show the core areas of business expertise in an undistorted fashion.

Premiums from transactions with other business segments are stated separately.

Cash flow statement

The cash flow statement shows how the liquid funds of the ERGO Insurance Group have changed during the course of the year under review by way of the inflow and outflow of funds. Here a distinction is made between cash flows from operating, investing and financing activities. The statement reconciles to financial assets shown in the balance sheet as "Cash at bank, cheques and cash in hand". Apart from complying with IAS 7, the cash flow statement is also carried out in compliance with German Accounting Standard No. 2 (DRS 2) of the German Standards Council (DSR). Reporting also complies with DRS 2-20, which applies specifically to insurance companies.

Foreign currency translation

The consolidated financial statements of the ERGO Insurance Group are prepared in euros.

The annual accounts of foreign companies, where the currencies do not as yet participate in the European Economic and Monetary Union, have been converted into euros in accordance with IAS 21. The mean exchange rates on the cut-off date have been used for the conversion of the balance sheets, whereas the quarterly mean exchange rates were used for the income statements of the 2009 financial year. Differences resulting from conversion are included directly in shareholders' equity.

In the capital consolidation the equity amounts of foreign subsidiaries have been converted into euros using the historic exchange rates at the respective acquisition dates.

Risks from insurance policies in the life segment

For our life insurers, major risks include biometric risks, interest rate risks as well as lapse risks. Technical provisions and deferred acquisition costs are calculated based on biometric calculation principles, i. e. assumptions made concerning the trend in mortality and disability, as well as contract- or plan-specific discount rates and actuarial interest rates. Further, assumptions made on calculating the probability of cancellation and profit sharing are included in the valuation. Moreover, other market risks from unit-linked policies and risks from embedded derivatives have to be taken into account, as well as the liquidity risk.

Biometric risk

In life insurance the risk of exposure to biometric risks depends on the type of insurance product.

The quantitative structure of our business is shown in note [16b] “Provision for future policy benefits according to the insured risk”.

The biometric assumptions used for measuring insurance contracts in our portfolios are checked regularly based on up-to-date information regarding the portfolio, and checks conducted in the specific countries by the supervisory authorities or by actuarial associations are especially taken into account. In addition, market standards are taken into consideration in order to check the adequacy of the biometric calculations as well as the trend assumptions associated with them. This may lead to a change in the safety margin allowed in the actuarial assumptions. The amount of technical provisions or the deferred acquisition costs is not generally directly affected.

Product category	Features	Significant risks
■ Life insurance ■ Term life insurance	■ Long-term policies with death benefit ■ Primarily with a lump-sum payment on termination ■ Actuarial assumptions fixed when contract is concluded, premium adjustments not possible	■ Mortality (short-term): increase in claims expenditure due to exceptional one-off circumstances (e. g. pandemics) ■ Mortality (long-term): increase in claims expenditure due to sustained rise in mortality in the portfolio
■ Annuity insurance	■ Predominantly guaranteed life-long pension ■ Actuarial assumptions mainly fixed when contract is concluded, premium adjustments not possible	■ Longevity: increase in expected expenditure for annuities due to sustained rise in life expectancy in the portfolio
■ Occupational disability and disablement insurance	■ Long-term policies with a guaranteed limited annuity in the event of disablement ■ Actuarial assumptions fixed when contract is concluded	■ Disablement: increased expenditure due to rise in the number of cases of disablement in the portfolio or a reduction in the average age at which the insured event occurs. ■ Longevity: increased expenditure due to rise in the average duration of annuity period

The biometric actuarial assumptions currently used are considered by the actuaries in charge to be adequate and contain sufficient safety margins.

The sensitivity towards changes to biometric assumptions in life insurance is measured by applying an embedded value analysis, see page 133.

Interest risks

As regards life insurance policies, there is normally an implied or explicit guaranteed interest rate for the entire term of the policy based on a set interest rate at the time the contract is concluded. The discount interest used in order to calculate the provision for future policy benefits is identical to this interest rate for the majority of the policies. The technical interest rates used are presented in the notes to the consolidated financial statements.

To achieve the minimum interest for the benefits set out in the policy in the long term, we are reliant on the investment result – and possibly the underwriting result.

The discount rates relevant for the portfolio which are relating to provisions for future policy benefits and provisions for outstanding claims are shown in table [16c] of the notes to the consolidated financial statements.

The main risk comes when the terms of fixed-interest investments do not coincide with those of the liabilities (duration mismatch). When there is a significant fall in interest rates over the remaining term of liabilities, reinvestment earnings remain below the discount interest, resulting in additional expenditure. However, a complete duration matching of the liabilities with fixed-interest investments with the same terms to maturity would not be expedient because significantly rising interest rates would mean that policyholders make increasing use of their surrender rights, resulting in a liquidity requirement for premature payouts. The sensitivity towards the interest risk is measured within the framework of an embedded value analysis, see page 133.

Other types of market risk and embedded derivatives

Besides guaranteed interest, which is analysed when presenting the interest risk, risks here pertain especially to unit-linked life policies. Other embedded derivatives are financially insignificant.

As regards unit-linked policies in our portfolios, investments are at the expense and risk of the policyholder. Consequently, there is no direct market risk. Appropriate product design ensures that the necessary premium portions for payment of a guaranteed minimum benefit on occurrence of death are based on the current fund assets. Besides, unit-linked insurance policies may contain a guaranty amounting to the sum of gross premiums paid which is secured in certain cases by an issuer. This reduces our market risk accordingly, but there is still the counterparty risk. To minimise this, we set high requirements regarding the creditworthiness of the issuer.

Lapse risk

The reported technical provision in the case of contracts with a surrender option is generally at least as high as the relevant surrender value. Expected surrenders are taken into account in the amortisation of deferred acquisition costs in life primary insurance and reinsurance. The underlying assumptions are regularly checked.

If the policyholder has the right to maintain the policy without having to pay a premium in return for adjusted guaranteed benefits, this corresponds to a partial lapse and is calculated accordingly.

The lump-sum option right for a deferred annuity gives the policyholder the option to have the annuity paid out in a lump sum on a given date. There is a potential risk here if, following a level of interest which is significantly above the level used to calculate the annuity, an unexpectedly large number of policyholders exercise their lump sum option.

However, there is no direct interest or market sensitivity as the exercising of the option is influenced decisively by individual factors concerning the policyholder because there is an insurance component involved. Contractual aspects are also relevant, as the lump-sum option is sometimes excluded or severely limited, such as with company pensions or with state-subsidised products. The adequacy test for technical liabilities in accordance with IFRS 4 explicitly takes this policyholder's option into consideration.

The sensitivity towards a change in the lapse probability in life insurance is measured by applying an embedded value analysis, see page 133.

flows are largely aligned with those of the liabilities through our asset-liability management, items are positive throughout, so that the liquidity risk from life insurance is minimised accordingly.

With these estimated values, it should be borne in mind that these forward-looking data may involve considerable uncertainty.

Further information on the liquidity risk is provided in the risk report on page 83.

Expected future technical cash flow (gross) [1]	€ million[2]
Up to one year	– 2,423
Over one year and up to five years	– 12,950
Over five years and up to ten years	– 19,691
Over ten years and up to twenty years	– 28,474
Over twenty years	– 42,020

[1] Premiums less guaranteed benefits and costs (excl. unit-linked products)
[2] After eliminating internal Group transactions across all segments

Liquidity risks

There could be a liquidity risk if the cash outflow for insurance claims payments and the costs related to the business were to exceed the cash inflow from premiums and investments. For our mainly long-term business, we therefore analyse the expected future balance from cash inflows due to premium payments and outflows for payment of insurance claims and benefits plus costs.

For the business at the balance sheet date, this results in the future expected technical payment balances shown in the table according to duration bands. As only the technical payment flows are considered, inflows from investments – i. e. investment income and investments that become free – are not included in the quantifications. Taking into account the inflows from investments, whose cash

Health insurance risks

The biometric risk, lapse risk, claims risk and the actuarial interest rate risk are the major risks for our health insurers. Technical provisions and deferred acquisition costs are calculated based on biometric calculation principles, i.e. assumptions made concerning the trend in mortality and morbidity, as well as contract- or plan-specific discount rates and actuarial interest rates and assumptions regarding lapses. Moreover, other market risks have to be taken into account, as well as the liquidity risk.

Biometric risk and lapse risk

The exposure towards biometric risks differs depending on the type of insurance product.

Product category	Features	Significant risks
■ Health insurance	■ Largely long-term contracts guaranteeing assumption of costs for medical treatment; provisions are established for covering increased costs on ageing ■ Variable actuarial assumptions; premium adjustment possible if there are sustained changes in the cost structure	■ Morbidity: increase in medical costs that cannot be absorbed through premium adjustments ■ Increase in claims expenditure due to exceptional, one-off events (e. g. pandemics)

Biometric calculation assumptions and the lapse probability in health insurance are revised by actuaries or fiduciaries on a regular basis. In addition, standards in the form of directives, circulars, guidelines and recommendations for calculation assumptions are prescribed by the regulatory authority, actuary association and other organisations. The respective actuary in charge undertakes constant monitoring based on current portfolio information. Any deviation in reality to the respective assumptions may lead to a change in the safety margin contained in the calculations. The figure for the provision for future policy benefits and deferred acquisition costs is not directly affected by this, provided that there are safety margins. According to the actuaries in charge, the biometric calculation assumptions used are adequate. However, as regards long-term contracts, we assume that the treatment possibilities will improve in future too, which will result in higher costs. If calculation assumptions are changed, an adjustment in premiums is generally possible. By contrast, there is primarily the risk of short-term increased expenses with short-term health insurance business due to one-off exceptional events.

Nevertheless, these types of biometric risks may come at the same time and be accentuated by interventions by legislators or courts in the distribution of risks and rewards underlying the insurance contracts concluded, making it necessary to adjust the provision.

As regards the lapse risk, it should be noted that the adjustment of the deferred acquisition costs as well as the calculation of provisions are carried out taking lapses of business in force into account. The assumptions made here are checked regularly.

Claims risk

The claims risk occurs when benefits have to be paid out of a previously determined premium. Here the scope of benefits has been agreed beforehand, but the risk lies in not knowing how medical expenses will develop in the future and drawing on the benefits. The benefits promise plays an important role in this aspect. In future, we also expect that medical possibilities will improve still further with more applications and, hence, higher costs.

Consequently, the relationship of calculated costs to the benefits required is constantly monitored. An adjustment is made to tariffs where actual benefits deviate from calculated benefits not only temporarily. Actuarial assumptions used are deemed to be adequate by the respective actuary in charge and the fiduciary in cases inspected by the latter.

The risk of particularly high individual claims and a dramatic rise in the number of claims as a result of a pandemia is constrained by means of a special reinsurance concept.

Technical interest-rate risk

The technical interest rate used to calculate premiums can be changed during the term of policy in health insurance by way of premium adjustment. The technical interest rates used for calculation purposes are not higher than the maximum technical interest rate approved by the regulatory body which is currently 3.5%.

The discount rate used to calculate the provision for future policy benefits may differ from the technical interest used to calculate the premium. An adjustment of the interest used to calculate the provision for future policy benefits for long-term business is only possible if the technical interest rate is adjusted within the context of a premium adjustment. Consequently, a guaranteed interest risk only exists until the next premium is set. There is no direct interest-rate risk for short-term business.

Moreover, in German health insurance the valid discount rate is also used to calculate the premium for the supplementary premium reserve and for the provision for the reduced premiums in later years which, according to the German Commercial Code, form part of the provision for future policy benefits and which are to be shown under the provision for premium refunds in line with IFRS. However, the discount rate can be changed whenever there is an adjustment made to premiums.

We rely on investment income in order to generate the interest required for technical provisions, thus resulting in a reinvestment risk. As regards future expected premiums, there is a risk regarding new investment. If, with significantly falling interest rates over the remaining period of the liabilities, reinvestment earnings lag behind discount rates, the calculated interest return cannot be generated solely from investment income. The sensitivity towards any change in the interest rates is measured within the framework of an embedded value analysis, see page 133.

Impact on equity and the consolidated income statement

An additional provision may be required if investment income should not be sufficient or if impairment losses on deferred acquisition costs become necessary. This type of adjustment is carried out based on the adequacy test in accordance with IFRS 4, but only if no offset is possible from other sources of income. In such a case a possible deficit would be recorded in the income statement.

The balance sheet effects of too little return on investments can be limited by adjusting the technical interest rate if an adjustment of the actuarial interest rate becomes necessary within the framework of a premium adjustment. The permanent satisfiability of the technical interest rate used is monitored within the framework of investment planning. Furthermore, the technical interest rate for the German business is checked annually using the procedure worked out by the German Association of Actuaries on measuring the “actuarial corporate interest rate”. Additionally, the effect of the risk caused by a change in interest rates can be further limited by carefully fine-tuning future cash flows from assets, premiums and obligations (asset-liability management). According to the opinion of the actuary in charge and in accordance with the procedure for calculating the “actuarial corporate interest rate”, the technical interest currently used is deemed adequate.

Liquidity risks

There could be a liquidity risk if the cash outflow for insurance claims payments and the costs related to the business were to exceed the cash inflow from premiums and investments. For our mainly long-term business, we therefore analyse the expected future balance from cash inflows due to premium payments and outflows for payment of insurance claims and benefits plus costs.

For the business at the balance sheet date, this results in the future expected technical payment balances shown in the table according to duration bands. As only the technical payment flows are considered, inflows from investments – i. e. investment income and investments that become free – are not included in the quantifications. Taking into account the inflows from investments, whose cash flows are largely aligned with those of the liabilities through our asset-liability management, items are positive throughout. The liquidity risk is thus minimised in the health insurance segment.

is derived. The result of these two steps is an estimation of the expected overall claims in a portfolio. A third element comprises the expected cash flows to settle claims incurred, a process which frequently extends over several years.

Expected future technical cash flow (gross)	€ million[1]
Up to one year	392
Over one year and up to five years	1,468
Over five years and up to ten years	– 492
Over ten years and up to twenty years	– 9,247
Over twenty years	– 79,548

[1] After eliminating internal Group transactions across all segments

With these estimated values, it should be borne in mind that these forward-looking data may involve considerable uncertainty and depend on assumptions made on medical inflation as well as future trends with benefits.

Further information on the liquidity risk is provided in the risk report on page 83.

Property-casualty insurance risk

Of particular importance in this segment is the estimation risk with regard to the amount of the expected claims expenditure for future claims from current insurance contracts (premium risk) and for claims already incurred (reserve risk). In estimating claims expenditure, we also take cost increases into account. There is an interest-rate risk for parts of the portfolio. Besides this, the liquidity risk has to be taken into account.

The basis for measuring the risk assumed is an estimate of the claims frequency to be expected for portfolio of contracts. In addition, an estimation of the claims amount is necessary, from which a mathematical distribution of the expected losses

Premium risk

The degree of exposure to estimation risks differs according to class of business. On the basis of the loss ratios and combined ratios of past years, conclusions can be drawn about the historical volatilities in the different classes of business and about possible interdependencies. The differences in volatility are due equally to fluctuations in claims burdens and fluctuations in the respective market price level for the covers granted.

The estimation of technological, social and demographic parameters plays an important part in assessing and pricing risks assumed in all classes of business. Beyond this, in liability insurance and sections of motor insurance, the development of economic and legal parameters is significant. In the lines of business where there is a high degree of sensitivity regarding the underlying assumptions about natural catastrophes, we include expected trends in our considerations when assessing the risks.

We are convinced that we have calculated our premiums to include a sufficient margin for risks. The containment of risk is guaranteed through our targeted underwriting policy, strict underwriting guidelines and guidelines for the degree of authority and competency. The systematic controlling of the portfolio and regular recalculation of premiums ensure that premium income and claims payments remain in an appropriate balance.

exposure to large and very large losses. High single losses and large indemnity amounts associated with them, as well as the effect of cumulative events, are contained regarding their effect on

Premiums, claims and expenses according to lines of business	2009	2008	2007	2006
Gross premiums in € million				
Motor	**1,534**	1,569	1,350	1,113
thereof for motor liability	**808**	818	745	658
thereof for other motor	**726**	751	605	455
Accident	**888**	861	848	832
Fire/property	**736**	722	712	637
Liability	**516**	514	513	493
Transport/aviation	**127**	131	135	118
Other	**693**	323	254	234
Legal expenses	**942**	922	911	870
Total	**5,436**	5,041	4,723	4,298
Claims ratio (%)				
Motor	**83.2**	77.2	79.1	76.8
thereof for motor liability	**84.7**	79.1	84.7	82.3
thereof for other motor	**81.3**	75.1	72.1	69.0
Accident	**33.1**	35.0	37.6	37.0
Fire/property	**55.4**	63.1	64.8	53.7
Liability	**55.0**	48.1	55.0	58.0
Transport/aviation	**67.1**	62.8	62.7	60.9
Other	**53.0**	40.6	43.2	47.5
Legal expenses	**57.7**	56.5	56.1	55.7
Total	**59.8**	58.5	59.3	56.4
Combined Ratio (%)				
Motor	**108.0**	101.8	105.6	101.5
thereof for motor liability	**109.6**	103.5	110.9	106.6
thereof for other motor	**106.0**	99.9	99.1	94.3
Accident	**68.5**	72.1	75.4	75.0
Fire/property	**90.7**	97.7	102.8	91.1
Liability	**86.5**	80.8	87.9	91.7
Transport/aviation	**93.1**	88.4	89.3	87.9
Other	**97.0**	82.4	79.1	90.6
Legal expenses	**97.8**	95.8	95.0	96.1
Total	**93.5**	91.3	93.5	91.2

Large and very large losses

Following the strong focus on private customer business there are, on the one hand, very few risks concerning future cash flows and, on the other, little

the income statement by our reinsurance programmes, meaning that their negative impact can be planned in the sense of profit-oriented company management. We make use of risk-based reinsurance solutions to achieve this goal.

As regards ceded insurance, we pursue the objective of reducing the volatility of net results. This means that less equity is required for operational purposes and, at the same time, the results can be planned more accurately. To calculate our reinsurance needs, we regularly analyse the gross and net exposure of our insurance portfolios with a special focus on cumulative dangers. From this, we derive areas of action for steering our reinsurance programme.

As a result of the special significance of insurance against natural disasters, and our companies' exposure to those perils, our portfolios are evaluated on a regular basis using recognised actuarial methods. The results of these analyses form the basis for the type and degree of protection programmes against natural disasters. The respective net retentions are financially viable sums for the companies.

The portfolios of private customer lines of business are very homogenous. Nevertheless, in the context of internal risk modelling, large, cumulative and basic losses are modelled and the effect of the current reinsurance structure tested on it. The normal (Pareto) distribution is then used as an assumption for claims amounts for large and cumulative losses. In addition, this internal risk model is used to gauge reinsurance requirements and is part of the internal risk management process.

As a result of the very different amounts regarding the insured values, commercial and industrial lines of business are characterised by heterogeneity of the portfolios. In the course of internal risk modelling large, cumulative and basic losses are therefore assessed on a very individual basis, and, accordingly, the impact of the respective current and also very individual reinsurance structure is permanently tested on it and adjusted where required.

Where necessary, high individual risks are diversified using co-insurance or by taking out optional reinsurance solutions.

Reserve risk

The provision for outstanding claims is subject to the risk that actual claims settlement may be less than or exceed the amount reserved (reserve risk). Particular attention is given to those situations where the funds dedicated to future claims payments may be inadequate.

The measurement of the provision for outstanding claims is based on an analysis of the historical loss development data for the different classes of business. This also includes provisions for losses already incurred but not yet reported or only partially claimed (so-called “IBNR” or “IBNER”). To cover these, we set up reserves for indeterminate liabilities based on actuarial methods, and we make use of established actuarial methods to analyse this data. These methods take into account the various levels of prices, cover, benefits and inflation. At the same time, we take into consideration all trends that can already be predicted. The actuarial practice is supplemented by checks undertaken by claims specialists, underwriters and accounting experts. Wherever possible, we also draw on external statistics and documents for these analyses, e. g. official biometric calculation assumptions for ascertaining provisions required for pensions in property and casualty business (e. g. indemnity pension). We observe our settlement results continually, thereby ensuring that the assumptions on which the evaluation of the reserves are based always reflect the latest developments. Consequently, in the course of reserve run-off, it may be necessary to revise the original estimates of the claims expenditure required and to adjust the provisions accordingly. We deem the level of reserves to be sufficient to coincide with our estimates regarding existing liabilities. Nevertheless, we cannot rule out future changes to provisions.

Actual claims requirements can deviate from the expected claims requirements for future insurance risks from insurance business that has already been underwritten. A check is made during an IFRS 4 adequacy test to find out whether the expected loss requirement, including costs, is more than expected earned premiums plus the proportionate amount of investment income. If this is the case, additional reserves must be set up.

Appropriate reserves are set up based on experience from past years. There have not been any major fluctuations in the past in either the claims ratio or run-off results. The table below illustrates together with the run-off triangles (see note [17f]) the trend in claims ratios for property-casualty insurance including legal expenses insurance:

Liquidity risks

Such risks could result for property-casualty insurance if the cash outflow for insurance claims payments and the costs related to the business were to exceed the cash inflow from premiums and investments. In property-casualty insurance, a distinction must be made between payments for claims for which reserves were posted in previous years and immediate payments, i. e. payments for claims incurred in the current financial year.

Net claims expenditure as a % of earned net premiums	**2009**	**2008**	**2007**	**2006**	**2005**	**2004**	**2003**	**2002**
Claims ratio (%)	**59.8**	58.5	59.3	56.4	57.8	57.8	58.2	63.1

The run-off result as a percentage of original loss reserves is derived directly from the run-off triangles for loss reserves and ultimate losses. It should be noted that the run-off triangles are shown from the point of view of the year in which the incident occurred.

Interest risk

Economically, an interest-rate risk derives in principle from the need to earn a return on the investments covering the provision that is commensurate with the discount rate used in measuring the provision. In balance sheet terms, the interest-rate risk affects only those parts of the technical provisions that are discounted. In our case this risk lies predominantly with annuity policies. As, however, only roughly 13.4% of all reserves are discounted, the risk is considered to be a minor one. If the investment income failed to cover the expenses arising from the discounting, this would result in losses not included in the calculations. In such a case, a reserve adjustment is necessary. Conversely, if the investment income were higher, this would result in unforeseen gains.

If claims reserves are posted, the liquidity risk can be minimised through our asset-liability management, in which investments are geared to the character of the liabilities. The proportion of immediate claims payments constitutes only a fraction of the total payments to be made and is temporally stable according to our experience. Consequently, the liquidity risks in respect of these payments can also be minimised by means of asset-liability management.

The following table shows that in the past calendar years the liquidity situation has always been positive.

Further information on the liquidity risk is provided in the risk report on page 83.

Cash flows and liquid funds (gross) in individual calendar years[1]	2009 € million	2008 € million	2007 € million	2006 € million	2005 € million
Premiums received	**5,436**	5,041	4,723	4,298	4,237
Claims payments for financial year	**1,686**	1,430	1,376	1,105	1,083
Claims payments for previous years	**1,319**	1,267	1,149	1,144	1,157
Costs	**1,799**	1,601	1,526	1,431	1,411
Liquid funds	**632**	743	672	617	587

[1] After eliminating internal Group transactions across all segments.

