



2010

Group Annual Report

ERGO

Management Report

Overview of ERGO Insurance Group

		2010	2009	Change previous year (%)
Total premium income	€ million	20,131	19,050	5.7
Gross premiums written	€ million	18,457	17,470	5.7
Expenses for claims and benefits	€ million	17,738	16,114	10.1
Investment result	€ million	5,243	4,401	19.1
Operating result	€ million	1,002	734	36.6
Consolidated result	€ million	355	173	105.7
Investments	€ million	116,388	113,277	2.7
Technical provisions (net)	€ million	112,819	109,197	3.3
Equity	€ million	3,785	3,857	-1.9
Full-time representatives		22,460	21,963	2.3
Salaried employees		32,997	33,152	-0.5

With premium income of €20 billion, ERGO is one of the major insurance groups in Germany and Europe. Worldwide, ERGO is represented in more than 30 countries and concentrates on Europe and Asia. ERGO is one of the market leaders in all segments in its home market of Germany. More than 55,000 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. We offer integrated insurance and service concepts for their individual needs.

Our customers determine our actions. ERGO is strictly geared towards the wishes and needs of its customers and intends to improve this still further in a constant dialogue with consumers. We are fervently implementing our claim "To insure is to understand" in the form of offering needs-based advice which understands and picks up on customers'

personal concerns, in addition to communicating in a clear and understandable way and providing innovative services and swift support in the event of damage or loss.

Our customers can choose which form of contact with ERGO suits them best. We have the right sales channels for every client. Over 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 partnerships with the major European bank UniCredit Group and other banks, both in Germany as well as in various European countries.

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 €193 billion, of which €116 billion is accounted for by ERGO, is managed by the joint asset management and fund company MEAG.

Annual Report 2010
ERGO Insurance Group
Group Annual Report

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Letter by the Chairman of the Board of Management

Dear Readers,

ERGO is on everybody's lips. The advertising campaign introducing the ERGO brand on the German market has not only raised awareness of the new brand to a very satisfying level in a short period of time but has also made ERGO a topic of conversation in a range of different formats. This has been accompanied by a new corporate design, which you will also see in our annual report. We are also proud of our company's new mission statement. Under the heading "Insuring people is a wonderful thing" it provides guidance to all our employees and sales partners, thereby contributing significantly to putting our brand promise into effect.

How has the implementation of the individual aspects of our brand promise been progressing? Since last summer we have been offering life insurance as well as property-casualty insurance under the name ERGO. Our German direct insurer has been operating since February 2010 under the name ERGO Direct. We are also promoting the ERGO brand even more rigorously internationally. For example, our Turkish company has been known simply as ERGO, dropping the "İSVİÇRE" add-on, since the spring of 2010. At the same time, we have raised the profile of our specialists in the fields of health (DKV), legal expenses (D.A.S.) and travel insurance (ERV) and consolidated legal entities operating in the same segments under these brands.

We have broken new ground with our advertising campaign by letting our customers speak and are actively tackling the prejudices which exist against our industry. We are making a clear promise to our customers: "To insure is to understand". We are resolutely focussing on our customers' and partners' needs. This is why, when we were positioning our brand, we asked more than 6,000 people about their expectations and wishes. They told us what they think insurance should be like. They want insurance which places people in the foreground and does not just treat them as a number. Insurance which communicates with them in plain language and not legalese. Insurance which is easy to understand and gives them good advice. We also developed our new mission statement on the basis of this feedback. Both our advertising campaign and mission statement communicate a high standard which our agents and staff stand behind in the same way as the entire management.