Impact on equity and the consolidated income statement

In the liability adequacy test pursuant to IFRS 4, the technical provisions and deferred acquisition costs are regularly tested to ensure they are appropriate. An adjustment is made if such tests show that, as a whole, the amounts calculated using the previous assumptions for biometric actuarial rates, for discounting provisions and for lapses are no longer sufficient. The possibilities of adjusting participation in surplus are taken into account. If an adjustment is required, we recognise any deficit as an expense in the consolidated income statement.

Quantitative impacts of changes in assumptions on long-term insurance business

The ERGO Insurance Group measures the sensitivity of its long-term insurance business in the segments life and health using embedded value calculations (cf. page 31), and this method covers more than 94% (90%) of long-term insurance business. The sensitivities given below measure the impact of changes in the calculation bases on the calculated economic value of our business. They take account of risk minimisation measures and tax effects.

The ERGO Insurance Group continues to adhere to the strict rules of market-consistent evaluation as at the end of the year. The extraordinary situation on the capital markets at the reporting date 31 December 2008 and the capital market parameters derived from it resulted in distortions for 2008 (and there particularly in the determination of the time value of options and guarantees). However, these distortions clearly diminished in the course of 2009.

Embedded value sensitivities (market risks)	2009 € million	2008 € million[1]
Embedded value on the balance sheet date	**5,126**	3,509
Change in the event of a sustained increase in interest rates by 100 BP	**585**	968
Change in the event of a sustained decrease in interest rates by 100 BP	**– 1,173**	– 1,564
Change in the event of a 10% decrease in the value of equities and real estate	**– 94**	– 25
Changes in the event of an increase in mortality by 5% in the case of contracts mainly covering the mortality risk	**– 23**	– 14
Changes in the event of an decrease in mortality by 5% in the case of contracts mainly covering the longevity risk	**– 45**	– 38
Change in the event of an increase in morbidity by 5%	**– 25**	– 12
Change in the event of an increase in the lapse rate by 10%	**– 27**	– 3

[1] In contrast to the figures for 2009, the figures for the previous year are based on the European Embedded Value Principles and Guidance of May 2004.

Measures to reduce and control risk

The ideal diversification of our portfolio is achieved by applying a balanced set of measures. Measurement of risk takes a key role here as this creates the prerequisite for the targeted steering of our portfolio. Our internal risk model is used to measure risk.

However, the method of diversification hits boundaries where systematic effects, such as fluctuations in the interest, exchange or inflation rates, affect a large portion of the policies or even segments in equal measure and thus obstructs the so-called "equilibrium in the collective body of the policyholders". We apply asset-liability management to check these kinds of systematic risks. This observes investments and technical provisions and liabilities all at the same time. Asset-liability management aims to synchronise fluctuations in the value of investments and technical provisions and liabilities and to stabilise the company value. Asset-liability management is described in more detail starting on page 80.

The distributions of fluctuations in the value of investments and technical liabilities are used to calculate risk capital and to aggregate these. As the overall company risk profile can be pursued right down to individual risk components in the model, it is possible to measure the impact of major risks. In accordance with the principles of value-based corporate management, the necessary risk capital for incurring risks is only provided on the condition that adequate returns can be expected. As a result of assessing the internal risk model on a regular basis we are able to react quickly to changes in our overall risk situation and to take appropriate measures.

The product design itself also ensures a substantial reduction in risk and is paramount in the management of risks in all segments. For the most part, prudent actuarial assumptions are used in fixing the guaranteed benefits in life insurance, in addition to which policyholders are granted a performance-related participation in surplus. More than 99% of the amounts shown under note [16] "Provision for future policy benefits" is apportionable to such contracts. Given the relevant margins in the actuarial assumptions, it is also possible to fulfil the future obligations without adjusting the provisions in the case of moderate changes in assumptions. Even in the case of adverse developments, the provision for deferred premium refunds, as well as parts of the provision for premium refunds in accordance with national regulations, stated in note [19] "Other technical provisions", may be used to offset risk. In the health segment, a major additional reduction is achieved by the premium adjustment clause on which most of the long-term policies are based.

Ceded reinsurance is another very important instrument of risk provision, where we pursue the objective of reducing the volatility of net results. This means that less equity and risk capital are required for operational purposes and, at the same time, the results can be planned more accurately. To calculate our reinsurance needs we regularly analyse the gross and net exposure of our insurance portfolios with a special focus on cumulative risks. From this analysis, we deduce areas of action for controlling our reinsurance programme.

In addition, we create, where required, in accordance with national insurance regulatory bodies and accounting principles, provisions for fluctuations in the pattern of results which, however, is not shown in our IFRS consolidated financial statements.

Our overall heterogeneous insurance portfolio means that technical risks benefit from diversification effects which, together with our wide range of different risk measures, significantly reduce the overall risk. This means that the technical risks can be planned and controlled.

Credit risks from ceded reinsurance business

In connection with the business we cede, the credit risk is also of relevance.

For provisions ceded to reinsurers, our reinsurers have the following credit ratings:

Technical provisions ceded to reinsurers according to rating	2009 %	2008 %
AAA	**3**	4
AA	**58**	88
A	**36**	7
BBB and less	**0**	0
No rating available	**2**	1

Out of these, 95% is directly collateralised through deposits, so the credit risk can be ignored for this portion. Information on risks arising from default on receivables from insurance business can be found in the risk report on page 79.

Market risks from financial instruments – sensitivity analysis

The sensitivity analysis shows the effect of capital market events on the value of investments and the corresponding impact on the income statement. Sensitivities of investments to share prices, interest rates and exchange rates are analysed independently of one another, i.e. ceteris paribus, with the change in market value being determined under selected capital market scenarios as follows:

The analysis of equities and equity derivatives is based on a change in market value of ±10%, ±30% of the delta-weighted exposure. For interest-rate-sensitive instruments, on the other hand, the change in market value resulting from a global change in interest rates of ±100 BP und ±200 BP is determined using duration and convexity. The reaction of interest-rate derivatives to the change in market value of the underlying investment is taken into account using the delta of the derivative. By contrast, changes in exchange rates affect interest-rate-sensitive and share-price-sensitive instruments as well as participating interests. The sensitivity of instruments in foreign currency is determined by multiplying the euro market value by the assumed change of ±10% in the exchange rates. Participating interests and alternative investments (private equity, hedge funds and commodities) are analysed together with the equities.

The effects of the capital market events listed in the following tables do not take account of tax or the provision for premium refunds (gross disclosure), i. e. the analysis does not take into account the effects resulting from policyholders' participation in surplus in insurances of the person. The impact on the results and equity shown below would be substantially reduced if these effects were considered. It is also assumed that changes in the capital markets occur instantaneously, preventing our limit systems and active counter-measures from taking effect.

The analysis considers more than 95% of ERGO Insurance Group's investments. Compared to an analysis based on 100%, the difference resulting from the missing 5% is negligible.

A rise in the share prices mainly affects the shareholders' equity without affecting profit or loss. Write-downs on hedging instruments following a rise in the share price are recorded in the income statement. By contrast, a drop in share prices leads to the changes of value being reflected in the income statement. Write-downs on shares are undertaken which are partly offset by the write-ups on hedging instruments also recorded in the

Market price risk for shares as at 31 December 2009[1)]

Change in share price	Change in market value of investments sensitive to share prices – impact on profit or loss	Change in market value of investments sensitive to share prices – impact on equity
	€ million	€ million
Increase of 30%	– 126	705
Increase of 10%	– 69	235
Decrease of 10%	– 38	– 154
Decrease of 30%	– 206	– 367
Market values on 31 December 2009		2,909

1) Gross before tax and policyholder participation in surplus

Market price risk for shares as at 31 December 2008[1)]

Change in share price	Change in market value of investments sensitive to share prices – impact on profit or loss	Change in market value of investments sensitive to share prices – impact on equity
	€ million	€ million
Increase of 30%	– 491	804
Increase of 10%	– 165	268
Decrease of 10%	– 116	– 14
Decrease of 30%	– 257	– 54
Market values on 31 December 2008		2,724

1) Gross before tax and policyholder participation in surplus

income statement. The non-linear effects of hedging measures, e. g. through puts or other asymmetrical strategies, are not taken into account in this overview due to its delta-weighted approach.

In terms of market value, ERGO's fixed-interest investments respond to changes in interest rates in a similar way to an interest-bearing bond with a period of around seven years to maturity. As a portion of the investments are recognised at amortised cost, however, the effects shown deviate from this.

The impact on the income statement is small compared with the impact on equity, as most of the changes in the value of fixed-interest investments are accounted for in equity, with no effect on profit or loss. Also, approx. 45% of the investments considered in this analysis are measured at amortised cost, so that changes in market value have no effect on the financial statements.

Economically speaking, the impact of the fixed-interest investments on equity is paralleled by a change in the economic value of the liabilities. Therefore our asset-liability management steers the investments in such a way that the effects of interest-rate changes on the value of the investments and on the economic value of the liabilities are cancelled out. This offsetting does not have an impact on the balance sheet, however, since significant portions of the liabilities are not valued on the basis of the current interest-rate curves.

Market price risk for investments sensitive to interest rates as at 31 December 2009[1]		
Change in interest rate	Change in market value of investments sensitive to interest rates – impact on profit or loss	Change in market value of investments sensitive to interest rates – impact on equity
	€ million	€ million
Increase of 200 BP	– 36	– 5,632
Increase of 100 BP	– 114	– 2,878
Decrease of 100 BP	337	3,001
Decrease of 200 BP	921	6,125
Market values on 31 December 2009		103,569

[1] Gross before tax and policyholder participation in surplus

Market price risk for investments sensitive to interest rates as at 31 December 2008[1]		
Change in interest rate	Change in market value of investments sensitive to interest rates – impact on profit or loss	Change in market value of investments sensitive to interest rates – impact on equity
	€ million	€ million
Increase of 200 BP	– 369	– 4,683
Increase of 100 BP	– 356	– 2,473
Decrease of 100 BP	724	2,736
Decrease of 200 BP	1,829	5,735
Market values on 31 December 2008		96,357

[1] Gross before tax and policyholder participation in surplus

Nearly half of foreign currency exposures taken into account results from US Dollar investments and a third in British pounds. The low sensitivity towards changes in the exchange rate is due to extensive currency hedging. In this analysis, an increase of 10% in the exchange rate means that the foreign currency appreciates by 10% against the euro.

Market risk – exchange rates

Change in market values of investments sensitive to exchange rates [1]				
Change in exchange rates	**2009**	**2009**	**2008**	**2008**
	Impact on profit/loss	**Impact on equity**	**Impact on profit/loss**	**Impact on equity**
	€ million	**€ million**	**€ million**	**€ million**
Increase of10 %	**15**	**16**	8	18
Decrease of 10 %	**– 15**	**– 16**	– 8	– 18
Market values		**3,121**		**4,552**

[1] Gross before tax and policyholder participation in surplus

[1] **Goodwill**

Development during the financial year	2009 € million	2008 € million
Gross carrying amount at 31 December previous year	**657.7**	432.1
Accumulated impairment losses at	**212.8**	28.0
Carrying amount at 31 December previous year	**444.9**	**404.1**
Currency translation differences	**0.7**	– 34.0
Additions	**1.1**	259.6
Disposals	**–**	–
Impairment losses	**62.2**	184.8
Carrying amount at 31 December financial year	**384.4**	**444.9**
Accumulated impairment losses at 31 December financial year	**275.0**	212.8
Gross carrying amount at 31 December financial year	**659.4**	657.7

The goodwill results mainly from the acquisition of ERGOISVICRE, Istanbul, in the 2006 financial year, DKV Seguros y Reaseguros, Saragossa in 1997, ERGO Previdenza in 2000, as well as Bank Austria Creditanstalt Versicherung, Vienna, and ERGO Daum Direct, Seoul, in 2008.

Impairment test of significant goodwill

For impairment testing, IFRS 3 in conjunction with IAS 36 requires that the goodwill be allocated to the cash-generating units or groups of cash-generating units expected to derive benefit (in the form of cash flows) from the business combination. To ascertain whether there is any impairment, the carrying amount (including allocated goodwill) of a cash-generating unit or a group of cash-generating units is compared with that unit's or group's recoverable amount. The recoverable amount is the higher of

- its fair value less costs to sell

and

- its value in use (present value of the future cash flows expected to be derived from a cash-generating unit or group of cash-generating units).

Goodwill is generally attributed to the respective legal unit which has been purchased. The future cash flows used for determining the value in use are based on management's most recent financial plans/forecasts. Beyond the period covered by these financial plans/forecasts, the future cash flows are estimated by extrapolating the prognoses on which the financial plans/forecasts are based, applying a constant growth rate for the subsequent years.

The recoverable amount for the group of cash-generating units "Austria" was recorded with the fair value less cost to sell. This is mainly determined by the fair value for Bank Austria Creditanstalt Versicherung AG, which was calculated using a flow-to-equity method. The management's latest business plan was taken to calculate the fair value. The discounting factors were derived from capital market data available at the time the test was undertaken. Costs incurred from the sale were recorded with a flat adjustment of minus one percent. An anticipated synergistic added value was not included.

The deterioration in parameters caused by the spreading of the financial crisis to the real economy prompted us to critically review the business plans of our international primary insurance companies and, in some cases, adjust them downwards. Impairment tests resulted in the following write-downs of goodwill in the 2009 financial year.

Goodwill from the acquisition of Bank Austria Creditanstalt Versicherung AG was allocated to the group of cash-generating units "Austria". This comprises the Austrian holding company, ERGO Austria International, the Austrian insurance companies Bank Austria Creditanstalt Versicherung AG and Victoria Volksbanken Versicherungsaktiengesellschaft as well as their Central and East European affiliates. Prior to the impairment test this group of cash-generating entities was allocated goodwill of € 39.7m and intangible assets amounting to € 399.1m.

A write-down of € 49.2m was identified as a result of the impairment test. This meant that the remaining goodwill of € 39.7m was written off, and intangible assets were written down by the remaining € 9.4 m. The write-downs occur under the items 'Impairment losses of goodwill' and 'Other non-operating result' in the income statement for the International Operations segment.

Owing to the high capital market volatility at the beginning of the year and regional failures to meet planning targets, further write-downs of goodwill amounting to € 22.5m were made for the cash-generating units "ERGO Previdenza", "ERGO Daum Direct" and "ERGO Latvija" in the course of the financial year 2009. The write-downs occur under the item 'Impairment losses of goodwill' and 'Other non-operating result' in the income statement for the International Operations segment.

We regard as "significant" within the meaning of IAS 36.134 amounts of 10% or more of total Group goodwill. This concerns goodwill resulting from the acquisition of ERGOISVICRE (book value € 111.5m) as well as the acquisition of DKV Seguros y Reaseguros (book value € 49.5m). Goodwill is generally attributed to the respective legal unit which has been purchased. The recoverable amount of these units was determined on the basis of the value in use. During the financial year 2009, the impairment test did not give rise to any need for write-downs of goodwill for these cash-generating units.

Following the impairment test on other intangible assets, no write-down was required as these had already been valued with corresponding deductions for risks, and amortisation had been carried out as scheduled.

Main assumptions for calculating the cash-generating units' value in use

The impairment test of significant goodwill was carried out on the basis of the current cash flow plans at the time of testing.

Underlying assumptions for cash flow prognoses at the time of the impairment test

Significant assumptions regarding cash flow prognoses (at the time of the planning)	For the detailed planning, following a decline and stagnation experienced in 2009, growth in results is expected for the future. Our general assumption was that there will be moderate upward movement on the equity markets and a slightly lower interest-rate level in Europe.
Management approach to determining the values allocated to the main assumptions	Planning assumptions are based on past experience combined with external information on market evolution.
Detailed cash flow planning on the basis of financial plans/forecasts	3 to 10 years
Growth rates used for extrapolating beyond the cash flow planning based on financial plans/forecasts[1]	0.5–6.6%
Discount rates[1]	8–6% The discount rate has been determined in the form of the cost of capital, using the Capital Asset Pricing Model (CAPM). The discount rate is calculated from a risk-free basic interest rate plus a risk loading, taking into account a beta factor specific to the business. To derive the capital cost components (risk loading, capital structure), a peer group of international insurers is used, in accordance with IAS 36. The derivation of the risk-free basic interest rate and the borrowing costs is based on market data.

[1] In the impairment test, sensitivity analyses with the stated ranges were performed for these parameters.

As regards the cash-generating units which, in themselves, have not been allocated a significant portion of the goodwill, the key assumptions for determining their recoverable amounts differ materially from one another. There is therefore no requirement for aggregation in accordance with IAS 36.135.

Other intangible assets

[2]

Development during the financial year	Software	Purchased insurance portfolios	Other	Total	Total
	2009	2009	2009	2009	2008
	€ million	€ million	€ million	€ million	€ million
Gross carrying amount at 31 December previous year	633.1	620.4	305.6	**1,559.2**	1,143.3
Accumulated impairment losses at 31 December previous year	558.7	298.3	76.3	**933.3**	874.7
Carrying amount at 31 December previous year	74.4	322.2	229.3	**625.9**	268.6
Currency translation differences	0.6	–	–	**0.6**	– 18.3
Carrying amount at 1 January financial year	74.9	322.2	229.4	**626.5**	250.2
Change in consolidated group	19.6	–	– 0.3	**19.3**	444.5
Additions	87.4	–	45.8	**133.2**	45.9
Disposals	18.4	–	–	**18.4**	8.5
Reclassification/Other	6.2	–	– 5.6	**0.6**	2.1
Depreciation	53.6	75.1	33.5	**162.2**	111.3
Impairment losses	2.2	–	–	**2.2**	1.6
Write-ups	–	18.1	–	**18.1**	4.5
Carrying amount at 31 December financial year	**114.0**	**265.2**	**235.8**	**614.9**	**625.9**
Accumulated impairment losses at 31 December financial year	555.4	340.3	103.1	**998.8**	933.3
Gross carrying amount at 31 December financial year	669.4	605.5	338.8	**1,613.7**	1,559.2

€ 2.1m of the impairment losses are attributable to the International Operations segment.

Other intangible assets include rights equivalent to real property amounting to € 1.4m (1.4m). Assets pledged as security and other restrictions on title amount to € 1.3m (1.4m).

Additions included under 'Change in consolidated group' are largely the result of the acquisition of the Europäische Reiseversicherung AG and almeda GmbH.

Intangible assets with a limited service life worth € 39.5m emerged as part of the sales collaboration with Piraeus Bank and these are amortised.

[3]

Land and buildings, including buildings on third-party land

Development during the financial year	2009 € million	2008 € million
Gross carrying amount at 31 December previous year	**3,506.7**	3,439.0
Accumulated depreciation and accumulated impairment losses at 31 December previous year	**728.7**	665.6
Carrying amount at 31 December previous year	**2,778.1**	2,773.4
Reclassification owner-occupied land and buildings	**– 56.4**	– 1.6
Currency translation differences	**1.0**	19.8
Carrying amount at 1 January financial year	**2,722.6**	2,791.6
Change in consolidated group	**– 16.2**	41.1
Additions	**88.8**	78.3
Disposals	**14.7**	51.3
Depreciation	**56.1**	55.9
Impairment losses	**33.9**	31.7
Write-ups	**3.3**	6.8
Other	**– 2.1**	– 0.7
Carrying amount at 31 December financial year	**2,691.7**	**2,778.1**
Accumulated depreciation and accumulated impairment losses at 31 December financial year	**747.9**	728.7
Gross carrying amount at 31 December financial year	**3,439.6**	3,506.7
Fair value as at 31 December financial year	**3,605.5**	3,739.0

Property pledged as security and other restrictions on title amount to € 682.3m (744.1m).

Buildings are depreciated over a period of 40 to 55 years on a straight-line basis. Impairment losses and write-ups are generally caused by adjustments to market value. Impairment losses are distributed between the segments as follows: Life Germany € 30.2m (30.6m), Health € 3.2m (0.3m), Property-casualty Germany € 0.8m and International Operations € 0.5m (–).

Write-ups are distributed between the segments as follows: Life Germany € 0.9m (5.3m), Health € 0.2 m (1.3m) and Property-casualty Germany € 0.1m (0.2m).

The valuation is performed for each site individually as at 31 December 2009 except where valuation units are formed. Calculations are carried out mainly by valuers within the Group but in individual cases also by external valuers. Determining the sustainability of cash inflows and outflows, taking into account the market conditions at the respective property location, is material for the valuation. The fair value is determined individually per item by discounting the future surplus cash flow to the valuation date. Depending on the type of property, discount rates of 3.0% to 6.5% are used for residential buildings, of 4.0% to 9.5% for office buildings, and of 4.5% to 10.0% for retail.

[4]

Investments in affiliated companies and associates

The fair value of interests held in affiliated companies, which are not consolidated due to their overall subordinate importance, is € 97.1m (132.0m).

The book value of interests in associates valued at equity is € 494.2m (698.0m) (opening balance sheet previous year: 683.3m).

The fair value of associates valued at equity amounted to € 629.1m (751.5m) at the balance-sheet date, of which € 50.1m (51.3m) are investments in associates with publicly quoted market prices. In the year under review, losses of € 14.5m (8.7m) from associates were not recorded. Overall, the losses produced by associates but not recorded came to € 17.4m (11.1m).

[5]

Mortgage loans and other loans

[5a]

	Carrying amounts		Fair values	
	2009	**2008**	**2009**	**2008**
	€ million	**€ million**	**€ million**	**€ million**
Mortgage loans	**4,584.0**	4,566.7	**4,795.2**	4,720.7
Loans and advance payments on insurance policies	**612.8**	616.5	**706.5**	616.5
Other loans	**41,081.8**	34,517.0	**42,049.3**	34,972.7
Total	**46,278.7**	**39,700.2**	**47,551.1**	**40,309.9**

The 'Other loans' item includes loans to affiliated, non-consolidated companies amounting to € 32.8m (31.9m) and to associates amounting to € 83.7m (105.3m).

The fair value of mortgage loans and other loans is based on recognised valuation methods in line with the present value principle, taking into account observable market parameters.

[5b]

Rating categories	**Carrying amounts**	
Other securities		
	2009	**2008**
	€ million	**€ million**
AAA	**20,384.8**	17,392.7
AA	**15,132.9**	11,468.2
A	**4,451.7**	4,758.4
BBB	**710.5**	406.9
BB and lower	**40.2**	40.3
No rating	**361.7**	450.6
Total	**41,081.8**	**34,517.0**

The rating categories are based on those of the leading international rating agencies. In deviation from the purely economic view, the carrying amount of the loans represents the maximum exposure to credit risk at the balance sheet date, in accordance with IFRS 7. Virtually no credit risk exists in respect of the mortgage loans or the loans and advance payments on insurance policies.

Maturity structure	Carrying amounts		Fair values		[5c]
	2009	2008	2009	2008	
	€ million	€ million	€ million	€ million	
Contractual period to maturity					
Up to one year	**1,094.3**	1,346.7	**1,111.3**	1,334.5	
Over one year and up to two years	**1,843.2**	956.6	**1,916.3**	977.6	
Over two years and up to three years	**1,569.2**	2,122.5	**1,640.6**	2,178.6	
Over three years and up to four years	**1,673.9**	1,740.9	**1,764.0**	1,860.4	
Over four years and up to five years	**2,274.7**	2,263.8	**2,408.7**	2,328.1	
Over five years and up to ten years	**14,520.8**	14,829.2	**15,130.1**	15,003.0	
Over ten years	**23,302.7**	16,440.6	**23,580.1**	16,627.6	
Total	**46,278.7**	**39,700.2**	**47,551.1**	**40,309.9**	

Other securities [6]

Other securities – held to maturity	Carrying amounts		Unrealised gains/losses		Fair values		[6a]
	2009	2008	2009	2008	2009	2008	
	€ million	€ million	€ million	€ million	€ million	€ million	
Government bonds	**1.5**	4.4	**–**	–	**1.5**	4.4	
Debt securities of banks	**82.4**	138.5	**2.2**	1.1	**84.6**	139.6	
Total	**83.9**	**142.8**	**2.2**	**1.1**	**86.1**	**143.9**	

There were no securities loaned to third parties. Fair values of securities were calculated using the present value method based on market data.

[6b]

Allocation of investments[1] measured at fair value to levels of the fair value hierarchy	31 December 2009 Level 1 € million	Level 2 € million	Level 3 € million	Total € million
Other securities available for sale				
Fixed-interest securities	36,104.3	17,157.8	394.8	53,656.9
Non-fixed-interest securities	2,798.7	835.3	308.1	3,942.0
	38,902.9	**17,993.1**	**702.9**	**57,599.0**
Other securities at fair value through profit or loss				
Held for trading	32.8	365.7	0.1	398.5
Designated as at fair value through profit or loss	–	392.8	–	392.8
	32.8	**758.5**	**0.1**	**791.3**
Investments for the benefit of life insurance policyholders who bear the investment risk	4,025.7	–	–	4,025.7
Total	**42,961.4**	**18,751.6**	**703.0**	**62,416.1**

[1] Including affiliated companies and associates recognised at fair value and hedging derivatives.

Reconciliation for investments allocated to Level 3

	Other securities available for sale: Fixed-interest € million	Other securities available for sale: Non-fixed-interest[1] € million	Other securities at fair value through profit or loss: Held for trading € million	Other securities at fair value through profit or loss: Designated as at fair value through profit or loss € million	Total € million
Carrying amount at 31 Dec. previous year	303.9	236.9	–	–	**540.8**
Gains and losses	7.3	– 21.2	0.1	–	**– 13.7**
Gains (losses) recognised in the income statement	5.0	– 20.4	0.1	–	**– 15.4**
Gains (losses) recognised in equity	2.4	– 0.8	–	–	**1.6**
Acquisitions	251.7	149.9	–	–	**401.6**
Disposals	– 168.1	– 57.5	–	–	**– 225.6**
Transfer					
to Level 3	–	–	–	–	**–**
out Level 3	–	–	–	–	**–**
Carrying amount at 31 Dec. financial year	**394.8**	**308.1**	**0.1**	**–**	**703.0**
Gains (losses) recognised in the income statement that are attributable to investments shown at the end of the financial year	24.4	– 18.8	0.1	–	**5.7**

[1] Including affiliated companies and associates recognised at fair value and hedging derivatives.

Other securities – available for sale	Carrying amounts		Unrealised gains/losses		Fair values		Opening balance sheet
	2009	2008	2009	2008	2009	2008	2008
	€ million	€ million	€ million	€ million	€ million	€ million	€ million
Fixed-interest securities							
Government bonds							
Germany	**4,871.8**	7,137.1	**176.2**	226.2	**5,048.0**	7,363.3	4,496.7
Rest of EU	**12,812.6**	9,795.1	**229.7**	211.3	**13,042.3**	10,006.4	7,003.0
US	**612.5**	868.7	**2.8**	136.3	**615.4**	1,005.0	1,149.8
Other	**1,478.8**	1,339.5	**14.4**	– 10.9	**1,493.1**	1,328.6	218.0
	19,775.7	19,140.4	**423.0**	562.9	**20,198.8**	19,703.3	12,867.6
Corporate debt securities	**16,260.8**	18,990.1	**602.1**	– 147.7	**16,862.9**	18,842.4	25,226.5
Other	**15,865.0**	14,986.2	**730.3**	256.7	**16,595.3**	15,242.9	8,934.5
	51,901.5	53,116.7	**1,755.4**	671.9	**53,656.9**	53,788.5	47,028.6
Non-fixed-interest securities							
Shares	**1,324.0**	2,293.1	**483.4**	160.6	**1,807.4**	2,453.8	10,380.3
Investment funds							
Equity funds	**438.2**	293.6	**67.2**	61.7	**505.4**	355.3	779.5
Bond funds	**372.8**	372.4	**19.4**	17.5	**392.3**	389.9	290.5
Real estate funds	**524.1**	570.9	**6.8**	– 0.1	**530.9**	570.8	531.4
	1,335.1	1,237.0	**93.5**	79.0	**1,428.5**	1,316.0	1,601.4
Other	**569.7**	723.9	**15.9**	– 17.0	**585.6**	706.9	564.0
	3,228.9	4,254.0	**592.7**	222.6	**3,821.6**	4,476.6	12,545.7
Total	**55,130.4**	**57,370.7**	**2,348.1**	**894.5**	**57,478.5**	**58,265.2**	**59,574.3**

[6c]

Quoted securities account for 4.5% (4.9%) of the given balance sheet value.

A sum amounting to €574.9m (131.7m) was allocated to retained earnings from unrealised gains/losses of €2,348.1m (894.5m) after deductions were made for expenditure on deferred premium refunds, deferred taxes and minority interests. €951.1m (1,085.0m) of securities shown are loaned to third parties. These securities continue to be recognised in our balance sheet, as the major opportunities and risks associated with them remain with the ERGO Insurance Group. There were neither restrictions on title nor amounts pledged as security.

[6d]

Other securities – available for sale Fair values[1) 2)]	Life Germany 2009 € million	Life Germany 2008 € million	Health 2009 € million	Health 2008 € million	Property-casualty Germany 2009 € million	Property-casualty Germany 2008 € million	Direct insurance 2009 € million	Direct insurance 2008 € million
Fixed-interest securities	**24,871.9**	25,721.6	**11,946.1**	12,654.9	**3,049.7**	2,809.9	**2,212.0**	2,098.0
Non-fixed-interest securities	**1,115.5**	2,248.9	**1,049.6**	539.0	**649.2**	710.7	**21.7**	314.0
Total	**25,987.4**	**27,970.5**	**12,995.7**	**13,193.8**	**3,698.9**	**3,520.6**	**2,233.7**	**2,412.0**

1) Figures based on fully consolidated Group values.
2) Previous year's figures adjusted pursuant to IFRS 8.

[6e]

Other securities – At fair value through profit or loss[1) 2)]	Life Germany 2009 € million	Life Germany 2008 € million	Health 2009 € million	Health 2008 € million	Property-casualty Germany 2009 € million	Property-casualty Germany 2008 € million	Direct insurance 2009 € million	Direct insurance 2008 € million
Fixed-interest securities	**–**	–	**–**	–	**–**	–	**–**	–
Non-fixed-interest securities	**–**	–	**–**	–	**–**	–	**–**	–
Derivative financial instruments	**246.3**	1,028.0	**31.9**	225.4	**2.8**	34.0	**4.0**	65.9
Total	**246.3**	**1,028.0**	**31.9**	**225.4**	**2.8**	**34.0**	**4.0**	**65.9**

1) Figures based on fully consolidated Group values.
2) Previous year's figures adjusted pursuant to IFRS 8.
3) Mainly securities held for trading. € 392.8m (481.9m) are securities designated as at fair value through profit or loss.

In the reporting year changes in the value of hedging instruments were partially shown affecting net income. Market values, option price models and valuations by external sources were taken to ascertain the fair values of derivatives. There were no securities loaned to third parties.

Travel insurance		International Operations		Other		Group value		Opening balance sheet
2009	2008	2009	2008	2009	2008	2009	2008	2008
€ million	€ million	€ million	€ million	€ million	€ million	€ million	€ million	€ million
111.2	–	11,408.6	10,504.2	57.4	–	53,656.9	53,788.5	47,028.6
13.8	–	901.7	643.3	70.1	20.7	3,821.6	4,476.6	12,545.7
125.0	–	12,310.3	11,147.5	127.6	20.7	57,478.5	58,265.2	59,574.3

Travel insurance		International Operations[3)]		Other		Group value	
2009	2008	2009	2008	2009	2008	2009	2008
€ million	€ million	€ million	€ million	€ million	€ million	€ million	€ million
–	–	422.4	543.5	–	–	422.4	543.5
0.5	–	23.5	3.4	–	–	24.1	3.4
0.2	–	35.0	83.8	1.8	5.3	322.0	1,442.5
0.7	–	480.9	630.8	1.8	5.3	768.4	1,989.4

[6f]

Maturity structure Other securities – held to maturity	Carrying amounts 2009 € million	Carrying amounts 2008 € million	Fair values 2009 € million	Fair values 2008 € million
Contractual period to maturity				
Up to one year	37.6	37.6	38.2	37.6
Over one year and up to two years	29.9	37.3	30.6	37.9
Over two years and up to three years	6.5	45.0	6.9	45.1
Over three years and up to four years	3.4	7.5	3.7	7.8
Over four years and up to five years	6.2	6.9	6.5	7.1
Over five years and up to ten years	0.2	8.6	0.2	8.5
Over ten years	–	–	–	–
Total	83.9	142.8	86.1	143.9

[6g]

Maturity structure Other securities – available for sale Fixed-interest securities	Carrying amounts 2009 € million	Carrying amounts 2008 € million	Fair values 2009 € million	Fair values 2008 € million	Opening balance sheet 2008 € million
Contractual period to maturity					
Up to one year	**4,620.9**	8,848.8	**4,686.8**	8,884.7	3,830.4
Over one year and up to two years	**3,505.2**	4,668.5	**3,628.2**	4,746.3	5,175.9
Over two years and up to three years	**4,067.3**	3,624.9	**4,243.0**	3,661.1	4,785.0
Over three years and up to four years	**4,325.5**	3,744.0	**4,544.8**	3,816.4	2,791.3
Over four years and up to five years	**4,982.1**	4,165.1	**5,200.2**	4,221.4	3,998.6
Over five years and up to ten years	**17,909.2**	17,911.9	**18,687.2**	18,367.4	16,038.4
Over ten years	**12,491.3**	10,153.5	**12,666.8**	10,091.2	10,409.0
Total	**51,901.5**	**53,116.7**	**53,656.9**	**53,788.5**	**47,028.6**

Shares make up the major part of non-fixed-interest securities.

[6h]

Rating categories Other securities – held to maturity	Carrying amounts 2009 € million	Carrying amounts 2008 € million
AAA	**10.1**	4.4
AA	**0.3**	10.0
A	**69.3**	121.4
BBB	**0.8**	–
BB and lower	**–**	–
No rating	**3.5**	7.1
Total	**83.9**	**142.8**

The rating categories are based on those of the leading international rating agencies.

In deviation from the purely economic view, the carrying amount of the securities represents the maximum exposure to credit risk at the balance sheet date, in accordance with IFRS 7.

Rating categories Other securities – available for sale Fixed-interest securities	Fair values 2009 € million	2008 € million	Opening balance sheet 2008 € million
AAA	**31,306.2**	36,487.9	31,356.8
AA	**11,010.2**	7,918.1	8,698.2
A	**6,162.9**	6,551.5	5,325.0
BBB	**4,181.0**	2,198.1	1,198.7
BB and lower	**653.9**	325.5	227.0
No rating	**342.7**	307.3	223.0
Total	**53,656.9**	**53,788.5**	**47,028.7**

[6i]

The rating categories are based on those of the leading international rating agencies.

In deviation from the purely economic view, the carrying amount of the securities represents the maximum exposure to credit risk at the balance sheet date, in accordance with IFRS 7.

Rating categories Other securities – at fair value through profit or loss Fixed-interest securities[1]	Fair values 2009 € million	2008 € million
AAA	**50.4**	55.8
AA	**199.6**	299.4
A	**122.2**	154.1
BBB	**31.8**	19.9
BB and lower	**4.1**	2.4
No rating	**14.3**	11.9
Total	**422.4**	**543.5**

[6j]

[1] € 372.5m (481.9m) are securities designated as at fair value through profit or loss.

The rating categories are based on those of the leading international rating agencies.

In deviation from the purely economic view, the carrying amount of the securities represents the maximum exposure to credit risk at the balance sheet date, in accordance with IFRS 7.

[6k]

Disposal proceeds Other securities – available for sale	**2009 € million**	**2008 € million**
Fixed-interest securities	**20,435.2**	18,659.5
Non-fixed-interest securities		
Quoted	**2,746.4**	9,529.3
Unquoted	**363.6**	333.0
	3,109.9	9,862.4
Total	**23,545.2**	**28,521.9**

[6l]

Realised gains and losses Other securities – available for sale	**2009 € million**	**2008 € million**
Gains on disposal		
Fixed-interest securities	**455.7**	197.7
Non-fixed-interest securities	**300.4**	710.0
	756.0	907.7
Losses on disposal		
Fixed-interest securities	**205.8**	208,4
Non-fixed-interest securities	**305.6**	1,173.1
	511.4	1,381.5
Total	**244.7**	**– 473.8**

[6m]

Derivatives

Derivates are financial instruments, the fair value of which is derived from one or more underlying assets.

A distinction is made between the so-called “over-the-counter” products (OTC) and standardised transactions carried out on the stock exchange.

Derivative financial instruments are used to hedge against currency, interest-rate and other market-price risks. This is done at the Group companies within the framework of individual supervisory regulations and additional internal company directives. The risk of default is practically non-existent in the case of products traded on the stock exchange. OTC products, on the other hand, harbour a theoretical risk in the amount of the replacement costs. Therefore, ERGO selects only top-quality counterparties for such transactions. Derivates are stated at their fair value. They are recorded in the following balance sheet items depending on whether or not they qualify as hedge accounting and whether or not they are recorded with positive or negative fair values.

Fair value	Qualifying for hedge accounting	Balance sheet item	2009 € million	2008 € million
Positive	No	Investments, other securities, held for trading	**322.0**	1,442.5
	Yes	Other assets	**23.0**	22.4
Negative	No	Liabilities,		
	Yes	other liabilities	**– 127.1**	– 59.1
Total			**217.8**	**1,405.8**

Derivates – open positions

The table below shows the fair values as well as their related par value of all our open positions, broken down into risk types. Positive and negative fair values have been set off against each other. On 31 December 2009 they amounted to € 217.8m (1,405.8m), i. e. 0.2% of the balance sheet total. The fair values shown are either quoted prices or are based on reporting date figures determined using recognised valuation methods.

Interest-rate risks in life insurance have been hedged using swaptions. These options to receive a fixed interest rate are shown in the category 'interest-rate risks/ over-the-counter'. At the reporting date, the fair values of the swaptions totalled € 176.0m (565.7m), and the underlying notional principal amounts € 10.8bn (14.8bn). The investment result from derivatives includes a loss of € 374.3m (–493.0m) from fluctuations in value of these options. Although the derivatives used essentially serve to hedge against risks, they do not meet the requirements of IAS 39 for hedge accounting. IAS 39 distinguishes between fair value hedges and cash flow hedges.

Fair value hedges [6n]

In the case of fair value hedges, the change in the fair value of the hedging instrument and the change in the fair value of the hedged instrument are generally recognised under the item 'Investment income' in the income statement. ERGO uses hedging relationships in the form of fair value hedges to selectively and efficiently reduce interest-rate risks of parts of the portfolio and to mitigate market-price risks. The fair value of the derivatives used for this amounted to € –2.6m (2.6m) at the balance sheet date. In 2009, the following changes in value were recognised in the consolidated income statement: € –2.6m (136.4m) for the hedging instruments and € 2.3m (–121.0m) for the relevant underlyings.

Cash flow hedges

Cash flow hedges play a role in countering fluctuations that may be caused, for example, by variable interest payments. The Group uses cash flow hedges chiefly to hedge against interest-rate risks. Changes in the fair value of the hedging instrument are recognised directly in equity for this purpose. Only when the actual cash inflow or outflow takes place, as a result of the hedged circumstance, is the relevant equity item reversed with recognition in profit or loss. The change in fair value assignable

Open positions	Periods to maturity in years						Total	
	< 1	1–2	2–3	3–4	4–5	> 5	2009	2008
	€ million	€ million	€ million	€ million	€ million	€ million	€ million	€ million
Interest-rate risks								
Traded on the stock exchange								
Fair values	2.0	–	–	–	–	–	**2.0**	– 6.1
Notional principal amounts	3,843.6	–	–	–	–	–	**3,843.6**	1,601.7
Over-the-counter								
Fair values	11.9	33.7	45.0	21.0	108.4	35.9	**255.8**	628.7
Notional principal amounts	2,035.1	1,701.3	1,779.3	1,439.3	2,878.8	3,124.2	**12,957.7**	16,946.8
Total								
Fair values	13.9	33.7	45.0	21.0	108.4	35.9	**257.9**	622.6
Notional principal amounts	5,878.7	1,701.3	1,779.3	1,439.3	2,878.8	3,124.2	**16,801.3**	18,548.6
Currency risks								
Traded on the stock exchange								
Fair values	–	–	–	–	–	–	**–**	–
Notional principal amounts	–	–	–	–	–	–	**–**	–
Over-the-counter								
Fair values	– 47.4	0.2	0.1	–	–	3.3	**– 43.8**	265.1
Notional principal amounts	3,475.2	0.3	0.1	–	–	243.5	**3,719.1**	4,491.9
Total								
Fair values	– 47.4	0.2	0.1	–	–	3.3	**– 43.8**	265.1
Notional principal amounts	3,475.2	0.3	0.1	–	–	243.5	**3,719.1**	4,491.9
Equity and index risks								
Traded on the stock exchange								
Fair values	– 11.3	–	–	–	–	–	**– 11.3**	497.1
Notional principal amounts	539.4	–	–	–	–	–	**539.4**	3,115.5
Over-the-counter								
Fair values	–	–	–	0.1	0.6	15.2	**15.8**	22.4
Notional principal amounts	0.1	0.3	–	2.2	48.2	92.1	**143.0**	194.8
Total								
Fair values	– 11.4	–	–	0.1	0.6	15.2	**4.4**	519.5
Notional principal amounts	539.5	0.3	–	2.2	48.2	92.1	**682.5**	3,310.3
Credit risks								
Traded on the stock exchange								
Fair values	–	–	–	–	–	–	**–**	–
Notional principal amounts	–	–	–	–	–	–	**–**	–
Over-the-counter								
Fair values	–	–	– 0.8	–	–	–	**– 0.8**	– 0.9
Notional principal amounts	–	–	– 10.3	–	–	–	**– 10.3**	10.3
Total								
Fair values	–	–	– 0.8	–	–	–	**– 0.8**	– 0.9
Notional principal amounts	–	–	– 10.3	–	–	–	**– 10.3**	10.3
Other risks								
Fair values	–	–	–	0.1	–	–	**0.1**	– 0.4
Notional principal amounts	–	–	–	10.0	–	–	**10.0**	10.0
Total								
Fair values	**– 44.8**	**34.0**	**44.2**	**21.1**	**108.9**	**54.4**	**217.8**	**1,405.8**
Notional principal amounts	**9,893.3**	**1,701.9**	**1,769.1**	**1,451.5**	**2,927.0**	**3,459.8**	**21,202.5**	**26,371.0**

to the ineffective portion of the hedging was negligible. At the balance sheet date, there is an equity item of € 1.5m (2.9m) from cash flow hedges. The net fair value of the derivatives falling into this category amounted to € 22.0m (19.6m) at the balance sheet date.

The following table shows the period until maturity and amount of cash flows hedged at the balance sheet date. [60]

Notional principal amounts of hedged transactions	**2009 € million**	**2008 € million**
Up to one year	**37.6**	134.5
Over one year and up to two years	**–**	–
Over two years and up to three years	**–**	–
Over three years and up to four years	**–**	–
Over four years and up to five years	**25.0**	–
Over five years	**225.0**	250.0
Total	**287.6**	**384.5**

Other investments [7]

Other investments comprise deposits retained on assumed reinsurance business at € 122.0m (89.4m) and deposits with banks totaling € 1,213.7m (1,515.5m). The carrying amount of these deposits represents the maximum exposure to credit at the balance sheet date.

As other investments generally have a term of less than one year, the fair values largely correspond to the carrying amounts.

[8]

Reinsurers' share in technical provisions [1) 2)]

	Life		Health		Property-casualty	
	Germany				Germany	
	2009	2008	2009	2008	2009	2008
	€ million	€ million	€ million	€ million	€ million	€ million
Unearned premiums	**0.1**	–	**0.6**	0.7	**32.8**	36.5
Provision for future policy benefits	**446.2**	3,308.5	**838.2**	816.6	**–**	–
Provision for outstanding claims	**25.9**	90.7	**44.3**	49.6	**548.1**	552.1
Other technical provisions	**16.8**	102.4	**186.3**	181.6	**3.3**	3.3
Total	**489.0**	**3,501.7**	**1,069.5**	**1,048.4**	**584.2**	**591.9**

1) Figures based on fully consolidated Group values.
2) Previous year's figures adjusted pursuant to IFRS 8.

[9] **Receivables**

[9a]

Receivables from policyholders mainly comprise insurance policies for which the initial premium has not been paid and outstanding premiums.

Accounts receivable from insurance representatives mainly stem from regular invoicing procedures with brokers and field sales representatives.

Both items have been adjusted using general bad debt provisions as well as value adjustments. Provisions for cancellation have been allocated to cater for the eventuality of policyholder default.

Current tax rebate entitlements comprise accrued income taxes and other accrued taxes of individual companies stemming from respective national taxation. Deferred tax rebate entitlements are stated under 'deferred tax assets'.

€ 262.3m (303.2m) in receivables from tax concern corporate tax for domestic companies.

Receivables from insurance representatives account for € 359.9m (282.5m) of the accounts receivable from direct insurance business (direct meaning: net of assumed reinsurance business).

In deviation from the purely economic view, the carrying amount of the receivables represents the maximum exposure to credit risk at the balance sheet date, in accordance with IFRS 7.

As the other receivables mainly have a term of less than one year, the fair values largely correspond to the carrying amounts.

Direct insurance		Travel insurance		International Operations		Group value	
2009	2008	2009	2008	2009	2008	2009	2008
€ million	€ million	€ million	€ million	€ million	€ million	€ million	€ million
–	–	**2.0**	–	**98.5**	103.2	**134.2**	140.5
50.0	48.2	**–**	–	**2,232.5**	2,175.7	**3,567.0**	6,349.0
17.3	15.4	**9.9**	–	**173.4**	179.5	**818.9**	887.4
–	–	**–**	–	**1.3**	2.2	**207.7**	289.5
67.3	**63.6**	**11.9**	**–**	**2,505.8**	**2,460.7**	**4,727.7**	**7,666.3**

Receivables			**Opening balance sheet**
	2009	**2008**	**2008**
	€ million	**€ million**	**€ million**
Current tax receivables	**441.5**	464.8	431.0
Other receivables			
Interest and rent	**2,110.2**	1,998.2	1,751.3
Amounts receivable on direct business	**976.5**	846.6	1,003.6
Accounts receivable on reinsurance business	**66.4**	64.1	104.4
Miscellaneous	**919.9**	717.8	756.2
	4,072.9	3,626.7	3,615.5
Total	**4,514.4**	**4,091.4**	**4,046.4**

[9b]

Maturity structure	Carrying amounts		Opening balance sheet
	2009	2008	2008
	€ million	€ million	€ million
Contractual period to maturity			
Up to one year	**4,339.0**	3,918.2	3,873.6
Over one and up to two years	**27.3**	46.3	35.3
Over two years and up to three years	**22.2**	14.3	16.8
Over three years and up to four years	**22.7**	15.8	15.3
Over four years and up to five years	**24.0**	15.6	15.3
Over five years and up to ten years	**70.7**	72.5	70.1
Over ten years	**8.5**	8.8	20.0
Total	**4,514.4**	**4,091.4**	**4,046.4**

[10] **Deferred acquisition costs**

Deferred acquisition costs (gross)	Life Germany		Health		Property-casualty Germany	
	2009	2008	2009	2008	2009	2008
	€ million	€ million	€ million	€ million	€ million	€ million
Status at 31 December previous year	**3,683.0**	3,700.6	**1,687.3**	1,691.4	**322.8**	322.4
Currency translation differences	**–**	–	**–**	–	**–**	–
Status at 1 January financial year	**3,683.0**	3,700.6	**1,687.3**	1,691.4	**322.8**	322.4
Newly deferred acquisition costs	**255.1**	358.9	**149.9**	152.7	**145.2**	131.1
Amortisation	**– 291.5**	– 307.2	**– 166.4**	– 156.8	**– 131.3**	– 130.6
Impairment losses	**– 258.2**	– 62.0	**– 2.0**	–	**–**	–
Change in consolidated group/other effects	**–**	– 7.3	**2.0**	–	**–**	–
Carrying amount at 31 December financial year	**3,388.3**	**3,683.0**	**1,670.8**	**1,687.3**	**336.7**	**322.8**

[1] Figured based on fully consolidated Group values
[2] Previous year's figures adjusted pursuant to IFRS 8.