We launched the process of putting this mission statement into practice back in 2010. We will not achieve it from one day to the next. Providing customers with consistent guidance in all the areas in which we operate will be an ongoing process. There are many good initial signs that we are serious about the process of change we have started:



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

- Customers are able to shape our company with their feedback, for example by assessing documents on an online forum or sending feedback via various channels.
- Since January 2011 ERGO's "customer lawyer" has been representing the interests of our customers in our internal procedures. He is also the person to contact if they are not satisfied with a reply we have given.
- We support our customers even before a claim is made and want to expand our range of services to related areas. At the same time, we want continually to improve our support in the event of a claim, which even today comes reliably fast.
- We are overhauling all our channels of communication with our customers in order to become easier to understand. Customers should have a better understanding of what they can expect from us. We have already completely redrafted and thus significantly improved letters and printed matter with a total circulation of 13 million.

As you will have noticed, we have put a lot of energy into our new brand strategy in 2010. I am convinced that, in so doing, the ERGO Insurance Group is on the right path.

Fortunately we have managed, alongside this readjustment, to improve our results and turnover. Total premium income rose by 5.7 percent to 20.1 billion euros. With group earnings more than doubling to 355 million euros, we have achieved our goal of between 350 million and 450 million euros. The fact that we did not achieve a better result within our target range was primarily due to a goodwill write-off of 115 million euros in our Turkish company. Other one-off effects, as are felt every year by a company of our size, were not enough to offset this.

2010 was also a year of great challenges for insurance business. Internationally, difficult conditions in ERGO's important markets and the severe winter and other bad weather events, such as the flooding in Poland, left their mark. This had an adverse effect on the combined ratio in property/casualty insurance. In international business it stood at 107.9 percent, well above the level we aspired to; in Germany, by contrast, we again achieved a very good level of 90.3 percent. In Poland and in the difficult markets of Turkey and South Korea, we have already taken various measures to achieve much better results again in 2011.

Nevertheless, our growth on international markets remains buoyant. International business thus continues to be a central pillar of our growth strategy. We further signalled our international ambitions in January this year by agreeing to set up a joint venture in the area of life insurance with the Chinese Province of Shandong's government, which promises to ensure that we can benefit from strong Chinese growth in the long term.

We have also been able to increase our German business in all fields. The environment nevertheless remains challenging: in the area of life insurance the trend towards single-premium business continues. Faced with increasingly volatile economic conditions, people are less inclined to enter into long-term commitments even though this is actually necessary for old-age provision. In the health segment, growth is attributable, a bit too much in my opinion, to premium adjustments, which have been inevitable given increased costs in the healthcare sector. For property-casualty insurance our growth has been small, like that of the market.

Capital markets have again been a particular concern in the past year. Although we were able to significantly increase our investment result by 19.1 percent, or 842 million euros, the situation on capital markets is not entirely positive. The prolonged low level of interest rates resulting from the central-bank policy of cheap money and the turbulence around the euro zone are worrying. The extremely sharp drop in interest rates in the middle of the year meant that our hedging against such low rates massively increased in value. This looks good on paper, but is also absolutely necessary in order to meet our commitments to our customers on a sustained basis, above all in the area of life insurance. We actually need higher interest rates to do this. I therefore see the rise in interest rates since August as a very positive development even if it means that the market value of fixed-interest securities and profits from hedging transactions have fallen slightly.

One of the important milestones of the year was the annual general meeting of ERGO Versicherungsgruppe AG: It adopted the compensation offer to remaining shareholders from our parent company Munich Re. Our share is no longer listed on the stock exchange. I owe my sincere thanks to all of our shareholders for the trust they have placed in ERGO in recent years. I hope they will continue to take a friendly interest in us in the future.

Preparing for the regulatory demands of Solvency II again occupied us in 2010. As one of only few insurers in Germany, we have already undertaken concrete talks with the supervisory authority about our internal model, which reflects the specific demands of our business and will therefore enable us to make optimum use of capital. In this respect, we benefit considerably from the fact that, together with our parent company Munich Re, we are among the market leaders as far as risk management is concerned.