Direct insurance		Travel insurance		International Operations		Group value	
2009	2008	2009	2008	2009	2008	2009	2008
€ million	€ million	€ million	€ million	€ million	€ million	€ million	€ million
274.4	235.5	**–**	–	**687.4**	628.0	**6,654.9**	6,577.9
–	–	**–**	–	**1.7**	– 20.9	**1.7**	– 20.9
274.4	235.5	**–**	–	**689.0**	607.1	**6,656.5**	6,557.0
66.0	61.3	**6.3**	–	**245.0**	220.7	**867.5**	924.7
– 28.9	– 28.7	**– 6.4**	–	**– 197.8**	– 139.0	**– 822.3**	– 762.4
– 6.8	6.3	**–**	–	**– 5.8**	– 4.8	**– 272.8**	– 60.5
– 2.0	–	**10.3**	–	**– 2.1**	3.3	**8.2**	– 4.0
302.6	**274.4**	**10.3**	–	**728.3**	**687.3**	**6,437.1**	**6,654.8**

Amortisation includes accrued interest as well as write-downs. The impairment losses comprise write-ups and write-downs stemming from changes in the assumptions underlying the calculations, which require an adjustment in the measurement.

In the segment Life Germany, long-term interest-rate levels were significantly adjusted on the basis of the long-term regular return on investments. The now lower interest margin led to high write-downs of deferred acquisition costs.

[11]

Deferred tax assets

The amounts shown in this balance sheet item have the following causes of origin:

Causes of origin	2009 € million	2008 € million
Investments	**985.5**	1,223.8
Technical provisions	**280.5**	253.5
Miscellaneous provisions	**188.2**	159.0
Losses carried forward	**56.7**	95.2
Other	**453.3**	362.9
Total	**1,964.2**	**2,094.4**

[12]

Other assets

[12a]

	2009 € million	2008 € million	Opening balance sheet 2008 € million
Owner-occupied property	**1,587.6**	1,469.1	1,407.4
Assets from insurance contracts	**424.3**	450.9	404.1
Tangible assets and inventories	**217.7**	197.5	215.4
Other	**167.3**	188.3	147.6
Total	**2,396.8**	**2,305.7**	**2,174.5**

Owner-occupied property [12b]

Development during the financial year	2009 € million	2008 € million
Gross carrying amount at 31 December previous year	**1,947.8**	1,856.6
Accumulated depreciation and accumulated impairment losses at 31 December previous year	**478.7**	449.2
Carrying amount at 1 January financial year	**1,469.1**	1,407.4
Reclassification from third party land and buildings	**56.4**	1.6
Currency translation differences	**0.1**	– 7.1
Carrying amount at 1 January financial year	**1,525.6**	1,401.9
Change in consolidated group	**15.0**	0.3
Additions	**94.7**	122.2
Disposals	**14,1**	20.6
Depreciation	**43.3**	32.4
Impairment losses	**0.7**	2.9
Write-ups	**10.3**	0.6
Carrying amount at 31 December financial year	**1,587.6**	**1,469.1**
Accumulated depreciation and impairment losses at 31 December financial year	**558.5**	478.7
Gross carrying amount at 31 December financial year	**2,146.1**	1,947.8
Fair value at 31 December financial year	**1,722.0**	1,615.4

Impairment losses and write-ups are mainly caused by adjustments to market value. Impairment losses in the segment Life Germany account for € 0.7m (2.7m), and write-ups in the same segment amount to € 10.3m (0.6m).

[13] Equity

[13a] Issued capital and capital reserve

On the balance sheet date the Company's issued share capital was € 196,279,504.20, and was divided into 75,492,117 individual bearer no-par-value shares.

The Board of Management was authorised to raise the share capital with the consent of the Supervisory Board during the period ending on 8 May 2012 in one or more steps by a total of up to € 97,500,000 by issuing up to 37,500,000 new bearer no-par-value shares with right to participation in the profits of such new shares from the beginning of the financial year in which they are issued against cash deposits or investments in kind (authorised capital). As regards capital increase for cash, the shareholders are to be granted a pre-emptive right. The Board of Management has the power to exclude the pre-emptive right of the shareholders with the consent of the Supervisory Board

- in order to exempt peak amounts from the pre-emptive right.
- where necessary, to grant the owners of stock options or creditors of convertible bonds issued by the Company or by its subsidiaries the right to subscribe to new shares on the scale to which they would be entitled after exercising the conversion or option rights or after satisfying the conversion obligation, or
- if the issue price of the new share is not substantially lower than the market price and if the shares issued excluding the pre-emptive right in accordance with Section 186 para. 3 sentence 4 of the German Stock Companies Act (AktG) do not exceed 10% of the share capital, neither at the point in time when this empowerment comes into force nor at the time when it is enacted. Shares are to be added to this figure which were issued or sold under exclusion of subscription rights, applying either directly or in accordance with Section 186 para. 3 sentence 4 of the German Stock Companies Act (AktG).

Furthermore, the Board of Management is authorised to determine with consent of the Supervisory Board to exclude the pre-emptive right in cases of increases of capital against non-cash contributions.

Moreover, the Board of Management has the power to determine, with consent of the Supervisory Board, further details concerning share rights and conditions surrounding the issue of shares.

There is a contingent increase in the share capital by up to € 97,500,000 by issuing up to 37,500,000 new bearer no-par-value shares with right to participation in the profits of such new shares from the beginning of the financial year in which they are issued (contingent capital). The contingent capital increase serves the concession of shares to owners or creditors of option bonds and/or convertible bonds which are issued in accordance with the resolution taken at the Annual General Meeting on 9 May 2007 and ending on 8 May 2012 by the Company or by a subsidiary company in the Group. This will only be implemented insofar as the option and/or conversion rights of the aforementioned bonds are exercised or conversion obligations are complied with from these bonds. The Board of Management is authorised to determine the further details of implementing the increase in contingent capital.

Other reserves			Opening
			balance sheet
	2009	2008	2008
	€ million	€ million	€ million
Unrealised gains and losses	**678.6**	285.2	428.6
Reserve from currency translation	**– 103.0**	– 105.3	12.4
Valuation result from cash flow hedges	**1.5**	2.9	0.2
Total	**577.1**	**182.8**	**441.2**

[13b]

Other reserves contain € 12.9m (13.4m) in unrealised gains and losses from associates valued at equity and € 665.7m (271.8m) unrealised gains and losses from mainly other securities available for sale as well as interests in unconsolidated affiliates.

Retained earnings

[13c]

Retained earnings can be broken down into the statutory reserve of ERGO Versicherungsgruppe AG of € 0.5m and other retained earnings of the Group whose development and composition are detailed in the overview on page 94.

[13d]

The claims equalisation reserves amount to € 412.7m (419.7m); according to IFRS and US GAAP they are part of the equity.

[13e]

Unrealised gains and losses on investments	**2009 € million**	**2008 € million**	**Opening balance sheet 2008 € million**
Unconsolidated affiliated companies	**93.6**	103.4	12.3
Associated companies valued at equity	**23.1**	23.1	23.1
Cash flow hedges	**21.1**	19.6	– 0.6
Other securities – available for sale			
Fixed-interest	**1,755.4**	671.9	– 453.8
Non-fixed-interest	**592.7**	222.6	2,270.0
	2,348.1	894.5	1,816.2
Less:			
Provision for deferred premium refunds recognised in equity	**1,650.7**	742.4	1,363.5
Deferred taxes recognised in equity	**182.0**	41.4	57.0
Minority interests	**9.6**	– 1.7	1.8
Consolidation effects	**– 36.5**	– 29.6	– 0.1
Total	**680.1**	**288.1**	**428.8**

[13f]

Tax effects in the income and expenses recognised directly in equity	**Before tax 2009 € million**	**Tax 2009 € million**	**After tax 2009 € million**	**Before tax 2008 € million**	**Tax 2008 € million**	**After tax 2008 € million**
Currency translation	**3.1**	**–**	**3.1**	– 124.7	–	– 124.7
Unrealised gains and losses on investments	**545.9**	**140.6**	**405.3**	– 162.1	– 15.6	– 146.5
Change resulting from valuation at equity	**– 0.5**	**–**	**– 0.5**	– 0.4	–	– 0.4
Change resulting from cash flow hedges	**– 1.7**	**– 0.3**	**– 1.4**	4.1	1.4	2.7
Actuarial gains and losses on defined benefit plans	**– 147.3**	**– 45.8**	**– 101.5**	79.9	24.4	55.5
Other changes	**– 174.0**	**– 7.7**	**– 166.3**	37.7	8.8	28.9
Income and expense recognised directly in equity	**225.5**	**86.8**	**138.7**	**– 165.5**	**19.0**	**– 184.5**

Minority interests [13 g]

	2009 € million	2008 € million
Unrealised gains and losses on investments	**9.6**	– 1.7
Share in consolidated result	**6.1**	10.3
Other equity	**139.2**	171.5
Total	**154.9**	**180.1**

Subordinated liabilities [14]

Subordinated liabilities include ERGO Versicherungsgruppe AG's entry into an existing subordinated loan incurred by the Munich Re.

The item also comprises bearer bonds from Bank Austria Creditanstalt Versicherung AG (BA-CA Versicherung) on paid-in supplementary capital.

On the balance sheet date the fair value of subordinated liabilities came to € 436.2m (372.8m).

[15] Unearned premiums[1) 2)]

[15a]

	Life		Health		Property-casualty	
	Germany				Germany	
	2009	2008	2009	2008	2009	2008
	€ million	€ million	€ million	€ million	€ million	€ million
Gross	**0.3**	0.2	**103.8**	102.4	**450.7**	456.7
Reinsurers' share	**0.1**	–	**0.6**	0.7	**32.8**	36.5
Net	**0.2**	**0.2**	**103.2**	**101.7**	**417.9**	**420.3**

1) Figures based on fully consolidated Group values.
2) Previous year's figures adjusted pursuant to IFRS 8.

[15b] Development of unearned premiums[1) 2)]

	Life		Health		Property-casualty	
	Germany				Germany	
	2009	2008	2009	2008	2009	2008
	€ million	€ million	€ million	€ million	€ million	€ million
Status at 31 December previous year	**0.2**	0.4	**102.4**	105.4	**456.7**	454.0
Currency translation effects	**–**	–	**–**	–	**– 0.6**	- 1.9
Change in consolidated group	**–**	–	**–**	–	**–**	–
Addition/disposal portfolio	**–**	–	**– 1.2**	– 7.7	**–**	–
Gross premiums written	**4,372.6**	4,460.1	**5,424.4**	5,227.6	**2,990.7**	2,968.2
Earned premiums	**4,372.5**	4,460.3	**5,421.7**	5,222.9	**2,996.2**	2,963.5
Status at 31 December financial year	**0.3**	**0.2**	**103.8**	**102.4**	**450.7**	**456.7**

1) Figures based on fully consolidated Group values.
2) Previous year's figures adjusted pursuant to IFRS 8.

[16] Provision for future policy benefits[1) 2)]

[16a]

	Life		Health		Property-casualty	
	Germany				Germany	
	2009	2008	2009	2008	2009	2008
	€ million	€ million	€ million	€ million	€ million	€ million
Gross	**54,662.6**	54,552.3	**21,654.4**	20,333.5	**354.8**	294.8
Reinsurers' share	**446.2**	3 308.5	**838.2**	816.6	**-**	-
Net	**54,216.4**	**51,243.8**	**20,816.2**	**19,516.9**	**354.8**	**294.8**

1) Figures based on fully consolidated Group values.
2) Previous year's figures adjusted pursuant to IFRS 8.

Direct insurance		Travel insurance		International Operations		Group value	
2009 € million	2008 € million	2009 € million	2008 € million	2009 € million	2008 € million	2009 € million	2008 € million
69.5	63.9	**70.2**	–	**982.6**	894.6	**1,677.2**	1,517.8
–	–	**2.0**	–	**98.5**	103.2	**134.2**	140.5
69.5	**63.9**	**68.1**	**–**	**884.1**	**791.3**	**1,543.0**	**1,377.4**

Direct insurance		Travel insurance		International Operations		Group value	
2009 € million	2008 € million	2009 € million	2008 € million	2009 € million	2008 € million	2009 € million	2008 € million
63.9	55.5	**–**	–	**894.6**	824.2	**1,517.8**	1,439.4
–	–	**–**	–	**11.7**	– 113.9	**11.1**	– 115.8
–	–	**67.9**	–	**–**	83.9	**67.9**	83.9
–	–	**–**	–	**–**	1.6	**– 1.2**	– 6.1
853.8	822.5	**387.4**	–	**3,440.6**	3,099.7	**17,469.5**	16,578.2
848.2	814.1	**385.1**	–	**3,364.3**	3,000.9	**17,388.0**	16,461.8
69.5	**63.9**	**70.2**	**–**	**982.6**	**894.6**	**1,677.2**	**1,517.8**

Direct insurance		Travel insurance		International Operations		Group value	
2009 € million	2008 € million	2009 € million	2008 € million	2009 € million	2008 € million	2009 € million	2008 € million
3,463.8	3,419.9	**–**	–	**10,875.4**	10,475.9	**91,011.1**	89,076.3
50.0	48.2	**–**	–	**2,232.5**	2,175.7	**3,567.0**	6,349.0
3,413.7	**3,371.7**	**–**	**–**	**8,642.9**	**8,300.1**	**87,444.2**	**82,727.4**

[16b]

Gross provision for future policy benefits [1) 2)] according to type of insurance cover	2009 € million	2008 € million
Segment Life Germany		
Mainly mortality risk	**31,612.0**	32,774.6
Mainly longevity risk (annuities)	**22,048.4**	20,792.3
Mainly disablement risk	**1,002.2**	985.4
Combination of more than one risk	–	–
	54,662.6	54,552.3
Segment Health	**21,654.4**	20,333.5
Segment Property-casualty Germany	**354.8**	294.8
Segment Direct insurance		
Mainly mortality risk	**2,668.1**	2,650.3
Mainly longevity risk (annuities)	**438.9**	448.0
Mainly disablement risk	**1.2**	1.0
Combination of more than one risk	**–**	–
Other	**355.6**	320.6
	3,463.8	3,419.9
Segment International Operations		
Mainly mortality risk	**8,166.5**	7,693.8
Mainly longevity risk (annuities)	**2,646.0**	2,725.3
Mainly disablement risk	**54.0**	50.7
Combination of more than one risk	**9.0**	6.1
	10,875.4	10,475.9
Total	**91,011.1**	**89,076.3**

1) Figures based on fully consolidated Group value.
2) Previous year's figures adjusted pursuant to IFRS 8.

[16c]

Gross provision for future policy benefits [1] [2] according to actuarial interest rates	2009 € million	2008 € million
Actuarial interest rate < 2.5%	**4,724.9**	3,568.5
Actuarial interest rate 2.5-3%	**18,414.7**	19,637.5
Actuarial interest rate 3-3.5%	**27,582.1**	26,544.9
Actuarial interest rate 3.5-4%	**15,570.9**	15,738.3
Actuarial interest rate > 4%	**20,182.0**	19,172.3
Without guaranteed interest rate	**4,536.5**	4,414.9
Total	**91,011.1**	**89,076.3**

[1] Figures based on fully consolidated Group values.
[2] Previous year's figures adjusted pursuant to IFRS 8.

[16d]

Development of gross provision for future policy benefits	2009 € million	2008 € million
Status at 1 January financial year	**89,076.3**	84,223.6
Currency translation differences	**– 0.4**	– 16.7
Changes		
Scheduled	**1,935.9**	2,327.3
Unscheduled	**– 0.7**	–
Change in consolidated group	**–**	2,542.1
Total	**91,011.1**	**89,076.3**

[17] Provision for outstanding claims[1] [2]

[17a]

	Life Germany 2009 € million	Life Germany 2008 € million	Health 2009 € million	Health 2008 € million	Property-casualty Germany 2009 € million	Property-casualty Germany 2008 € million
Gross	**1,360.6**	1,210.4	**1,077.7**	1,021.6	**3,204.1**	3,113.3
Reinsurers' share	**25.9**	90.7	**44.3**	49.6	**548.1**	552.1
Net	**1,334.7**	**1,119.6**	**1,033.4**	**972.0**	**2,656.0**	**2,561.1**

[1] Figures based on fully consolidated Group values.
[2] Previous year's figures adjusted pursuant to IFRS 8.

The provision (gross) for outstanding claims comprises provisions for annuities from health, motor, accident and liability insurance amounting to € 354.2m (325.0m). These were calculated based on actuarial principles with a discount rate of up to 4.0%.

[17b]

Provision for outstanding claims **Development in the financial year**	**2009** **€ million**	**2008** **€ million**
Status at 1 January (net)	**5,923.2**	5,663.2
Claims expenses (including expenses for claims settlement)		
Financial year	**12,449.0**	11,865.2
Previous years	**695.4**	617.5
Total	**13,144.4**	12,482.7
thereof: payments (including payment for claims settlement)		
Financial year	**10,484.6**	10,055.6
Previous years	**2,169.3**	2,123.0
Total	**12,653.9**	12,178.6
Other changes	**12.7**	– 77.6
Change in consolidated group	**55.1**	33.5
Status at 31 December (net)	**6,481.5**	**5,923.2**

[17c]

Gross provision for outstanding claims by type[1] [2]	**Life Germany 2009 € million**	**Life Germany 2008 € million**	**Health 2009 € million**	**Health 2008 € million**
Provision for benefit cases	**367.7**	341.7	**1,049.9**	994.7
Annuity provisions	**992.9**	868.7	**27.8**	26.9
Total	**1,360.6**	**1,210.4**	**1,077.7**	**1,021.6**

[1] Figures based on fully consolidated Group values.
[2] Previous year's figures adjusted pursuant to IFRS 8.

Direct insurance		Travel insurance		International Operations		Group value	
2009	2008	2009	2008	2009	2008	2009	2008
€ million	€ million	€ million	€ million	€ million	€ million	€ million	€ million
104.0	93.9	**69.9**	–	**1,484.0**	1,371.5	**7,300.3**	6,810.6
17.3	15.4	**9.9**	–	**173.4**	179.5	**818.9**	887.4
86.7	**78.5**	**60.0**	–	**1,310.6**	**1,192.0**	**6,481.5**	**5,923.2**

[17d]

Expected payments from the provisions for outstanding claims in property-casualty segment[1) 2)]	2009 %	2008 %
Up to one year	**41.7**	39.7
Over one and up to five years	**34.1**	34.5
Over five and up to ten years	**14.5**	14.2
Over ten and up to fifteen years	**4.6**	5.5
Over fifteen years	**5.1**	6.1
Total	**100.0**	**100.0**

1) Figures based on fully consolidated Group values.
2) Previous year's figures adjusted pursuant to IFRS 8.

When ascertaining the expected payout dates concerning the provision for outstanding claims, it should be mentioned that these are of course associated with a considerable degree of uncertainty.

[17e]

Gross provision for outstanding claims by type[1) 2)]	Property-casualty Germany		Direct insurance		Travel insurance		International Operations	
	2009 € million	2008 € million	2009 € million	2008 € million	2009 € million	2008 € million	2009 € million	2008 € million
Provision for known claims	**2,235.4**	2,188.8	**99.5**	90.2	**53.9**	–	**1,205.0**	1,118.7
IBNR reserves	**672.3**	645.0	**1.8**	1.4	**14.8**	–	**251.8**	235.4
Annuity provisions	**296.5**	279.6	**2.7**	2.3	**1.2**	–	**27.3**	17.3
Total	**3,204.1**	**3,113.3**	**104.0**	**93.9**	**69.9**	–	**1,484.0**	**1,371.5**

1) Figures based on fully consolidated Group values.
2) Previous year's figures adjusted pursuant to IFRS 8.

[17f]

Net run-off results for business posted in line with property-casualty insurance

Claims payments for the individual accident years

Accident year	≤ 1999	2000	2001	2002	2003
Calender year					
1999	1,575.1				
2000	752.9	801.2			
2001	365.5	415.4	861.4		
2002	189.7	144.6	376.2	947.9	
2003	126.0	67.4	146.8	473.8	1,033.8
2004	92.5	42.7	75.8	166.5	507.8
2005	92.1	35.1	47.7	80.7	197.8
2006	87.1	21.5	35.1	42.2	80.9
2007	61.9	18.6	24.3	30.9	43.3
2008	51.7	13.7	17.1	24.3	39.4
2009	41.5	12.9	17.6	20.0	23.5

Claims reserve for the individual accident years at the respective reporting dates

Accident year	≤ 1999	2000	2001	2002	2003
Date					,
31 December 1999	2,100.3				
31 December 2000	1,376.6	852.1			
31 December 2001	974.0	537.1	930.6		
31 December 2002	753.3	343.8	535.6	1,003.3	
31 December 2003	620.0	158.5	490.7	486.2	1,115.0
31 December 2004	544.6	168.2	242.1	357.0	600.1
31 December 2005	528.0	176.0	181.9	253.3	321.0
31 December 2006	450.0	120.1	171.0	188.4	249.9
31 December 2007	428.2	113.1	140.4	178.8	192.2
31 December 2008	351.5	97.2	103.7	118.1	185.0
31 December 2009	284.0	85.9	99.7	103.3	121.8

Ultimate loss for the individual accident years at the respective reporting dates

Accident year	≤ 1999	2000	2001	2002	2003
Date					
31 December 1999	3,675.5				
31 December 2000	3,704.6	1,653.3			
31 December 2001	3,667.6	1,753.7	1,792.0		
31 December 2002	3,636.5	1,704.9	1,773.2	1,951.2	
31 December 2003	3,629.3	1,587.0	1,875.2	1,908.0	2,148.9
31 December 2004	3,646.4	1,639.4	1,702.3	1,945.3	2,141.7
31 December 2005	3,721.9	1,682.4	1,689.8	1,922.2	2,060.3
31 December 2006	3,730.9	1,647.9	1,714.0	1,899.6	2,070.1
31 December 2007	3,771.0	1,659.5	1,707.7	1,920.9	2,055.7
31 December 2008	3,746.0	1,657.4	1,688.1	1,884.5	2,088.0
31 December 2009	3,720.1	1,659.0	1,701.6	1,889.8	2,048.3
Currency-adjusted net runoff result	– 44.6	– 5.7	90.4	61.4	100.6
Change 2008 to 2009	25.9	– 1.6	– 13.5	– 5.2	39.7

2004	2005	2006	2007	2008	2009	Total
1,075.6						
532.5	1,127.1					
170.5	573.3	1,127.1				
81.1	177.2	589.4	1,306.4			
49.6	89.6	185.9	647.5	1,434.5		
34.7	49.6	90.3	182.8	686.6	1,559.7	**2,719.0**

2004	2005	2006	2007	2008	2009	Total
1,182.9						
542.1	1,269.4					
364.5	592.2	1,287.4				
277.2	372.3	576.2	1,346.4			
215.8	271.8	365.2	601.7	1,487.4		
175.7	232.3	267.3	380.3	656.1	1,580.5	**3,987.0**

2004	2005	2006	2007	2008	2009	Total
2,258.6						
2,150.2	2,396.5					
2,143.2	2,292.6	2,414.5				
2,137.0	2,249.8	2,292.7	2,652.9			
2,125.1	2,238.9	2,267.5	2,555.5	2,921.9		
2,119.7	2,249.0	2,259.9	2,517.0	2,777.1	3,140.2	**26,081.7**
138.9	147.5	154.5	135.8	144.7	n.a.	**923.6**
5.4	– 10.1	7.6	38.5	144.7	n.a.	**231.5**

The values in the run-off triangles cover more than 99% of our Group's portfolio of property-casualty business. The difference between the provision for outstanding claims recorded in the balance sheet as at 31 December 2009 and the figure from the run-off triangle is due to the fact that some companies were exempt from having to report to the run-off triangles for cost-benefit reasons.

For comparability reasons we have included the amounts of the ERV companies in the previous years' figures as well although these companies became part the consolidated group in 2009 only.

The ultimate loss of an accident year comprises all payments made for that accident year up to the reporting date, plus the claims reserve at the reporting date. Given complete information regarding all losses

[18] Provision for premium refunds and policyholders' dividends[1) 2)]

[18a]

	Life		Health		Property-casualty	
		Germany				Germany
	2009	**2008**	**2009**	**2008**	**2009**	**2008**
	€ million	**€ million**	**€ million**	**€ million**	**€ million**	**€ million**
Gross	**2,550.6**	2,601.7	**6,638.8**	6,147.6	**57.3**	53.5
Reinsurers' share	**–**	–	**71.4**	66.4	**1.7**	2.0
Net	**2,550.6**	**2,601.7**	**6,567.5**	**6,081.1**	**55.7**	**51.5**

1) Figures based on fully consolidated Group values.
2) Previous year's figures adjusted pursuant to IFRS 8.

[18b] Gross provision for premium refunds and policyholders' dividends[1) 2)]

	Life		Health		Property-casualty	
		Germany				Germany
	2009	**2008**	**2009**	**2008**	**2009**	**2008**
	€ million	**€ million**	**€ million**	**€ million**	**€ million**	**€ million**
Provision for premium refunds (based on national regulations)	**565.4**	564.5	**3,917.7**	3,576.6	**57.3**	53.5
Provision for deferred premium refunds						
Recognised directly in equity	**906.6**	487.5	**541.7**	245.9	**–**	–
Recognised in profit and loss	**1,078.7**	1,549.7	**2,179.4**	2,325.0	**–**	–
	1,985.2	2,037.2	**2,721.1**	2,570.9	**–**	–
Total	**2,550.6**	**2,601.7**	**6,638.8**	**6,147.6**	**57.3**	**53.5**

1) Figures based on fully consolidated Group values.
2) Previous year's figures adjusted pursuant to IFRS 8.

incurred up to the balance sheet date, the ultimate loss status for each accident-year period would remain the same. The run-off triangles are prepared on a currency-adjusted basis. To this end, all figures are translated from the respective local currency into the Group currency (euro), consistently using the exchange rates applicable at the end of the year under review (i. e. at 31 December 2009). This ensures that neutral net run-off results in the original currency (i. e. where the ultimate loss originally estimated for an accident year and current loss estimate are identical) do not lead to currency-related run-off effects when expressed in the Group currency.

Direct insurance		Travel insurance		International Operations		Group value		Opening balance sheet
2009	2008	2009	2008	2009	2008	2009	2008	2008
€ million	€ million	€ million	€ million	€ million	€ million	€ million	€ million	€ million
187.5	107.4	**–**	–	**271.6**	96.8	**9,706.0**	9,007.0	10,213.5
–	–	–	–	**0.7**	0.9	**73.8**	69.3	78.4
187.5	**107.4**	**–**	**–**	**270.9**	**95.9**	**9,632.2**	**8,937.7**	**10,135.0**

Direct insurance		Travel insurance		International Operations		Group value		Opening balance sheet
2009	2008	2009	2008	2009	2008	2009	2008	2008
€ million	€ million	€ million	€ million	€ million	€ million	€ million	€ million	€ million
187.3	138.6	**–**	–	**132.3**	103.7	**4,860.1**	4,437.0	4,925.2
46.6	5.5	**–**	–	**156.2**	8.5	**1,651.1**	747.5	1,327.5
– 46.4	– 36.8	**–**	–	**– 16.9**	– 15.4	**3,194.8**	3,822.5	3,960.7
0.2	– 31.2	**–**	–	**139.3**	– 6.9	**4,845.9**	4,570.0	5,288.3
187.5	**107.4**	**–**	**–**	**271.6**	**96.8**	**9,706.0**	**9,007.0**	**10,213.5**

[18c]

The development of either performance-related or not performance-related provisions for premium refunds, calculated in line with national and statutory or contractual regulations, as well as the provision for deferred premium refunds which arises due to the different valuation between national regulations and IFRS or US-GAAP, is detailed below, broken down into the individual segments.

Provision for premium refunds and policyholders' dividends – development during the financial year[1)2)]	Life Germany 2009 € million	Life Germany 2008 € million	Health 2009 € million	Health 2008 € million	Property-casualty Germany 2009 € million	Property-casualty Germany 2008 € million
Provision for premium refunds (based on national regulations)						
Status at 1 January	**564.5**	825.7	**3,576.6**	3,818.8	**53.5**	52.5
Change in consolidated group	**0.8**	– 261.2	**341.1**	– 242.1	**3.8**	1.1
Status at 31 December	**565.4**	564.5	**3,917.7**	3,576.6	**57.3**	53.5
Provision for deferred premium refunds						
Status at 1 January	**2,037.2**	2,621.0	**2,570.9**	2,600.8	**–**	–
Change in consolidated group	**–**	–	**–**	–	**–**	–
Changes resulting from unrealised gains and losses on investments (recognised directly in equity)	**419.0**	– 554.1	**295.8**	42.1	**–**	–
Changes resulting from other revaluations (recognised in profit or loss)	**– 471.0**	– 29.7	**– 145.6**	– 72.0	**–**	–
Status at 31 December	**1,985.2**	2,037.2	**2,721.1**	2,570.9	**–**	–
Total provision for premium refunds (status at 31 December)						
Gross	**2,550.6**	2,601.7	**6,638.8**	6,147.6	**57.3**	53.5
Reinsurers' share	**–**	–	**71.4**	66.4	**1.7**	2.0
Net	**2,550.6**	**2,601.7**	**6,567.5**	**6,081.1**	**55.7**	**51.5**

1) Figures based on fully consolidated Group values.
2) Previous year's figures adjusted pursuant to IFRS 8.

[18d]

The surplus allocation from direct bonuses in life insurance business amounts to € 267.5m (289.6m), and is granted in addition to the performance-related premium refund.

[19]

Other underwriting provisions

	2009 € million	2008 € million
Gross	**112.5**	94.0
Reinsurers' share	**133.9**	220.2
Net	**– 21.4**	**– 126.2**

Direct insurance		Travel insurance		International Operations		Group value	
2009	**2008**	**2009**	**2008**	**2009**	**2008**	**2009**	**2008**
€ million	**€ million**	**€ million**	**€ million**	**€ million**	**€ million**	**€ million**	**€ million**
138.6	161.7	**–**	–	**103.7**	66.6	**4,437.0**	4,925.2
48.7	– 23.1	**–**	–	**28.6**	37.1	**423.1**	– 488.2
187.3	138.6	**–**	–	**132.3**	103.7	**4,860.1**	4,437.0
– 31.2	60.7	**–**	–	**– 6.9**	5.7	**4,570.0**	5,288.3
–	–	**–**	–	**–**	55.9	**–**	55.9
41.1	– 97.0	**–**	–	**147.7**	29.0	**903.6**	– 580.1
– 9.6	5.1	**–**	–	**– 1.5**	– 97.5	**– 627.7**	– 194.1
0.2	– 31.2	**–**	–	**139.3**	– 6.9	**4,845.9**	4,570.0
187.5	107.4	**–**	–	**271.6**	96.8	**9,706.0**	9,007.0
–	–	**–**	–	**0.7**	0.9	**73.8**	69.3
187.5	**107.4**	**–**	**–**	**270.9**	**95.9**	**9,632.2**	**8,937.7**

[20]

Gross technical provisions for life insurance policies where the investment risk is borne by policyholders

	2009 € million	2008 € million
Status at 31 December previous year	**2,969.7**	2,308.0
Changes in consolidated group	**–**	856.1
Currency translation differences and other influences	**45.9**	– 4.9
Savings premiums	**944.9**	562.8
Unrealised gains/losses on fund assets	**460.7**	– 591.0
Withdrawal for expenses and risk	**49.5**	19.7
Withdrawal for benefits	**254.6**	141.7
Carrying amount at 31 December business year	**4,117.2**	**2,969.7**

These provisions are valued retrospectively. The withdrawal for underwriting risks from the premiums and provision for future policy benefits is made on the basis of prudent assumptions regarding expected mortality and morbidity. Here, as with the provision for future policy benefits for non-unit-linked life insurance, the underlying calculation is based on best estimates with appropriate provisions for adverse deviation. The provisions are directly covered by the investments for the benefit of life insurance policyholders who bear the investment risk. Small differences in relation to these investments arise as a result of including unearned revenue liability in these provisions.

Provisions for pensions and similar benefits [21]

[21a]

Provisions are made for most employees within the ERGO Insurance Group for the period after retirement directly or by way of contributions to private institutions through the Group companies. The type and amount of retirement benefits correspond with the respective provision regulations (pension regulations, individual contractual commitments etc.). These are usually based on the term of employment and remuneration of employees. A distinction is made here between defined contribution plans and defined benefit plans.

With regard to the defined contribution plans, the Group companies pay contributions to insurers on the basis of contractual stipulations or on a voluntary basis. Following the payment of contributions the companies are not subject to any further commitments regarding benefits. The current contribution payments in the sum of € 34.3m (31.3m) are expenses incurred during the current year.

Defined benefit plans are financed via pension provisions within the ERGO Insurance Group. The pension provisions include provisions not only for existing pensions but also entitlements to pensions that are to be paid out in the future. The pension provisions are determined uniformly within the Group as stipulated by IAS 19 (revised in 2004) after the Projected Unit Credit Method. In this respect the future commitments are determined by using actuarial procedures with a careful estimation of the relevant factors. With regard to a dynamic system, the expected benefits following the occurrence of the covered event are spread over the employees' entire period of employment.

Change in the present value of defined benefit obligations under defined benefit plans	**2009 € million**	**2008 € million**
Status at 31 December previous year	**939.0**	986.6
Currency translation differences	**2.7**	– 9.7
Change in consolidated group	**31.9**	9.8
Current service cost	**30.8**	32.1
Interest cost	**56.9**	52.6
Actuarial gains/losses	**158.1**	– 96.1
Payments	**– 36.9**	– 34.2
Past service cost	**4.7**	4.3
Other	**3.8**	– 6.4
Status at 31 December financial year	**1,191.0**	**939.0**

[21b]

Defined benefit obligations include medical-care benefits. The present value of defined benefit obligations for these items amounted to € 74.0m (55.7m) at the balance sheet date.

Change in the plan assets for defined benefit plans in the financial year	2009 € million	2008 € million
Status at 31 December previous year	**95.7**	94.8
Currency translation differences	**2.3**	– 7.4
Change in consolidated group	**–**	5.3
Expected return	**5.3**	4.8
Actuarial gains/losses	**– 0.2**	– 3.4
Capital transfer to plan assets	**11.1**	8.6
Payments	**– 2.5**	– 2.0
Other	**2.7**	– 5.0
Status at 31 December financial year	**114.4**	**95.7**

[21c]

Change in the reimbursement rights for defined benefit plans in the financial year	2009 € million	2008 € million
Status at 31 December previous year	**61.2**	56.1
Currency translation differences	**–**	–
Change in consolidated group	**–**	–
Expected return	**2.2**	1.9
Actuarial gains/losses	**3.3**	–
Capital transfer	**5.1**	4.6
Payments	**– 1.0**	– 1.6
Other	**0.7**	0.2
Status at 31 December financial year	**71.5**	**61.2**

The reimbursement rights derive from reinsurance concluded to cover the benefit obligations.

Funded status of the defined benefit plans	2009	2008
	€ million	€ million
Unfunded obligations		
Present value	**1,054.6**	836.4
Past service cost not yet recognised	**–**	–
Other	**0.1**	–
Net balance sheet liability	**1,054.7**	836.4
Wholly/partly funded obligations		
Present value	**136.4**	102.6
Fair value of plan assets	**– 114.4**	– 95.7
Past service cost not yet recognised	**–**	–
Other receivables	**1.1**	0.8
Other	**–**	–
Net balance sheet liability	**23.1**	7.7
Unfunded or wholly/partly funded defined benefit obligations		
Present value	**1,191.0**	939.0
Fair value of plan assets	**– 114.4**	– 95.7
Past service cost not yet recognised	**–**	–
Other receivables	**1.1**	0.8
Other	**0.1**	–
Net balance sheet liability	**1,077.8**	**844.1**

[21d]

Change in the provision for defined benefit plans in the financial year	2009	2008
	€ million	€ million
Status at 31 December previous year	**844.1**	891.8
Currency translation differences	**0.4**	– 2.3
Change in consolidated group	**31.9**	4.5
Expenses	**84.9**	82.7
Payments	**– 33.3**	– 30.6
Capital transfer to plan assets	**– 11.1**	– 8.6
Transfer to other receivables	**0.3**	0.8
Actuarial gains/losses recognised in equity	**154.4**	– 92.7
Other	**6.2**	– 1.5
Status at 31 December financial year	**1,077.8**	**844.1**

[21e]

[21f]

Breakdown of expenses booked in the financial year	2009 € million	2008 € million
Current service cost	**30.8**	32.1
Interest cost	**56.9**	52.6
Expected return on plan assets	**– 5.3**	– 4.8
Expected return on reimbursements	**– 2.2**	– 1.9
Past service cost	**4.7**	4.3
Other	**– 0.1**	0.4
Total	**84.8**	**82.7**

The actual return on plan assets amounts to € 5.1m, and the actual return on reimbursements to € 5.5m.

The expenses are shown mainly under ‘Operating expenses’ and ‘Expenses for claims and benefits’ in the consolidated income statement. Included in the recognised income and expenses are actuarial gains/losses amounting to € 150.3m (–91.7m) in the financial year and € 145.9m (–4.4m) cumulative, taking currency fluctuations and other changes into account.

[21g]

Breakdown of plan assets to cover pension obligations	2009 %	2008 %
Non-fixed-interest securities	**33.9**	33.4
Fixed-interest securities and loans	**61.9**	63.7
Land and buildings	**0.3**	0.4
Other	**3.9**	2.5
Total	**100.0**	**100.0**

The consolidated companies used the following actuarial assumptions (weighted average values) for calculating their pension obligations: [21h]

	2009	2008
	%	%
Discount rate	**5.0**	6.0
Expected rate of return on fund assets	**5.1**	5.2
Expected rate of return on reimbursement	**4.5**	5.4
Future increases in entitlement/salary	**2.8**	2.9
Future pension increases	**1.9**	2.0
Medical cost trend rate	**2.9**	**2.5**

The expected rate of return on plan assets is determined on the basis of anticipated long-term capital yields.

A change in the medical cost trend rate by one percentage point would have the following effects on the present value of defined benefit obligations and pension expenses:

	Increase by one percentage point	Reduction by one percentage point
	€ million	€ million
Present value of defined benefit obligations	14.6	– 11.4
Pension expenses	1.2	– 0.9

For the financial year 2009, capital transfers of € 3.2m to plan assets are expected. [21i]

[21j]

Other figures for the current financial year und previous years	2009 € million	2008 € million	2007 € million	2006 € million
Present value of defined benefit obligations (excluding medical-care benefits)	**1,117.1**	883.3	921.0	983.2
Plan assets	**114.4**	95.7	94.8	89.9
Deficit	**1,002.7**	**787.6**	**826.2**	**893.3**

Experience-related changes in liabilities amount to € 14.1m (2.0m). Experience-related changes to plan assets amount to € 0.1m (0.1m)

[22]

Other provisions

	2009 € million	2008 € million
Provision for		
Unearned commission	**178.7**	157.0
Early-retirement benefits/semi-retirement	**153.8**	181.9
Outstanding invoices	**106.2**	81.9
Bonuses	**49.2**	64.6
Impending losses	**44.4**	44.7
Other in-house staff and field representatives' remuneration	**37.9**	42.3
Anniversary benefits	**36.9**	32.6
Holiday and overtime pay	**32.7**	34.9
Sales contests	**26.8**	28.1
Miscellaneous	**596.0**	438.6
Total	**1,262.6**	**1,106.6**

The provisions for early-retirement benefits/semi-retirement and anniversary benefits are mainly long term, whereas the provisions for unearned commission, outstanding invoices, holiday and overtime pay, and miscellaneous are essentially short term.

The miscellaneous other provisions comprise restructuring expenses associated with the project "Continuous Improvement of the Competitive Position" amounting to a sum of € 262.5m (144.4m)

Other provisions [23]

Development during financial year	2009 € million	2008 € million
Status at 31 December previous year	**1,106.6**	1,103.4
Currency translation differences	**0.8**	6.2
Status at 1 January financial year	**1,107.5**	1,097.2
Change in consolidated group	**22.6**	12.9
Consumption	**1,110.3**	638.8
Release	**72.0**	118.9
Discounting effects	**2.4**	3.4
Additions	**1,313.6**	750.9
Other changes	**– 1.2**	–
Status at 31 December financial year	**1,262.6**	**1,106.6**

[24]

Liabilities

[24a]

	2009 € million	2008 € million	Opening balance sheet 2008 € million
Current tax liabilities	**964.7**	909.7	822.7
Other liabilities			
Deposits retained on ceded business	**4,154.6**	6,794.5	6,645.3
Accounts payable on direct insurance business	**3,697.9**	3,714.4	3,991.2
Amounts due to banks	**361.9**	460.1	427.9
Accounts payable on reinsurance business	**118.3**	95.9	102.1
Interest and rents	**37.4**	24.3	24.2
Accruals and deferred income	**14.1**	13.2	17.6
In connection with social security	**8.1**	8.7	6.2
Miscellaneous other liabilities	**3,018.3**	2,721.6	1,563.6
	11,410.6	13,832.8	12,778.0
Total	**12,375.3**	**14,742.5**	**13,600.8**

Current tax liabilities comprise actual tax on income and other taxes of individual companies based on their respective national taxation, of which €393.1m (324.6m) is accounted for by corporate tax from domestic companies. Deferred tax obligations are shown under 'Deferred tax liabilities'.

The accounts payable on direct insurance business are mainly dividends on policies that accumulate compound interest, premium deposits, other advance premium payments as well as contracts without a significant risk transfer.

Deposits retained on ceded business are collateral for technical provisions covering business ceded to reinsurers and retrocessionaires and therefore do not lead to any cash flows. Changes to deposits retained on ceded business are generally derived from changes in the relevant technical provisions covering ceded business.

The following table provides information on the remaining contractual maturities of the items shown under 'Other liabilities'. Since liabilities from direct insurance business are intertwined with the underlying insurance business, the resulting liquidity risk can only be explained together with the corresponding insurance contracts. Deposits retained on ceded business thus do not have a fixed maturity date, their release generally being dependent on the run-off of the corresponding provisions. Consequently, both items are not taken into account in the table below.

[24b]

Liabilities Maturity structure	2009 € million	2008 € million	Opening balance sheet 2008 € million
Contractual period to maturity			
Up to one year	**3,066.8**	2,639.5	1,485.3
Over one and up to two years	**32.7**	187.6	113.9
Over two years and up to three years	**25.1**	25.4	161.6
Over three years and up to four years	**11.8**	26.8	25.8
Over four years and up to five years	**0.8**	11.9	4.1
Over five years and up to ten years	**372.9**	354.9	77.1
Over ten years	**48.0**	77.9	273.7
Total	**3,558.0**	**3,324.0**	**2,141.5**

[24c]

Allocation of other liabilities measured at fair value to levels of the fair value hierarchy	31 December 2009			
	Level 1 € million	Level 2 € million	Level 3 € million	Total € million
Other liabilities - Derivatives	28.2	98.9	–	**127.1**

Deferred tax liabilities

[25]

Causes of origin	2009 € million	2008 € million	Opening balance sheet 2008 € million
Investments	**1,206.4**	1,438.5	984.9
Deferred acquisition costs	**543.2**	534.1	458.9
Technical provisions	**313.5**	323.1	316.2
Intangible assets	**117.5**	135.5	40.5
Other	**409.6**	371.4	259.5
Total	**2,590.2**	**2,802.6**	**2,060.0**

[26] Premiums[1) 2)]

[26a]

	Life Germany		Health		Property-casualty Germany	
	2009 € million	2008 € million	2009 € million	2008 € million	2009 € million	2008 € million
Total premiums	**5,072.5**	5,197.5	**5,424.4**	5,227.6	**2,990.7**	2,968.2
Gross premiums written	**4,372.6**	4,460.1	**5,424.4**	5,227.6	**2,990.7**	2,968.2
Change in unearned premiums (– = expense)	**– 0.1**	0.1	**– 2.6**	– 4.7	**5.4**	– 4.7
Gross earned premiums	**4,372.5**	4,460.3	**5,421.7**	5,222.9	**2,996.2**	2,963.5
Ceded premiums written	**332.5**	368.1	**192.3**	233.5	**239.1**	227.5
Change in unearned premiums (reinsurers' share) (– = income)	**– 0.1**	–	**0.1**	–	**3.7**	6.2
Ceded premiums	**332.4**	368.1	**192.4**	233.5	**242.8**	233.7
Net earned premiums	**4,040.1**	**4,092.2**	**5,229.4**	**4,989.4**	**2,753.4**	**2,729.8**

1) Figures based on fully consolidated Group values.
2) Previous year's figures adjusted pursuant to IFRS 8.

In accordance with international accounting principles the premiums from the gross provision for premium refunds and policyholders' dividends are not stated as premiums but reduced in the change in the provision for future policy benefits. In life insurance these amount to € 87.3m (92.5m) and in health insurance to € 263.6m (488.8m).

As regards premiums for life insurance products where the investment risk is borne by the policyholder, only those parts of the premiums used to cover the risks and costs are recorded as the premium.