As you can see, it has been an eventful year for us all at ERGO. Our employees deserve my particular thanks at this point. They have worked with great commitment and enthusiasm on the many improvements that have taken place within our Company and have set the wheels in motion for the transformation of our brand. We are also meeting the challenges of this year with the same drive. We will work hard on implementing our mission statement, keep our business on the road to improvement, and continue to prepare for Solvency II. After all, we really mean it: insuring a person is a wonderful job!

A handwritten signature in blue ink that reads "Torsten Oetzel". The signature is written in a cursive style with a large, stylized flourish at the end.

Report of the Supervisory Board

During the past financial year, the Supervisory Board has closely followed ERGO's business development, has monitored the activities of the Board of Management in accordance with legislation and the Articles of Association, and has advised the Board of Management in its management of the Company. We have also been involved in decisions of fundamental importance. The Board of Management briefed us promptly, extensively and regularly about all major business developments and consulted with us about the Company's strategy.

The 2010 financial year was particularly characterised by the measures taken to implement the ERGO Group's new brand strategy and the associated streamlining of the structure of its insurance subsidiaries.

A further important change resulted from the exclusion of minority shareholders of ERGO Versicherungsgruppe AG initiated by Munich Re. At the proposal of the Supervisory Board, the Annual General Meeting of ERGO decided on a squeeze-out on 12 May 2010. This decision became effective with the relevant entry in the Register of Companies on 5 July 2010. The sole shareholders of ERGO Versicherungsgruppe AG are now Munich Re and P. A. N. GmbH & Co. KG. Trading on the stock exchange was suspended and the approval to trade in the share on the Frankfurt and Düsseldorf stock exchanges was revoked.

The Supervisory Board held five meetings, in which virtually all members took part. The various committees also met and the respective chairmen regularly reported in detail on their work. Between meetings, the Board of Management reported to us on the main business transactions and most important decisions taken. Moreover, as Chairman of the Supervisory Board, I regularly met with the Chairman of the Board of Management to discuss ERGO's strategy, risk and capital management and the current business outlook. Audit measures as per § 111 para. 2 of the German Stock Companies Act (AktG) were once again not required in the year under review.

Main issues

In addition to the above-mentioned new brand strategy, the Supervisory Board dealt extensively in the financial year with ongoing projects to ensure a continuous improvement of the competitive position, to create a single IT application platform for sales staff in Germany and to expand the Company's premises in Düsseldorf. We received a detailed report on ERGO's risk strategy and risk situation from the Chief Risk Officer. We also discussed ERGO's further development in international business and measures taken by the Board of Management to secure profitability in the life and health insurance segments. Furthermore, the Board of Management briefed us in detail about the trend and risk exposure of ERGO's investments and on strategy and business development in the segment of property-casualty insurance.



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

Alongside important decisions on appointments to the Board of Management, we dealt extensively with the matter of the remuneration of its members. The Plenary adopted a decision for the first time on performance and resultant bonus payments to members of the Board of Management for 2009 and on individual objectives for 2010. We also determined the parameters for the variable remuneration of Board members in 2011. The Plenary also decided to convert the old-age provision of Board members from a performance-oriented to a contribution-oriented system.

Corporate governance

The ERGO Supervisory Board continued to stress the importance of good corporate governance. We therefore once again checked the efficiency of our activities during the reporting year. As a result, we were able to establish that the measures taken last year to improve the efficiency of our work have taken effect.

Company and Group 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 2010 financial year, and awarded them an unqualified auditor's opinion.

At a meeting held on 2 March 2011, the Supervisory Board's Audit Committee discussed these documents in detail, having 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 at 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 2010 which are thereby 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 12 May 2010, the period of office of the Supervisory Board came to an end. Prof. Dr. Beatrice Weder di Mauro and Prof. Dr. Theo Siegert stepped down from the Supervisory Board as shareholders' representatives, and Mr Günter Bayerle, Mr Harald Herber, Mr Volker Kallé and Mr Wolfgang Rusch stepped down as workers' representatives. We would like to thank these former members of the Supervisory Board for their work and dedication to our Board.