Direct insurance		Travel insurance		International Operations		Group value	
2009	2008	2009	2008	2009	2008	2009	2008
€ million	€ million	€ million	€ million	€ million	€ million	€ million	€ million
1,197.1	1,041.3	**387.4**	–	**3,977.8**	3,276.0	**19,050.0**	17,710.6
853.8	822.5	**387.4**	–	**3,440.6**	3,099.7	**17,469.5**	16,578.2
– 5.6	– 8.4	**– 2.3**	–	**– 76.3**	– 98.8	**– 81.5**	– 116.4
848.2	814.1	**385.1**	–	**3,364.3**	3,000.9	**17,388.0**	16,461.8
12.1	13.3	**18.6**	–	**433.4**	453.1	**1,228.0**	1,295.5
–	–	**3.9**	–	**3.3**	9.6	**10.8**	15.9
12.1	13.3	**22.5**	–	**436.7**	462.7	**1,238.9**	1,311.4
836.1	**800.8**	**362.6**	**–**	**2,927.6**	**2,538.2**	**16,149.2**	**15,150.4**

[26b]

Gross premiums written by segments and lines of business[1)2)]	2009 € million	2008 € million
Life Germany	**4,372.6**	4,460.1
Health	**5,424.4**	5,227.6
Property-casualty Germany	**2,990.7**	2,968.2
thereof: Motor	**591.0**	611.4
Personal accident	**752.1**	728.8
Fire and property	**496.3**	483.9
Liability	**467.0**	458.5
Transport and aviation	**99.5**	94.5
Legal expenses	**428.0**	440.0
Other	**156.8**	151.2
Direct insurance	**853.8**	822.5
thereof: Life	**499.4**	503.2
Health	**241.6**	212.5
Motor	**18.3**	15.6
Personal accident	**35.8**	34.3
Other	**58.7**	56.9
Travel insurance	**387.4**	–
International Operations	**3,440.6**	3,099.7
thereof: Life	**1,415.1**	1,052.4
Property-casualty	**2,025.5**	2,047.3
thereof: Motor	**924.3**	942.2
Legal expenses	**514.1**	481.7
Other	**587.1**	623.3
Group value	**17,469.5**	**16,578.2**

1) Figures based on fully consolidated Group values.
2) Previous year's figures adjusted pursuant to IFRS 8.

[26c]

Gross premiums written by countries	**2009 € million**	**2008 € million**
Germany	**12,877.8**	12,665.4
Belgium	**751.0**	659.0
Poland	**694.6**	674.1
Austria	**615.9**	302.4
Spain	**604.0**	461.9
Italy	**480.3**	494.5
Turkey	**317.4**	382.1
The Netherlands	**197.7**	172.3
Other	**930.8**	766.5
Total	**17,469.5**	**16,578.2**

[27] Net expenses for claims and benefits[1) 2)]

		Life Germany		Health		Property-casualty Germany
	2009 € million	2008 € million	2009 € million	2008 € million	2009 € million	2008 € million
Claims and benefits paid	**5,289.8**	5,639.1	**3,903.4**	3,661.1	**1,598.0**	1,610.0
Change in provision for outstanding claims	**149.8**	45.0	**55.2**	62.2	**92.9**	74.7
Change in provision for future policy benefits and other provisions	**– 33.8**	– 848.1	**1,048.7**	941.7	**61.1**	34.8
Expenses for premium refunds and policyholders' bonuses	**– 22.6**	198.6	**586.6**	277.2	**16.4**	13.4
Other technical result (– = income)	**147.2**	120.1	**– 4.4**	– 2.5	**3.2**	0.5
Gross expenses for claims and benefits	**5,530.4**	**5,154.7**	**5,589.5**	**4,939.7**	**1,771.7**	**1,733.4**
Claims and benefits paid	**436.7**	379.6	**164.3**	164.2	**146.6**	163.0
Change in provision for outstanding claims	**– 64.8**	3.2	**– 5.3**	1.7	**– 3.9**	– 5.5
Change in provision for future policy benefits and other provisions	**– 173.0**	– 31.8	**18.4**	21.8	**0.3**	0.4
Expenses for premium refunds and policyholders' bonuses	**–**	–	**8.3**	– 1.1	**0.5**	1.0
Other technical result (– = expense)	**– 135.7**	– 86.2	**– 44.7**	– 35.9	**4.6**	5.4
Reinsurers' share of expenses for claims and benefits	**63.2**	**264.8**	**141.0**	**150.8**	**148.1**	**164.2**
Claims and benefits paid	**4,853.2**	5,259.5	**3,739.1**	3,496.9	**1,451.4**	1,447.0
Change in provision for outstanding claims	**214.6**	41.8	**60.5**	60.5	**96.9**	80.2
Change in provision for future policy benefits and other provisions	**139.1**	– 816.3	**1,030.3**	920.0	**60.7**	34.4
Expenses for premium refunds and policyholders' bonuses	**– 22.6**	198.6	**578.3**	278.3	**16.0**	12.5
Other technical result (– = income)	**282.9**	206.3	**40.3**	33.4	**– 1.4**	– 4.9
Net expenses for claims and benefits	**5,467.2**	**4,890.0**	**5,448.5**	**4,789.0**	**1,623.6**	**1,569.2**

1) Figures based on fully consolidated Group values.
2) Previous year's figures adjusted pursuant to IFRS 8.

Direct insurance		Travel insurance		International Operations		Group value	
2009	2008	2009	2008	2009	2008	2009	2008
€ million	€ million	€ million	€ million	€ million	€ million	€ million	€ million
602.8	559.9	**212.0**	–	**2,071.4**	1,643.1	**13,677.4**	13,113.2
10.9	19.3	**– 1.8**	–	**102.6**	128.2	**409.6**	329.3
54.3	64.5	**– 1.5**	–	**624.5**	495.5	**1,753.3**	688.3
80.6	28.6	**0.1**	–	**26.1**	– 37.6	**687.2**	480.3
35.8	31.9	**–**	–	**20.4**	– 5.2	**202.2**	144.8
784.4	**704.2**	**208.8**	**–**	**2,845.1**	**2,223.8**	**16,729.8**	**14,755.9**
6.2	5.7	**13.3**	–	**256.5**	222.2	**1,023.5**	934.6
1.8	9.6	**– 5.9**	–	**– 2.7**	16.1	**– 80.8**	25.2
4.6	2.9	**–**	–	**88.0**	98.6	**– 61.6**	91.9
–	–	**–**	–	**0.9**	0.2	**9.6**	0.1
– 1.6	– 1.6	**– 0.2**	–	**– 97.7**	– 71.1	**– 275.2**	– 189.4
11.0	**16.7**	**7.2**	**–**	**245.0**	**266.0**	**615.4**	**862.5**
596.7	554.2	**198.7**	–	**1,815.0**	1,420.9	**12,654.0**	12,178.6
9.0	9.7	**4.1**	–	**105.3**	112.0	**490.4**	304.1
49.7	61.6	**– 1.5**	–	**536.5**	396.9	**1,814.9**	596.4
80.6	28.6	**0.1**	–	**25.2**	– 37.8	**677.6**	480.1
37.3	33.5	**0.2**	–	**118.1**	65.8	**477.4**	334.2
773.3	**687.5**	**201.6**	**–**	**2,600.1**	**1,957.8**	**16,114.3**	**13,893.4**

[28] Net operating expenses[1) 2)]

	Life Germany		Health		Property-casualty Germany	
	2009 € million	2008 € million	2009 € million	2008 € million	2009 € million	2008 € million
Acquisition costs	**542.7**	631.6	**493.3**	519.1	**531.2**	511.4
Administration expenses	**152.8**	171.9	**143.2**	150.5	**409.0**	419.2
Deferred acquisition costs	**294.7**	10.3	**18.5**	4.1	**– 13.9**	– 0.5
Amortisation of PVFP	**–**	–	**1.1**	1.1	**–**	–
Gross operating expenses	**990.1**	**813.8**	**656.1**	**674.8**	**926.2**	**930.1**
Reinsurers' share of acquisition costs	**–**	–	**–**	–	**2.3**	2.2
Reinsurers' share of deferred acquisition costs	**226.6**	– 17.5	**–**	–	**1.5**	1.4
Commission received on ceded business	**20.5**	103.9	**37.5**	68.4	**58.6**	57.1
Reinsurers' share of operating expenses	**247.1**	**86.4**	**37.5**	**68.5**	**62.4**	**60.6**
Net operating expenses	**743.0**	**727.5**	**618.6**	**606.3**	**863.7**	**869.5**

1) Figures based on fully consolidated Group values.
2) Previous year's figures adjusted pursuant to IFRS 8.

Direct insurance		Travel insurance		International Operations		Group value	
2009	2008	2009	2008	2009	2008	2009	2008
€ million	€ million	€ million	€ million	€ million	€ million	€ million	€ million
159.3	184.3	**126.1**	–	**713.9**	639.0	**2,566.5**	2,485.4
40.4	37.7	**45.5**	–	**269.8**	254.3	**1,060.7**	1,033.5
– 28.2	– 38.9	**–**	–	**– 30.2**	– 76.7	**240.8**	– 101.6
6.2	1.4	**–**	–	**34.5**	21.1	**41.7**	23.7
177.7	**184.6**	**171.7**	**–**	**988.1**	**837.6**	**3,909.8**	**3,441.0**
–	–	**–**	–	**–**	–	**2.3**	2.2
– 2.0	–	**1.3**	–	**– 2.8**	1.8	**224.8**	– 14.3
1.3	2.9	**5.4**	–	**83.2**	79.4	**206.5**	311.6
– 0.7	**2.9**	**6.8**	**–**	**80.4**	**81.2**	**433.6**	**299.5**
178.4	**181.7**	**164.9**	**–**	**907.7**	**756.4**	**3,476.2**	**3,141.5**

[29a] Investment result according to segments[1) 2)]
(before deduction of technical interest)

	Life Germany 2009 € million	Life Germany 2008 € million	Health 2009 € million	Health 2008 € million	Property-casualty Germany 2009 € million	Property-casualty Germany 2008 € million
Land and buildings, including buildings on third-party land	**91.6**	124.4	**36.5**	37.4	**4.3**	4.4
Investments in affiliated companies	**– 10.7**	– 4.1	**– 7.1**	– 5.3	**–**	0.5
Investments in associates	**– 36.6**	– 14.5	**2.0**	– 8.1	**– 38.6**	– 0.6
Mortgage loans and other loans	**1,221.8**	919.6	**569.5**	471.5	**84.5**	72.5
Other securities						
Held to maturity	**5.3**	7.6	**–**	–	**–**	–
Available for sale						
Non-fixed-interest	**– 133.9**	– 1,125.6	**– 0.9**	– 800.6	**1.0**	– 191.7
Fixed-interest	**1,288.8**	1,009.6	**513.6**	478.8	**147.2**	114.9
	1,154.9	– 116.0	**512.7**	– 321.8	**148.2**	– 76.9
At fair value through profit or loss						
Held for trading						
Non-fixed-interest	**–**	–	**–**	–	**–**	–
Fixed-interest	**1.8**	1.0	**–**	–	**–**	–
Derivatives	**– 184.2**	1,486.7	**– 29.6**	392.8	**5.0**	**107.7**
	– 182.4	1,487.7	**– 29.6**	392.8	**5.0**	**107.7**
Designated as at fair value through profit or loss						
Non-fixed-interest	**–**	–	**–**	–	**–**	–
Fixed-interest	**–**	–	**–**	–	**–**	–
	–	–	**–**	–	**–**	–
Total at fair value through profit or loss	**– 182.4**	1,487.7	**– 29.6**	392.8	**5.0**	107.7
Total other securities	**977.9**	1,379.3	**483.0**	71.0	**153.2**	30.9
Deposits retained on assumed reinsurance, and other investments	**3.1**	11.0	**–**	–	**–**	–
Investments for the benefit of life insurance policyholders who bear the investment risk	**264.3**	– 475.8	**0.1**	– 0.4	**–**	–
Expenses for the management of investments, other expenses	**– 156.2**	– 203.7	**– 41.7**	– 55.7	**– 14.4**	– 7.7
Total	**2,355.2**	**1,736.2**	**1,042.4**	**510.5**	**189.1**	**100.0**

[1)] Figures based on fully consolidated Group values.
[2)] Previous year's figures adjusted pursuant to IFRS 8.

The result for land and buildings, including buildings on third-party land, contains rental income of € 247.0m (239.8m). Results from interests in associates valued at equity were €–83.2m (–4.4m).

	Direct insurance		Travel insurance		International Operations		Others		Group value	
	2009	2008	2009	2008	2009	2008	2009	2008	2009	2008
	€ million	€ million	€ million	€ million	€ million	€ million	€ million	€ million	€ million	€ million
	–	–	–	–	11.7	6.2	23.7	21.2	167.9	193.7
	0.8	1.0	– 1.3	–	– 8.9	0.2	10.5	– 5.9	– 16.6	– 13.6
	–	0.5	– 1.5	–	– 1.4	5.1	– 6.2	14.1	– 82.4	– 3.5
	82.4	64.2	2.4	–	15.0	21.7	– 13.3	3.6	1,962.5	1,553.2
	–	–	–	–	0.2	0.4	–	–	5.6	8.0
	– 15.5	– 129.1	0.5	–	40.3	– 82.9	– 0.1	– 3.2	– 108.6	– 2,333.1
	109.3	95.9	3.5	–	486.9	411.0	0.2	1.7	2,549.7	2,111.9
	93.8	– 33.2	4.0	–	527.2	328.1	0.2	– 1.6	2,441.0	– 221.2
	–	–	0.3	–	–	11.4	–	–	0.4	11.4
	–	–	–	–	23.9	– 3.1	–	–	25.7	– 2.2
	3.5	93.4	– 0.2	–	– 90.5	89.2	– 2.8	0.8	– 299.0	2,170.7
	3.5	93.4	0.1	–	– 66.6	97.5	– 2.8	0.8	– 272.9	2,179.9
	–	–	–	–	0.1	–	–	–	0.1	–
	–	–	–	–	13.2	–	–	–	13.2	–
	–	–	–	–	13.2	–	–	–	13.2	–
	3.5	93.4	0.1	–	– 53.4	97.5	– 2.8	0.8	– 259.7	2,179.9
	97.3	60.3	4.1	–	474.0	426.0	– 2.7	– 0.7	2,186.9	1,966.7
	–	–	0.3	–	0.4	0.5	–	–	3.7	11.6
	3.6	– 7.5	–	–	173.2	– 77.9	–	–	441.2	– 561.6
	– 21.1	– 18.8	– 3.2	–	– 13.4	19.6	– 12.0	– 9.1	– 262.0	– 275.3
	163.0	99.8	0.8	–	650.6	401.6	–	23.1	4,401.1	2,871.2

[29b]

Investment income and expenses[1]
(before deduction of technical interest)

	Regular income 2009 € million	Regular income 2008 € million
Land and buildings, including buildings on third-party land	**247.0**	239.8
Investments in affiliated companies	**6.5**	9.5
Investments in associates	**– 41.1**	– 9.7
Mortgage loans and other loans	**1,934.1**	1,709.5
Other securities		
Held to maturity	**5.5**	8.0
Available for sale		
Non-fixed-interest	**191.0**	569.8
Fixed-interest	**2,368.1**	2,197.9
	2,559.1	2,767.7
At fair value through profit or loss		
Held for trading		
Non-fixed-interest	**0.2**	–
Fixed-interest	**2.9**	2.4
Derivatives	**80.1**	81.9
	83.2	84.3
Designated as at fair value through profit or loss		
Non-fixed-interest	**0.1**	–
Fixed-interest	**15.7**	–
	15.8	–
Total at fair value through profit or loss	**99.0**	84.3
Total other securities	**2,663.6**	2,860.0
Deposits retained on assumed reinsurance, and other investments	**81.9**	131.1
Subtotal	**4,891.9**	**4,940.2**
Investments for the benefit of life insurance policyholders who bear the investment risk	**475.4**	76.2
Expenses for the management of investments, other expenses	**–**	–
Total	**5,367.4**	**5,016.4**

[1] Previous year's figures adjusted pursuant to IFRS 8.

Income				Expenses				Other	
Write-ups		Gains on disposals		Write-downs		Losses on disposals		expenses	
2009	2008	2009	2008	2009	2008	2009	2008	2009	2008
€ million	€ million	€ million	€ million	€ million	€ million	€ million	€ million	€ million	€ million
3.3	8.8	7.6	35.1	90.0	89.7	–	0.4	–	–
–	–	7.3	0.1	12.9	3.0	8.6	10.4	–	–
–	–	13.1	6.2	54.3	–	–	–	–	–
–	–	98.5	0.7	70.1	153.5	–	3.5	–	–
–	–	–	–	–	–	–	–	–	–
– 0.4	6.7	300.4	710.0	294.0	2,446.4	305.6	1,173.1	–	–
8.4	3.2	455.7	197.7	76.7	78.5	205.8	208.4	–	–
7.9	9.8	756.0	907.7	370.7	2,524.9	511.4	1,381.5	–	–
–	– 0.1	0.3	12.0	–	0.5	0.1	–	–	–
29.2	15.1	–	1.7	6.4	21.3	0.1	0.1	–	–
349.6	1,796.1	402.5	1,127.8	745.2	271.5	386.0	563.6	–	–
378.8	1,811.1	402.8	1,141.5	751.6	293.3	386.2	563.6	–	–
–	–	–	–	–	–	–	–	–	–
–	–	4.5	–	–	–	7.0	–	–	–
–	–	4.5	–	–	–	7.0	–	–	–
378.8	1,811.1	407.3	1,141.5	751.6	293.3	393.2	563.6	–	–
386.8	1,820.9	1,163.4	2,049.2	1,122.3	2,818.3	904.6	1,945.2	–	–
–	–	–	–	–	–	–	–	–	–
390.1	1,829.8	1,289.9	2,091.4	1,349.7	3,064.5	913.2	1,959.4	–	–
–	–	–	–	–	–	–	–	34.2	637.7
–	–	–	–	–	–	–	–	350.3	404.7
390.1	1,829.8	1,289.9	2,091.4	1,349.7	3,064.5	913.2	1,959.4	384.5	1,042.4

Investment income and expenditure

The total interest cost amounts to € 67.0m (121.2m).

Management expenses for investments amount to € 190.0m (186.1m). Other expenses for investments totalled € 90.9m (97.4m). Thereof, expenses for the repair and maintenance of property amounted to € 39.4m (36.3m).

Negative income from interests in associates is mainly due to changes to the proportion in equity in the context of the at-equity valuation.

[29c] Investment income and expenses according to segments[1) 2)]
(before deduction of technical interest)

	Life Germany		Health		Property-casualty Germany	
	2009	2008	2009	2008	2009	2008
	€ million	€ million	€ million	€ million	€ million	€ million
Regular income	**2,607.4**	2,714.6	**1,242.9**	1,223.7	**215.9**	251.6
thereof: Interest income	**2,362.8**	2,241.9	**1,111.3**	1,009.1	**228.7**	211.9
Write-ups	**126.7**	1,279.8	**30.1**	308.3	**25.1**	46.3
Gains on the disposal of investments	**797.7**	1,302.2	**164.1**	366.9	**167.3**	273.0
Other income from investments	**265.3**	23.1	**0.1**	–	**–**	–
Total income from investments	**3,797.1**	**5,319.7**	**1,437.2**	**1,899.0**	**408.4**	**570.9**
Write-downs	**747.5**	1,824.7	**126.9**	691.7	**100.4**	282.8
Losses on the disposal of investments	**499.4**	1,010.6	**199.5**	612.1	**99.9**	167.4
Interest charges	**40.2**	84.4	**14.5**	28.0	**0.5**	1.6
Management expenses for investments	**89.3**	89.7	**36.9**	38.8	**15.0**	15.7
Other expenses for investments	**65.4**	573.9	**17.0**	17.9	**3.5**	3.3
Total expenses for investments	**1,441.8**	**3,583.4**	**394.8**	**1,388.5**	**219.3**	**470.9**
Investment result	**2,355.2**	**1,736.2**	**1,042.4**	**510.5**	**189.1**	**100.0**

1) Figures based on fully consolidated Group values.
2) Previous year's figures adjusted pursuant to IFRS 8.

Direct insurance		Travel insurance		International Operations		Others		Group value	
2009	2008	2009	2008	2009	2008	2009	2008	2009	2008
€ million	€ million	€ million	€ million	€ million	€ million	€ million	€ million	€ million	€ million
192.1	194.8	**6.9**	–	**570.4**	497.6	**56.3**	57.9	**4,891.9**	4,940.2
185.8	169.4	**6.3**	–	**534.8**	474.4	**12.2**	9.2	**4,441.9**	4,115.9
21.6	80.3	**0.1**	–	**184.1**	110.1	**2.4**	4.9	**390.1**	1,829.8
37.0	81.6	**1.6**	–	**116.8**	66.6	**5.4**	1.1	**1,289.9**	2,091.4
3.6	–	**–**	–	**206.5**	53.0	**–**	–	**475.4**	76.2
254.2	**356.7**	**8.6**	**–**	**1,077.8**	**727.3**	**64.1**	**64.0**	**7,047.4**	**8,937.6**
41.6	142.8	**3.5**	–	**279.0**	106.3	**50.7**	16.2	**1,349.7**	3,064.5
27.4	81.4	**0.5**	–	**86.5**	77.8	**–**	10.0	**913.2**	1,959.4
–	0.3	**0.1**	–	**5.0**	0.2	**6.7**	6.6	**67.0**	121.2
21.7	24.3	**3.2**	–	**18.2**	12.0	**5.8**	5.5	**190.0**	186.1
0.5	8.2	**0.5**	–	**38.6**	129.3	**0.8**	2.5	**126.2**	735.2
91.2	**257.0**	**7.8**	**–**	**427.2**	**325.7**	**64.1**	**40.9**	**2,646.2**	**6,066.4**
163.0	**99.8**	**0.8**	**–**	**650.6**	**401.6**	**–**	**23.1**	**4,401.1**	**2,871.2**

[30] Other operating result[1] [2]

	Life	Germany	Health		Property-casualty	Germany
	2009	2008	2009	2008	2009	2008
	€ million	€ million	€ million	€ million	€ million	€ million
Income from services rendered and from broking funds and insurance policies	**52.3**	59.2	**23.5**	9.4	**21.0**	20.1
Income from owner-occupied property	**22.8**	22.2	**8.5**	5.9	**1.5**	0.3
Interest from other than investments	**6.6**	34.2	**5.1**	10.6	**1.1**	4.6
Income from releases from other non-technical provisions	**5.2**	10.9	**14.6**	7.9	**4.2**	57.0
Miscellaneous	**7.9**	2.4	**1.0**	2.0	**0.3**	0.7
Other operating income	**94.7**	**128.9**	**52.7**	**35.8**	**28.1**	**82.6**
Expenses for services rendered and for broking funds and insurance policies	**54.4**	58.0	**5.5**	7.8	**41.3**	35.0
Expenses for owner-occupied property	**17.9**	7.5	**8.0**	3.2	**12.7**	1.1
Interest charges and similar expenses	**19.5**	19.9	**15.0**	11.4	**4.3**	13.2
Other write-downs	**17.5**	14.0	**2.7**	2.4	**1.9**	6.7
Allocation to other non-technical provisions	**0.6**	1.1	**–**	6.0	**–**	0.3
Miscellaneous	**16.7**	16.1	**27.3**	18.4	**3.6**	7.7
Other operating expenses	**126.6**	**116.6**	**58.5**	**49.1**	**63.8**	**64.0**
Total	**– 31.9**	**12.2**	**– 5.9**	**– 13.3**	**– 35.7**	**18.7**

[1] Figures based on fully consolidated Group values.
[2] Previous year's figures adjusted pursuant to IFRS 8.

Direct insurance		Travel insurance		International Operations		Others		Group value	
2009 € million	2008 € million	2009 € million	2008 € million	2009 € million	2008 € million	2009 € million	2008 € million	2009 € million	2008 € million
3.1	0.5	**4.4**	–	**27.1**	26.1	**13.0**	34.6	**144.3**	149.9
–	0.2	**0.4**	–	**2.2**	7.0	**–**	–	**35.3**	35.6
0.4	1.3	**0.3**	–	**4.1**	11.5	**1.2**	3.6	**18.8**	65.9
3.8	3.8	**4.1**	–	**13.1**	3.5	**15.7**	15.1	**60.7**	98.1
–	–	**18.6**	–	**2.3**	0.8	**– 1.8**	0.3	**28.3**	6.1
7.3	**5.9**	**27.8**	**–**	**48.7**	**48.9**	**28.0**	**53.6**	**287.4**	**355.6**
2.7	0.2	**3.3**	–	**20.6**	19.5	**10.0**	24.8	**137.8**	145.3
0.3	0.2	**0.1**	–	**1.5**	1.3	**–**	–	**40.5**	13.3
0.3	0.2	**4.2**	–	**5.3**	3.3	**62.0**	73.4	**110.6**	121.4
0.5	0.3	**0.5**	–	**4.5**	3.2	**34.7**	2.1	**62.3**	28.7
–	–	**–**	–	**21.2**	10.2	**–**	0.6	**21.8**	18.2
11.4	4.0	**23.2**	–	**30.0**	23.7	**28.0**	16.4	**140.3**	86.2
15.1	**5.0**	**31.3**	**–**	**83.2**	**61.2**	**134.7**	**117.3**	**513.3**	**413.2**
– 7.8	**0.8**	**– 3.6**	**–**	**– 34.5**	**– 12.3**	**– 106.6**	**– 63.7**	**– 225.9**	**– 57.6**

[31] Other non-operating result, finance costs and impairment losses of goodwill[1) 2)]

	Life Germany		Health		Property-casualty Germany	
	2009	2008	2009	2008	2009	2008
	€ million	€ million	€ million	€ million	€ million	€ million
Foreign currency exchange gains	**627.8**	921.8	**562.2**	554.6	**125.2**	168.1
Miscellaneous	**46.6**	27.6	**5.6**	8.7	**10.1**	13.4
Other non-operating income	**674.4**	**949.4**	**567.8**	**563.2**	**135.3**	**181.5**
Foreign currency exchange losses	**657.4**	947.9	**576.9**	604.8	**118.6**	178.1
Miscellaneous	**94.4**	70.5	**65.6**	65.2	**67.2**	81.4
Other non-operating expenses	**751.8**	1,018.5	**642.6**	670.0	**185.8**	259.4
Other non-operating result	**– 77.4**	– 69.0	**– 74.8**	– 106.7	**– 50.5**	– 77.9
Impairment losses of goodwill	**–**	–	**–**	–	**–**	–
Finance costs	**–**	–	**–**	–	**–**	–
Total	**– 77.4**	**– 69.0**	**– 74.8**	**– 106.7**	**– 50.5**	**– 77.9**

1) Figures based on fully consolidated Group values.
2) Previous year's figures adjusted pursuant to IFRS 8.

The miscellaneous other non-operating expenses comprise restructuring expenses attributable to the project "Continuous Improvement of the competitive position" amounting to a sum of € 137.7m (136.4m).

[32] Amortisation of goodwill

In accordance with IFRS 3, goodwills stated in the balance sheet are no longer amortised on a regular basis. An impairment test was carried out at the balance sheet date.

Impairment losses of goodwill from capital consolidation amount to € 62.2m (184.8m), of which € 39.7m is accounted for by Bank Austria Creditanstalt Versicherung, Vienna, € 11m stems from ERGO Daum Direct, € 10m from ERGO Previdenza and € 1.5m from ERGO Latvija Versicherung.

Direct insurance		Travel insurance		International Operations		Others		Group value	
2009	2008	2009	2008	2009	2008	2009	2008	2009	2008
€ million	€ million	€ million	€ million	€ million	€ million	€ million	€ million	€ million	€ million
60.3	69.7	**0.4**	–	**21.5**	29.1	**1.5**	3.0	**1,398.9**	1,746.2
3.0	1.5	**5.5**	–	**36.7**	34.0	**46.4**	37.8	**153.9**	123.0
63.3	**71.1**	**5.9**	**–**	**58.2**	**63.1**	**47.9**	**40.8**	**1,552.8**	**1,869.2**
61.7	77.1	**1.2**	–	**18.3**	17.8	**1.7**	0.7	**1,435.9**	1,826.4
1.9	2.0	**1.6**	–	**66.9**	59.4	**138.2**	122.5	**435.9**	401.1
63.6	79.1	**2.8**	–	**85.3**	77.2	**139.9**	123.3	**1,871.8**	2,227.5
– 0.3	– 8.0	**3.1**	–	**– 27.1**	– 14.1	**– 92.0**	– 82.5	**– 319.0**	– 358.3
–	–	**–**	–	**62.2**	184.8	**–**	– 0.2	**62.2**	184.8
–	–	**–**	–	**4.5**	0.3	**58.0**	60.5	**62.6**	60.8
– 0.3	**– 8.0**	**3.1**	**–**	**– 93.9**	**– 199.4**	**– 150.0**	**– 142.8**	**– 443.8**	**– 603.8**

[33]

Finance costs

Finance costs include all expenditure spent on interest and other expenses which are directly related to strategic debt, i. e. debt without an original and direct link to operative business. Costs totalling € 62.6m (60.8m) stem primarily from liabilities of ERGO Versicherungsgruppe AG due to Münchener Rückversicherungs-Gesellschaft AG. The loans serve to strengthen the liquidity basis in order to finance strategic assets.

[34]

Taxes on income

[34a]

Current tax and the change in deferred tax together make up the taxes on income item in the consolidated income statement.

Apart from current tax expenditure there was income from deferred tax which resulted from changes in deferred tax items due to revaluations.

Taxes on income	**2009**	**2008**
	€ million	**€ million**
Current tax for financial year	**286.0**	364.5
Current tax for other periods	**– 17.1**	– 23.4
Deferred tax resulting from the occurrence or reversal of temporary differences	**– 151.3**	– 58.5
Deferred tax resulting from the occurrence or reversal of loss carry-forwards	**– 2.4**	27.2
Effects of changes in tax rates or tax law on deferred tax	**2.1**	– 57.8
Total	**117.3**	**252.0**

The Group tax rate corresponds with the average income tax burden of all domestic Group companies. This burden is calculated on the basis of the German corporation tax in the sum of 15% (15%) plus a solidarity surcharge of 5.5% on this part. Together with the domestic trade tax the uniform Group tax rate is thus 32% (32%).

Based on a net operating result after finance costs, the following table shows the reconciliation between the expected taxes on income and the tax on income actually shown. [34b]

Reconciliation to effective tax expenses	**2009**	**2008**
	€ million	**€ million**
Result before taxes on income (after other tax)	**290.0**	325.3
x Group tax rate 32 % (32 %)		
= Expected taxes on income	**92.8**	104.1
Tax effect of		
+ none-deductible expenses	**45.8**	70.1
– tax-free income	**– 39.7**	– 56.5
+ tax rate differences	**6.0**	6.1
+ tax for prior years	**– 15.0**	– 81.2
+ amortisation of goodwill or PVFP	**20.9**	59.1
+ miscellaneous	**6.5**	150.3
= Taxes on income shown	**117.3**	**252.0**

Earnings per share [35]

The undiluted earnings per share for individual periods are calculated by dividing the consolidated result attributable to ERGO equity holders by the weighted average figure of the ordinary shares in circulation in the respective period. The diluted earnings per share correspond with the undiluted earnings per share in both financial years.

		2009	**2008**
Consolidated result (attributable to ERGO equity holders)	€ million	**161.6**	57.1
Number of shares	million	**75.5**	75.5
Group earnings per share	**€**	**2.14**	**0.76**

Cash flow statement [36]

For a comment on the cash flow statement, reference is made to page 61ff.

[37]

Personnel expenses

	2009 € million	2008 € million
Wages and salaries	**1,412.3**	1,344.8
Social security contributions and employee assistance	**266.1**	251.7
Expenses for employees' pensions	**101.5**	77.8
Total	**1,779.9**	**1,674.3**

[38]

Long-term incentive plan

Incentive plan	**2009**	**2008**	**2007**
Plan commencement	**1 July 2009**	1 July 2008	1 July 2007
Plan end	**30 June 2016**	30 June 2015	30 June 2014
Old initial share price	–	–	–
New initial share price after 2003 capital increase	**97.57 €**	121.84 €	134.07 €
Intrinsic value 2009 for one right	**8.93 €**	–	–
Fair value 2009 for one right	**15.84 €**	9.09 €	6.11 €
Number of rights on 31 December 2002	–	–	–
Additions	–	–	–
Exercised	–	–	–
Forfeited	–	–	–
Number of rights on 31 December 2003	–	–	–
Additions	–	–	–
Exercised	–	–	–
Forfeited	–	–	–
Number of rights on 31 December 2004	–	–	–
Exercisable at year-end	–	–	–
Additions	–	–	–
Exercised	–	–	–
Forfeited	–	–	–
Number of rights on 31 December 2005	–	–	–
Exercisable at year-end	–	–	–
Additions	–	–	–
Exercised	–	–	–
Forfeited	–	–	–
Number of rights on 31 December 2006	–	–	–
Exercisable at year-end	–	–	–
Additions	–	–	94,115
Exercised	–	–	–
Forfeited	–	–	10,422
Number of rights on 31 December 2007	–	–	83,693
Exercisable at year-end	–	–	–
Additions	–	132,306	–
Exercised	–	–	–
Forfeited	–	–	–
Number of rights on 31 December 2008	–	132,306	83,693
Exercisable at year-end	–	–	–
Additions	**118,979**	5,707 [1]	3,605 [1]
Exercised	–	–	–
Forfeited	–	–	–
Number of rights on 31 December 2009	**118,979**	138,013	87,298
Exercisable at year-end	–	–	87,298

[1] Following the first-time consolidation of Europäische Reiseversicherung AG, its existing long-term incentive plan was transferred to ERGO Versicherungsgruppe AG.

2006	2005	2004	2003	2002
1 July 2006	1 July 2005	1 July 2004	1 July 2003	1 July 2002
30 June 2013	30 June 2012	30 June 2011	30 June 2010	30 June 2009
–	–	–	86.24 €	260.37 €
108.87 €	88.10 €	88.65 €	82.02 €	247.64 €
–	18.40 €	17.85 €	24.48 €	–
9.81 €	18.33 €	17.78 €	24.41 €	–
–	–	–	–	45,476
–	–	–	139,006	2,337
–	–	–	–	–
–	–	–	–	–
–	–	–	139,006	47,813
–	–	124,678	1,651	–
–	–	–	–	–
–	–	–	13,414	3,050
–	–	124,678	127,243	44,763
–	–	–	–	–
–	158,648	–	–	–
–	–	–	64,361	–
–	–	23,123	22,850	9,098
–	158,648	101,555	40,032	35,665
–	–	–	40,032	35,665
130,667	–	–	–	–
–	–	31,390	25,002	–
–	3,072	–	–	–
130,667	155,579	70,165	15,030	35,665
–	–	70,165	15,030	35,665
–	–	–	–	–
–	30,486	24,278	4,143	–
6,849	–	–	–	–
123,818	125,090	45,887	10,887	35,665
–	125,090	45,887	10,887	35,665
–	–	–	–	–
–	16,983	2,000	–	–
–	–	–	–	–
123,818	108,107	43,887	10,887	35,665
123,818	108,107	43,887	10,887	35,665
5,868 [1]	–	–	–	–
–	13,304	2,859	–	–
–	–	–	–	35,665
129,686	94,803	41,028	10,887	–
129,686	94,803	41,028	10,887	–

[39] Total remuneration of the Supervisory Board and the Board of Management

Expenditure for the Supervisory Board totalled € 0.7m (1.0m), of which € – (0.3m) is performance-related remuneration.

Total remuneration of the Board of Management's members for their activities on behalf of the holding company and Group companies amounted to € 10.2m (9.0m), of which variable elements accounted for 53% (64%).

Former members of the Board of Management and their surviving dependants received € 3.8m (4.0m) in total. A provision of € 40.8m (38.7m) has been set aside for current and future pension payments to this group of people.

[40] Shares held by members of the Supervisory Board and the Board of Management

Members of the Supervisory Board and the Board of Management held less than 1% of the total shares in the ERGO Versicherungsgruppe AG as at 31 December 2009.

[41] Group affiliation

On 25 November 2009 Münchener Rückversicherungs-Gesellschaft AG, Munich, informed us in accordance with section 21 para. 1 of the German Securities Trading Act (WpHG) that it held 99.69% of the voting rights of the Company as at 24 November 2009. At the balance sheet date Munich Re held 99.69% of the voting rights.

ERGO Versicherungsgruppe AG, Düsseldorf, prepared these consolidated financial statements as at 31 December 2009 in accordance with the International Financial Reporting Standards, and it in turn is included in the consolidated financial statements of Münchener Rückversicherungs-Gesellschaft AG, Munich.

The consolidated financial statements are being published on the website of the German Corporate Register. They can be obtained directly from either company on request.

[42] Auditor's fees

As per Section 319 para. 1 sentences 1 and 2 of the German Commercial Code (HGB), the following auditor's fees for the consolidated financial statements were recorded as expenses in the year under review:

	2009 € million	2008 € million
Audits of financial statements	**5.6**	4.4
Other assurance and appraisal services	**1.4**	0.9
Tax consultancy services	**0.6**	0.2
Other services	**0.2**	0.1
Total	**7.8**	**5.6**

Related parties [43]

The ERGO Insurance Group maintains various reinsurance relationships with the Münchener Rückversicherungs-Gesellschaft AG, Munich, and some of its reinsurance subsidiaries. In the year under review, premiums totalling € 868.2m (978.6m), i. e. 70.7% (75.5%) of total reinsurance premiums were reinsured with them. In the reporting year a total of € 840.1m (758.6m) was taken from these reinsurers as payments for insurance claims. Those companies' share in receivables concerning deposits on ceded business amounts to € –(–); the share in deposits retained on ceded business is € 2,398.1m (5,095.3m). With regard to accounts receivable from ceded business, their share is € 24.4m (35.0m) and € 40.8m (29.4m) regarding accounts payable.

The ERGO Insurance Group enjoys extensive and diverse relations with the HypoVereinsbank Group, one of the major German private banks.

A general agreement has put the relations between the ERGO Insurance Group and HypoVereinsbank into a concrete form. In particular, it regulates joint cooperative activities. On the basis of individual cooperation agreements companies of the ERGO Group sell selected products of the HypoVereinsbank. On the other hand, employees of the various companies within the HypoVereinsbank Group sell insurance products of the ERGO Insurance Group to their customers. The cooperation agreements signed by the companies of the ERGO Insurance Group and the companies of the HypoVereinsbank Group have been concluded at conditions prevailing in the market.

ERGO Versicherungsgruppe AG has outsourced the portfolio management activities and administration of its investments to MEAG MUNICH ERGO AssetManagement GmbH. The underlying agreement includes the management of the property assets, all tradeable national and international securities as well as the loans. In addition, MEAG MUNICH ERGO AssetManagement GmbH provides audit services in the field of property construction. MEAG MUNICH ERGO AssetManagement GmbH is an associated company of ERGO Insurance Group.

MEAG companies' share in remuneration received for services rendered and for broking insurance policies amounts to € 9.5m (12.5m) and € 16.5m (19.7m) for expenses in this respect.

[44] Corporate Governance Code

The declaration of conformity with the German Corporate Governance Code as per Section 161 of the German Stock Companies Act (AktG) was signed by the Board of Management and Supervisory Board on 23 December 2009. Shareholders have permanent access to it by visiting the company website:

http://www.ergo.com/cms/ergo/de/investors/corpgov.htm

The Company was not notified about any shareholdings which must be declared pursuant to item 6.6 of the German Corporate Governance Code.

[45] Contingent liabilities and other financial commitments

The details listed below on contingent liabilities and other financial commitments refer to items in terms of Sections 251 and 285 No. 3 of the German Commercial Code (HGB) which go beyond the disclosure requirement as per IAS 37. In line with IAS 37.28, only those financial commitments need to be revealed where the probability of an outflow of funds is not minimal. It is not to be expected that the following disclosed contingent liabilities and secondary liabilities be utilised.

ERGO Versicherungsgruppe AG has agreed to assume joint liability for pension promises made by the following companies: Victoria Versicherung AG, Victoria Lebensversicherung AG, Vorsorge Lebensversicherung AG, Victoria Krankenversicherung AG, ERGO International AG, Hamburg-Mannheimer Versicherungs-AG, DKV Deutsche Krankenversicherung AG, Hamburg-Mannheimer Sachversicherungs-AG, ITERGO Informationstechnologie GmbH, D.A.S. Deutscher Automobil Schutz Allgemeine Rechtsschutz-Versicherungs-AG, D.A.S. Deutscher Automobil Schutz Versicherungs-AG and Longial GmbH. In return, these companies have placed the funds allocated to their pension provisions at the disposal of ERGO Versicherungsgruppe AG. ERGO Versicherungsgruppe AG has undertaken to fulfil all pension promises vis-à-vis third parties, releasing its subsidiary companies from all claims against them. The joint and several liability of pension obligations as at 31 December 2009 stood at € 405.4m (515.0m). The ERGO Versicherungsgruppe AG has signed a letter of support of € 9.5m (10.1m) for an affiliated company and one for a non-affiliated company for € 4.3m (4.3m). A letter of support also exists for BA-CA Versicherung for € 3.8m (3.8m).

Financial commitments stemming from lease transactions with land and buildings stood at € 79.7m (135.2m). ERGO has pledged a deposit of securities for third parties in this context.

In addition, guarantee bonds amounting to € 16.5m (16.5m) were issued for affiliated companies and ones for non-affiliated companies came to € 45.0m, DKK222.4m, as well as similar guarantee letters for USD10.0m (10.0m), € 43.0m (177.1m) and KRW4.9bn.

D.A.S. Deutscher Automobil Schutz Allgemeine Rechtsschutz-Versicherungs-AG has guaranteed the primary insurance obligations of DAS Legal Expenses Insurance Company Limited, of Bristol, vis-à-vis an entity with which the company does business, and also its reinsurance obligations vis-à-vis two other third parties. The parent company has further pledged to back up the obligations of its subsidiary companies and the DAS branch operation in Ireland.

Victoria Versicherung AG and Hamburg-Mannheimer Sachversicherungs-AG are members of insurance pools which means that, if any other pool member became insolvent, they would be called upon to meet the policy claims against that member on a pro rata basis in accordance with their stake in the pool.

Owing to their stakes in the Protektor Lebensversicherungs-AG, Victoria Lebensversicherung AG, Hamburg-Mannheimer Versicherungs-AG, KarstadtQuelle Lebensversicherung AG, Vorsorge Lebensversicherung AG and Neckermann Lebensversicherung AG – in case of a German life insurer becoming insolvent – are called upon to meet policy claims of these companies on a pro rata basis in accordance with their stake. The ERGO Insurance Group thus has a 10.76% (10.76%) stake in the Protektor Lebensversicherungs-AG.

According to Sections 124 f. VAG, German life and health insurers are obliged to become members of a protection fund. The protection fund is entitled to claim – in addition to the regular fees – extraordinary fees of 1‰ in the case of life insurers or 2‰ in the case of health insurers of net technical provisions. In addition, the Company has pledged to provide financial means to the protection fund or, alternatively, to Protektor Lebensversicherungs-AG in case the protection fund's financial resources should be insufficient. This obligation amounts to 1% of net technical provisions, taking into account the amounts already paid to the protection fund. This means that the ERGO Insurance Group may be required to pay € 541.4m (565.2m).

Against the background of a judgement passed by the District Court of Munich concerning the legitimacy of zillmerised tariffs of life insurance policies in deferred compensation, the following companies issued a limited exemption for new business in 2008 on the part of the employer from a possible liability as a result of this verdict: Victoria Lebensversicherung AG, Vorsorge Lebensversicherung AG, Hamburg-Mannheimer Versicherungs-AG, Hamburg-Mannheimer Pensionskasse AG and Victoria Pensionskasse AG. On the balance sheet date the risk of the aforementioned judgement being exercised came to € 6.3m (9.3m).

Investment and other financial liabilities [46]

Obligations of Group companies under tenancy agreements, leases and service contracts totalled € 122.8m (79.3m) at the end of 2009. Capital investment commitments to non-affiliated companies totalled € 653.4m (511.9m) and € 122.0m and USD12.7m to associates.

The above amounts have all been stated at their nominal value, without discounting.

Victoria Versicherung AG, Hamburg-Mannheimer Sachversicherungs-AG, D.A.S. Deutscher Automobil Schutz Versicherungs-AG and KarstadtQuelle Versicherung AG have all pledged contributions to an organisation set up to assist traffic accident victims (*Verkehrsopferhilfe e.V.*); each member company's contribution is calculated on the basis of its share of the total membership's premium income from direct motor third-party liability insurance in the calendar year before last ("direct" meaning: net of reinsurance accepted).

[47] Leasing

The ERGO Insurance Group as lessee

At the balance sheet date, the total of lease payments under non-cancellable operating leases was € 245.5m (265.7m). Payments under operating leases concern in particular rents for offices.

The sum of liabilities from financing and leasing agreements amounted to only € 1.1m (0.6m) at the balance sheet date.

The ERGO Insurance Group as lessor

Operating leases mainly involve leased property. The total of future lease payments under non-cancellable property leases at the balance sheet date was € 517.3m (538.6m). In the financial year, an amount of € 2.0m (2.4m) from contingent rent payments was recognised as income.

At € – (1.5m), the sum of receivables from finance leases only accounts for a subordinate amount on the balance sheet date.

Maturity of leasing relationships	**2009**	**2008**
	€ million	**€ million**
ERGO as lessee		
Not later than one year	**53.5**	59.0
Later than one year and not later than five years	**135.4**	141.3
Later than five years	**56.6**	65.4
Total	**245.5**	**265.7**
ERGO as lessor		
Not later than one year	**112.6**	111.2
Later than one year and not later than five years	**249.5**	248.9
Later than five years	**155.2**	178.5
Total	**517.3**	**538.6**

Liabilities secured by liens [48]

Group real estate holdings are encumbered by mortgages, land charges and annuity charges to a total value of € 24.7m (28.4m).

Number of employees [49]

Employees (year-end)	2009 Number	2008 Number
In-house employees	**26,577**	24,944
Salaried sales force	**6,575**	6,564
Total	**33,152**	**31,508**

The number of staff employed by the Group at year-end totalled 20,420 (20,617) in Germany and 12,732 (10,891) in other countries.

Events after the balance sheet date [50]

No events have occurred since the balance sheet date which require separate disclosure.