The Annual General Meeting elected two new members to the Supervisory Board: Prof. Dr. Nadine Gatzert and Dr. Theodor Weimer. The following will also sit on the Supervisory Board as workers' representatives: Ms Ira Gloe-Semler, Mr Ralph Eisenhauer, Mr Dieter Herzog und Mr Heinz Wink. At its constituent meeting following the Annual General Meeting, the Supervisory Board again elected Dr. Nikolaus von Bomhard as its chairman and Mr Michael David as its vice chairman. Replacing Prof. Dr. Siegert, Dr. Markus Miele was elected member of the Standing Committee, the Board Committee and the Nomination Committee.

Dr. Gerhard Jooss stepped down from the Supervisory Board at the end of 2010. He was replaced at an Extraordinary General Meeting by Dr. Alan Hippe with effect from 1 January 2011. We thanked Dr. Jooss for his many years of work in our and other Supervisory Boards within the ERGO Group. In particular, with his expertise he was a valuable source of advice in the Audit Committee of the ERGO Supervisory Board. The Supervisory Board elected Dr. Weimer to replace him in the Audit Committee.

Changes to the Board of Management

Mr Günter Dibbern, who has been a member of the Board of Management since 1 January 2004, stepped down for reasons of his age at the end of 2010. We thank Mr Dibbern, who, with his expertise, has resolutely and successfully shaped and developed the health insurance business, for his many years of dedicated service and commendable work. Dr. Clemens Muth was appointed his successor on the Board of Management on 1 October 2010.

The appointment of Dr. Rolf Ulrich has been terminated by amicable and mutual consent from 31 January 2011. The Supervisory Board has thanked Dr. Ulrich, who had been a member of the Board of Management since 1 June 2002, for his work and dedication and expressed its appreciation. As at 1 February 2011 we appointed Dr. Christoph Jurecka as an ordinary member of the Company's Board of Management. As successor to Dr. Ulrich, he has taken charge of accounting, taxation, planning and controlling and risk management

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 marked by many changes.

Düsseldorf, 18 March 2011



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

Management Report



Management Report

The ERGO Insurance Group

With premium income of €20 billion, ERGO is one of the major insurance groups in Germany and Europe. Worldwide, ERGO is represented in more than 30 countries and focuses on Europe and Asia. ERGO is among the market leaders in all segments in its home market of Germany. Over 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. We offer integrated insurance and service concepts for their individual needs.

Our customers can choose which form of contact to ERGO suits them best. We have the right sales channel for every customer. Over 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 sales partnerships with the major European bank UniCredit Group and other banks, both in Germany as well as in various European countries.

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 €193 billion, of which €116 billion is accounted for by ERGO, is looked after by MEAG, our asset manager and fund provider.

In 2010 Munich Re offered ERGO's minority shareholders a cash settlement for their shares in a so-called squeeze-out; this was accepted at the ERGO Annual General Meeting in May 2010. ERGO is now no longer listed on the German stock market.

ERGO is an integral part of the Munich Re strategy, and is therefore 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. There is a general overview of ERGO's performance on pages 19-22, which includes information on the following divisions: Life (Germany), Health, Property-casualty (Germany), Direct insurance, Travel insurance and International, where we undertake all types of life, annuity and health cover and virtually all aspects of property and casualty insurance including legal expenses insurance.

Our brand strategy

We changed our brand strategy in order to make our 'full-service' concept more evident to our customers. Since 2010, our life and property-casualty insurance products are also 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 protection and ERV for travel insurance. For the main part we have merged the legal entities of the separate divisions and pooled them in a respective brand.