[51] **Offices held by members of the Supervisory Board and of the Board of Management**[1)]

[51a]

Supervisory Board	Offices held on other legally required Supervisory Boards (domestic companies)	Offices held on comparable domestic and foreign boards
Dr. Nikolaus von Bomhard	COMMERZBANK AG Munich Health Holding AG, [2)] Chairman	
Hans-Peter Claußen	D.A.S. Deutscher Automobil Schutz Allgemeine Rechtsschutz-Versicherungs-AG, Deputy Chairman	
Michael David	Victoria Versicherung AG, Deputy Chairman	
Dr. Karin Dorrepaal		Onco Methylome Sciences, Liège, Belgium, Supervisory Board
Frank Fassin	Münchener Rückversicherungs-Gesellschaft AG Provinzial NordWest Holding AG Victoria Versicherung AG	
Dr. Heiner Hasford	D.A.S. Deutscher Automobil Schutz Allgemeine Rechtsschutz-Versicherungs-AG MAN AG Nürnberger Beteiligungs-Aktiengesellschaft Victoria Versicherung AG	

[1)] as at 31 December 2009

[2)] Own group company within the meaning of Section 18 of the German Stock Companies Act

	Offices held by members of the Supervisory Board and of the Board of Management[1]	
Supervisory Board	**Offices held on other legally required Supervisory Boards (domestic companies)**	**Offices held on comparable domestic and foreign boards**
Harald Herber	Hamburg-Mannheimer Versicherungs-AG	
Dr. Gerhard Jooss	Heitkamp BauHolding GmbH	Klinikum der Universität Erlangen-Nürnberg, Supervisory Board
Dr. Lothar Meyer	UniCredit Bank AG DKV Deutsche Krankenversicherung AG Hamburg-Mannheimer Versicherungs-AG Jenoptik AG Victoria Lebensversicherung AG	
Dr. Markus Miele	Syskoplan AG	
Silvia Müller	DKV Deutsche Krankenversicherung AG, Deputy Chairman	
Marco Nörenberg	Hamburg-Mannheimer Versicherungs-AG, Deputy Chairman	
Prof. Dr. Bernd Raffelhüschen	Augustinum gGmbH Volksbank Freiburg e G	
Prof. Dr. Theo Siegert	Deutsche Bank AG E.ON AG Henkel AG & Co. KGaA Merck KGaA	DKSH Holding Ltd., Zurich, Switzerland, Administrative Board
Richard Sommer	Hamburg-Mannheimer Versicherungs-AG Münchener Rückversicherungs-Gesellschaft AG	

[1] as at 31 December 2009

	Offices held by members of the Supervisory Board and of the Board of Management[1]	
Supervisory Board	**Offices held on other legally required Supervisory Boards (domestic companies)**	**Offices held on comparable domestic and foreign boards**
Prof. Dr. Beatrice Weder di Mauro		Roche AG, Basel, Switzerland, Administrative Board
Prof. Dr. Klaus L. Wübbenhorst	BU Holding GmbH & Co. KG, Chairman	GfK Holding Inc.[2], Wilmington, USA, Director GfK Arastirma Hizmetleri A.S.[2], Istanbul, Turkey, Chairman of the Board of Directors

[1] as at 31 December 2009

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

	Offices held by members of the Supervisory Board and of the Board of Management[1]	
Board of the Management	**Offices held on other legally required Supervisory Boards (domestic companies)**	**Offices held on comparable domestic and foreign boards**
Dr. Daniel von Borries	KarstadtQuelle Krankenversicherung AG[2], Chairman KarstadtQuelle Lebensversicherung AG[2], Chairman KarstadtQuelle Versicherung AG[2], Chairman MEAG MUNICH ERGO Kapitalanlagegesellschaft mbH MEDICLIN AG Vorsorge Lebensversicherung AG[2], Chairman	
Günter Dibbern	Compass Private Pflegeberatung GmbH Europäische Reiseversicherung AG, Chairman KarstadtQuelle Krankenversicherung AG[2] Medicator AG Sana Kliniken AG, Deputy Chairman	PICC Health Insurance Company Ltd., Beijing, China, Administrative Board
Christian Diedrich	D.A.S. Deutscher Automobil Schutz Allgemeine Rechtsschutz-Versicherungs-AG[2], Chairman D.A.S. Deutscher Automobil Schutz Versicherungs-AG[2], Chairman Europäische Reiseversicherung AG, Deputy Chairman Hamburg-Mannheimer Rechtsschutz-versicherungs-AG[2], Chairman KarstadtQuelle Versicherung AG[2]	

[51b]

[1] as at 31 December 2009

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

	Offices held by members of the Supervisory Board and of the Board of Management[1]	
Board of the Management	**Offices held on other legally required Supervisory Boards (domestic companies)**	**Offices held on comparable domestic and foreign boards**
Dr. Ulf Mainzer	Hamburg-Mannheimer Sachversicherungs-AG[2]	
Dr. Jochen Messemer	D.A.S. Allgemeine Rechtsschutz-Versicherungs-AG Europäische Reiseversicherung AG MEDICLIN AG MedWell Gesundheits-AG, Chairman	Österreichische Volksbanken AG ERGO Grubu Holding A.S., Chairman ERGO Italia S.p.A., President ERGO Previdenza S.p.A., President ERGO Assicurazioni S.p.A., President
Dr. Torsten Oletzky	DKV Deutsche Krankenversicherung AG[2], Chairman ERGO International AG[2], Chairman Hamburg-Mannheimer Sachversicherungs-AG[2], Chairman Hamburg-Mannheimer Versicherungs-AG[2], Chairman Victoria Krankenversicherung AG[2], Chairman Victoria Lebensversicherung AG[2], Chairman Victoria Versicherung AG[2], Chairman	
Dr. Rolf Ulrich	ERGO International AG[2] ITERGO Informationstechnologie GmbH[2]	

[1] as at 31 December 2009

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

	Offices held by members of the Supervisory Board and of the Board of Management[1]	
Board of the Management	**Offices held on other legally required Supervisory Boards (domestic companies)**	**Offices held on comparable domestic and foreign boards**
Jürgen Vetter	ITERGO Informationstechnologie GmbH[2], Chairman KarstadtQuelle Krankenversicherung AG[2] KarstadtQuelle Lebensversicherung AG[2] KarstadtQuelle Versicherung AG[2] Europäische Reiseversicherung AG[2]	D.A.S. Nederlandse Rechtsbijstand Verzekeringsmaatschappij N.V.[2], Amsterdam, The Netherlands, Supervisory Board KarstadtQuelle Finanz Service GmbH, Supervisory Board

Düsseldorf, 4 February 2010

ERGO Versicherungsgruppe AG

Board of Management

Dr. Torsten Oletzky Dr. Bettina Anders Dr. Daniel von Borries

Günter Dibbern Christian Diedrich Dr. Ulf Mainzer

Dr. Jochen Messemer Dr. Rolf Ulrich Jürgen Vetter

[1] as at 31 December 2009

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

Consolidated affiliated companies	Stake held directly in %	Stake held indirectly in %	Shareholders' equity[7] in € 000	Profit/(loss)[7] in € 000
Domestic companies				
almeda Versicherungs-Aktiengesellschaft, Munich[1]	100.00 %		2,300	–
D.A.S. Deutscher Automobil Schutz Allgemeine Rechtsschutz-Versicherungs-Aktiengesellschaft, Munich[2]	25.53 %	74.47 %	249,657	–
D.A.S. Deutscher Automobil Schutz Versicherungs-Aktiengesellschaft, Munich[3]		100.00 %	66,974	–
DKV Deutsche Krankenversicherung Aktiengesellschaft, Cologne[1]	100.00 %		466,352	–
ERGO International Aktiengesellschaft, Düsseldorf[1]	100.00 %		2,000,760	–
ERGO Pensionsfonds Aktiengesellschaft, Düsseldorf[4]	100.00 %		4,040	– 376
EUROPÄISCHE Reiseversicherung Aktiengesellschaft, Munich[1]	100.00 %		88,004	–
Hamburg-Mannheimer Pensionskasse AG, Hamburg	100.00 %		30,187	– 86
Hamburg-Mannheimer Rechtsschutzversicherungs-Aktiengesellschaft, Hamburg[3]		100.00 %	17,293	–
Hamburg-Mannheimer Sachversicherungs-Aktiengesellschaft, Hamburg[1]	100.00 %		202,486	–
Hamburg-Mannheimer Versicherungs-Aktiengesellschaft, Hamburg[1]	100.00 %		402,885	–
KarstadtQuelle Krankenversicherung AG, Fürth		100.00 %	62,235	9,485
KarstadtQuelle Lebensversicherung AG, Fürth	100.00 %		61,945	11,600
KarstadtQuelle Versicherung AG, Fürth		100.00 %	46,260	3,920
Neckermann Lebensversicherung AG, Fürth	100.00 %		13,896	2,200
Neckermann Versicherung AG, Nuremberg	100.00 %		11,529	3,018
Victoria Krankenversicherung Aktiengesellschaft, Düsseldorf[1]	49.00 %	51.00 %	86,968	–
Victoria Lebensversicherung Aktiengesellschaft, Düsseldorf[1]	10.00 %	90.00 %	738,653	–
Victoria Pensionskasse AG, Düsseldorf[5]	100.00 %		48,504	1,300
Victoria Versicherung Aktiengesellschaft, Düsseldorf[1]	10.00 %	90.00 %	528,152	–
Vorsorge Lebensversicherung Aktiengesellschaft, Düsseldorf[1]	100.00 %		27,746	–
Foreign companies[6]				
Bank Austria Creditanstalt Versicherung AG, Vienna		90.00 %	74,546	– 40,116
Compagnie Européenne d'Assurances, Nanterre		100.00 %	5,480	266
Compania Europea de Seguros S.A., Madrid		100.00 %	10,051	1,923
D.A.S. Defensa del Automovilista y de Siniestros - Internacional, S.A. de Seguros, Barcelona		100.00 %	4,902	278
D.A.S. HELLAS Allgemeine Rechtsschutz-Versicherungs-AG, Athens		100.00 %	2,818	450
D.A.S. Jogvédelmi Biztosíto Részvénytársaság, Budapest		99.90 %	2,586	169
D.A.S. Luxemburg Allgemeine Rechtsschutz-Versicherung S.A., Strassen		99.95 %	2,324	112
D.A.S. Oigusabikulude Kindlustuse AS, Tallinn		100.00 %	2,406	– 229
D.A.S. Österreichische Allgemeine Rechtsschutz-Versicherungs-Aktiengesellschaft, Vienna		99.98 %	47,268	2,956
D.A.S. poist'ovňa právnej ochrany, a.s., Bratislava		100.00 %	5,054	164
D.A.S. pojišt'ovna právní ochrany, a.s., Prague		100.00 %	3,617	539
D.A.S. Société anonyme belge d'assurances de Protection Juridique, Brussels		99.98 %	9,212	1,403

[1] Control and profit transfer agreement with ERGO Versicherungsgruppe AG
[2] Control and profit transfer agreement with Victoria Versicherung Aktiengesellschaft, Düsseldorf
[3] Control and profit transfer agreement with D.A.S. Deutscher Automobil Schutz Allgemeine Rechtsschutz-Versicherungs-Aktiengesellschaft, Munich
[4] Control agreement with ERGO Versicherungsgruppe AG, Düsseldorf
[5] Control agreement with Victoria Lebensversicherung AG, Düsseldorf
[6] The foreign currency amounts in income were converted at the average rate for the year and the shareholders' equity was converted at the year-end closing rate.
[7] Figures refer to the most recent available annual accounts.

Consolidated affiliated companies	Stake held directly in %	Stake held indirectly in %	Shareholders' equity[7] in € 000	Profit/(loss)[7] in € 000
D.A.S. Towarzystwo Ubezpieczen Ochrony Prawnej S.A., Warszawa		99.90 %	2,348	– 257
DAS Legal Expenses Insurance Co., Ltd., Seoul		99.80 %	8,641	– 505
DAS Legal Expenses Insurance Company Limited, Bristol		100.00 %	60,146	6,392
DAS Nederlandse Rechtsbijstand Verzekeringmaatschappij N.V., Amsterdam		100.00 %	57,393	13,981
DAS Rechtsschutz-Versicherungs-AG, Luzern		100.00 %	7,512	738
DKV BELGIUM S.A., Brussels		100.00 %	70,663	13,534
DKV Luxembourg S.A., Luxembourg		75.00 %	20,661	1,563
DKV Seguros y Reaseguros, Sociedad Anónima Española, Saragossa		100.00 %	127,025	15,611
ERGO ASIGURARI DE VIATA SA, Bukarest		100.00 %	945	–
ERGO Assicurazioni S.p.A., Milan		100.00 %	70,219	5,003
ERGO Daum Direct Auto Insurance Co. Ltd., Seoul		68.79 %	40,394	– 2,179
ERGO Élétbiztosító Zrt., Budapest		100.00 %	3,245	– 481
ERGO Elukindlustuse AS, Tallinn		100.00 %	4,847	442
ERGO Generales Seguros y Reaseguros, S.A., Madrid		100.00 %	32,994	8,137
ERGO Kindlustuse AS, Tallinn		100.00 %	49,602	7,964
ERGO Latvija Lebensversicherung AG (ERGO Latvija Dziviba AAS), Riga		100.00 %	2,817	– 1,387
ERGO Latvija Versicherung AG (ERGO Latvija Apdrosinasanas Akciju Sabiedriba), Riga		100.00 %	8,924	1,466
ERGO Lietuva draudimo UADB, Vilnius		100.00 %	19,819	3,904
ERGO Lietuva gyvybes draudimas, Vilnius		100.00 %	6,647	– 612
ERGO Life N.V., Brussels		100.00 %	79,728	8,613
ERGO Previdenza S.p.A., Milan		100.00 %	331,854	44,501
ERGO RUSS Versicherung AG, St. Petersburg		99.96 %	12,712	34
ERGO Shisn, Moscow		100.00 %	3,463	– 3,758
ERGO Vida Seguros y Reaseguros, Sociedad Anónima, Saragossa		100.00 %	30,031	3,656
ERGO Zavarovalnica d. d., Ljubljana		100.00 %	3,656	– 344
ERGO životná poist'ovňa, a. s., Bratislava		100.00 %	5,907	– 784
ERGOISVICRE Emeklilik ve Hayat A.S., Istanbul		100.00 %	11,040	– 2,300
ERGOISVICRE SIGORTA A.S., Istanbul		100.00 %	97,116	13,485
Europaeiske Rejseforsikring A/S, Copenhagen		100.00 %	31,979	3,332
Europeiska Försäkringsaktiebolaget, Stockholm		100.00 %	2,814	914
Evropska Cestovni Pojišt'ovna A.S., Prague		90.00 %	7,578	1,578
Joint Stock Insurance Company ERGO, Minsk		60.00 %	1,181	99
MTU Moje Towarzystwo Ubezpieczeniowe S. A., Sopot		100.00 %	21,312	4,358
Quelle Lebensversicherung AG, Schwechat		100.00 %	6,020	227
San Marino Life Impresa sammarinese di assicurazione sulla vita S.p.A., San Marino		100.00 %	6,000	–
Sopockie Towarzystwo Ubezpieczen Ergo Hestia Spolka Akcyjna, Sopot		100.00 %	160,928	26,605
Sopockie Towarzystwo Ubezpieczen na Zycie Ergo Hestia Spolka Akcyjna, Sopot		100.00 %	17,827	1,046
Unión Médica la Fuencisla, S.A., Compañia de Seguros, Saragossa		100.00 %	7,826	674
Victoria General Insurance Company S.A., Athens		100.00 %	23,008	3,822
Victoria Life Insurance Company S.A., Thessaloniki		100.00 %	5,588	– 155
Victoria osiguranje d.d., Zagreb		74.90 %	3,084	–
Victoria Zivotno osiguranje d.d., Zagreb		74.90 %	5,337	– 744
Victoria-Seguros de Vida, S.A., Lisbon		100.00 %	29,747	2,967
Victoria-Seguros S.A., Lisbon		100.00 %	14,566	– 8,300
VICTORIA-VOLKSBANKEN Biztosító Zrt., Budapest		74.80 %	2,820	129
VICTORIA-VOLKSBANKEN Eletbiztosító Zrt., Budapest		74.80 %	4,027	293

[1] Figures refer to the most recent available annual accounts.

Consolidated affiliated companies	Stake held directly in %	Stake held indirectly in %	Shareholders' equity[7] in € 000	Profit/(loss)[7] in € 000
VICTORIA-VOLKSBANKEN Poist'ovňa, a.s., Bratislava		74.80 %	10,511	144
VICTORIA-VOLKSBANKEN pojišt'ovna, a.s., Prague		74.54 %	11,899	511
VICTORIA-VOLKSBANKEN Versicherungsaktiengesellschaft, Vienna		74.63 %	58,309	– 675
Vorsorge Luxemburg Lebensversicherung S.A., Munsbach		100.00 %	14,794	2,120

[7] Figures refer to the most recent available annual accounts.

Associates valued at equity	Stake held directly in %	Stake held indirectly in %	Shareholders' equity[5] in € 000	Profit/(loss)[5] in € 000
Domestic companies				
HighTech Beteiligungen GmbH und Co. KG, Düsseldorf		23.10 %	42,651	– 58,006
KarstadtQuelle Finanz Service GmbH, Düsseldorf	50.00 %		92,564	– 12,507
MCAF Verwaltungs-GmbH & Co.KG, Düsseldorf	50.00 %		110,000	117
MEAG Cash Management GmbH, Munich	40.00 %		244	209
MEAG MUNICH ERGO AssetManagement GmbH, Munich	40.00 %		137,424	40,780
MEDICLIN Aktiengesellschaft, Offenburg	23.19 %	11.81 %	189,780	5,820
MEGA 4 GbR, Berlin	13.70 %	20.55 %	78,456	– 485
Rendite Partner Gesellschaft für Vermögensverwaltung mbH, Frankfurt a.M.		33.33 %	181	– 42
RP Vilbeler Fondsgesellschaft mbH, Frankfurt a.M.		40.00 %	252,090	– 61
Sana Kliniken AG, Munich		21.70 %	166,498	12,670
Star Growth GmbH & Co. Beteiligungs KG, Munich		48.28 %	7,486	1
TERTIANUM Besitzgesellschaft Berlin Passauer Straße 5-7 mbH, Munich		25.00 %	25,707	– 3,450
TERTIANUM Besitzgesellschaft Konstanz Marktstätte 2-6 und Sigismundstraße 5-9 mbH, Munich		25.00 %	37,066	974
TERTIANUM Besitzgesellschaft München Jahnstraße 45 mbH, Munich		33.33 %	44,774	1,114
US PROPERTIES VA GmbH & Co. KG, Düsseldorf		38.21 %	20,832	– 16,252
VV Immobilien GmbH & Co. United States KG, Munich		28.95 %	35,054	4,516
VV Immobilien GmbH & Co. US City KG, Munich		23.10 %	108,932	– 29,370
VV Immobilien Verwaltungs GmbH & Co. Zentraleuropa KG, Munich		20.41 %	43,468	977
Foreign companies[1]				
CJSIC "European Travel Insurance", Moscow		25.01 %	1,341	161
D.A.S. Difesa Automobilistica Sinistri, S.p.A. di Assicurazione, Verona		49.99 %	13,776	2,199
Europai Utazasi Biztosito Rt., Budapest		26.00 %	5,832	702
Europäische Reiseversicherungs-Aktiengesellschaft, Vienna		25.01 %	6,811	872
Geschlossene Aktiengesellschaft Europäische Reiseversicherung, Kiev		25.10 %	953	24
HDFC ERGO General Insurance Company Ltd., Mumbai		26.00 %	19,047	– 3,819
Millennium Entertainment Partners II L.P., New York[2]		42.30 %	44,847	– 4,000
Millennium Entertainment Partners L.P., New York[3]		27.54 %	10,385	– 1,312
Millennium Partners LLC, New York[4]		20.30 %	112,985	– 48,815
MPE Hotel I L.L.C., New York		33.33 %	– 235,908	– 37,650
MPE Hotel I Tenant Holdings L.L.C., New York		33.33 %	– 30,706	– 5,263
PICC Health Insurance Company Limited, Beijing		6.33 %	123,074	– 113,277
Property Finance France S.A., Luxembourg		45.46 %	6,796	6,706
SAS Le Point du Jour, Paris		50.00 %	43,866	3,140
Seaflower Health Ventures III L.P., Waltham		28.84 %	5,531	– 22,019
Storebrand Helseforsikring AS, Oslo		50.00 %	8,566	– 1,489
VICTORIA-VOLKSBANKEN Pensionskassen Aktiengesellschaft, Vienna		47.50 %	13,894	1,451
VICTORIA-VOLKSBANKEN Vorsorgekasse AG, Vienna		50.00 %	3,396	302

The list of shareholdings as at 31 December 2009 in accordance with Section 313 para. 2 of the German Commercial Code (HGB) has been published on the website of the German Corporate Register.

[1] The foreign currency amounts in income were converted at the average rate for the year and the shareholders' equity was converted at the year-end closing rate.
[2] Variation in voting right: 42.34 %
[3] Variation in voting right: 42.36 %
[4] Variation in voting right: 25.00 %
[5] Figures refer to the most recent available annual accounts.

Auditor’s report

We have duly audited the consolidated financial statements comprising balance sheet, income statement, statement of recognised income and expense, statement of changes in equity, cash flow statement, and the notes to the consolidated financial statements, prepared by ERGO Versicherungsgruppe AG in Düsseldorf for the financial year from 1 January 2009 to 31 December 2009. The responsibility for preparing consolidated financial statements in line with the International Financial Reporting Standards (IFRS), as adopted by the EU, and the additional provisions stated in Section 315a para. 1 of the German Commercial Code (HGB) lies with the Company’s Board of Management. Our task is to form, on the basis of our audit, an assessment of the consolidated financial statements.

We conducted our audit of the consolidated financial statements in accordance with Section 317 HGB, paying due regard to the generally accepted German standards concerning accounting principles as set out by the Institute of Public Auditors in Germany (IDW). These standards require that we plan and perform the audit such that misstatements materially affecting the presentation of net assets, financial position and earnings situation in the consolidated financial statements in accordance with the applicable financial reporting framework are detected with reasonable assurance. When determining the audit procedures, the knowledge of the Group’s field of business, its economic and legal environment and expectations regarding possible mistakes have to be taken into account. During the audit the effectiveness of the accounting-related internal control system as well as evidence supporting the disclosures in the consolidated financial statements and Group management report are judged primarily on the basis of spot checks. The audit comprises the assessment of the financial statements of the individual companies included in the consolidated financial statements, definition of consolidated group, accounting and consolidating principles used and significant estimates made by the Board of Management, as well as an evaluation of the overall presentation of the consolidated financial statements and Group management report. We believe the audit we have conducted provides a sufficiently secure basis for our professional opinion.

We have no objections to raise following our audit.

In our opinion, based on the results of our audit, the consolidated financial statements conform to the IFRS, as adopted by the EU, and the additional provisions stated in Section 315a para. 1 HGB and give a fair and true view of the net assets, financial position and earnings situation of the Group in accordance with these provisions. The Group management report is in keeping with the consolidated financial statements and provides an accurate overall picture of the Group’s situation and suitably portrays the opportunities and risks inherent in future development.

Munich, 24 February 2010

KPMG Bayerische Treuhandgesellschaft
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft
Steuerberatungsgesellschaft

Martin Berger Chartered accountant	Roland Hansen Chartered accountant

Declaration of 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 consolidated financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group, and the Group management report includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal opportunities and risks associated with the expected development of the Group."

Düsseldorf, 17 March 2010

ERGO Versicherungsgruppe Aktiengesellschaft

Dr. Torsten Oletzky

Dr. Bettina Anders

Dr. Daniel von Borries

Günter Dibbern

Christian Diedrich

Dr. Ulf Mainzer

Dr. Jochen Messemer

Dr. Rolf Ulrich

Jürgen Vetter

ERGO financial calendar

Dates to note in 2010 and 2011

Annual General Meeting in Düsseldorf	**12 May 2010**
Half-year Report 2010	**4 August 2010**
Press conference on the 2010 financial year	**29 March 2011**

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Detailed contact information of our companies can be found on our website www.ergo.com under Company/ERGO Germany and ERGO International.

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