The starting shot for implementing the new brand strategy came in the first quarter of 2010 when KarstadtQuelle Insurance was renamed ERGO Direct Insurance. This was followed in the summer with the entry of the new ERGO companies in the commercial register, and an important milestone was reached with the launch of products marketed under ERGO: the life insurer Hamburg-Mannheimer Versicherungs-AG was renamed ERGO Lebensversicherung AG. The property-casualty insurer Victoria Versicherung AG is now known as ERGO Versicherung AG. The property-casualty insurers of D. A. S. and Hamburg-Mannheimer were merged into ERGO Versicherung AG. The formal end to the transition with the merger of the health and legal protection Insurers took place at the beginning of October. Victoria Health was merged with DKV as was the merger of Hamburg-Mannheimer Legal Protection with D. A. S. Legal Protection.

As for the international business, the ERGO brand has been associated with life insurance and property-casualty business for a long time, for example in the Baltic States, Italy or Russia. We pushed the ERGO brand even more into the foreground of this division in 2010. Our company in Turkey, ERGÖİSVİÇRE was renamed in spring 2010, and is now only known as ERGO. In Poland, ERGO was pushed to the fore in ERGO Hestia's new brand presence and logo.

ERGO is combining the new brand presence with a clear promise to its customers: "To insure is to understand" stands for the goal of a strict alignment to the customers' needs in all areas of the Group. It consists of needs-based advice which understands and picks up on the customers' concerns just in the same way as clear and easy-to-understand communication, innovative services and swift support in the event of loss or damage.

At the same time, ERGO is fervently working towards fulfilling its customers' expectations and is inviting them to give constructive feedback using a variety of channels. Suggestions received are assessed on a regular basis and are then included in the development of products and services.

Our management style and objectives

Our company is managed strictly with the customer, service and profitability in mind. The focus here is on integrated management of the divisions and their administrative processes, a modern risk management (see page 33) comprising asset-liability management, as well as value-based and risk-based management of all business activities.

The different brands of ERGO have now been managed collectively for several years based on the business field in question. Consequently, the degree of integration is very high irrespective of whether it is product development, administrative processes or IT systems. The new brand presence and the merger of the legal entities in Germany did not therefore require any major structural changes.

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

Value-based management

Our goal objective is to analyse risks from every conceivable angle and to assess and diversify them, thereby creating lasting value for shareholders, clients, and staff. A guiding principle of our entrepreneurial thinking and activity is to increase the value of our Company. This is also the aim of our active capital management. The main features of our approach in practice are the consistent application of value-based management systems, which we constantly refine.

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

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

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

Property-casualty insurance: value added

In property-casualty insurance, a line of business that is mainly of a short-term nature, 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 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 in our internal model. As far as property-casualty insurance is concerned, value is added to the extent that, measured on the basis of one calendar year, the adjusted result exceeds the cost of equity.

Life and health: embedded value

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

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

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

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

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

Managing investments

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

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

Non-financial controlling variables

In addition to these purely financial performance factors, non-financial performance measures like innovation, speed of processes, staff-training level as well as customer satisfaction, sales service and productivity play a part. In the long term, a firm can only be successful if it operates sustainably and takes account of such future-oriented qualitative factors as well. That is why our strategic management focuses on the five target groups, namely customers, sales partners, staff, society and investors.

We promote an entrepreneurial culture among our staff through the clear allocation of responsibility and accountability, recognising how much the individual, unit or field of business contributes to increasing value. Our incentive systems for staff, executives and Board support the clear orientation towards value creation. The higher a staff member or executive is positioned in the management hierarchy, the more strongly their remuneration is based on performance.

Management Report

The ERGO Insurance Group – Governing bodies

Supervisory Board

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

Michael David, Deputy Chairman
Employee of ERGO

Günther Bayerle, until 12 May 2010
Personnel Specialist of DHV
(Associated Union of Workers in
German Trade and Industry)

Hans-Peter Claußen
Employee of ERGO

Dr. Karin Dorrepaal
Senior Vice President Strategy & Acquisitions of DSM

Ralph Eisenhauer, since 12 May 2010
Executive Employee of ERGO

Frank Fassin
District Chairman for NRW of ver.di NRW

Prof. Dr. Nadine Gatzert, since 12 May 2010
Proprietress of the chair of insurance industry at the
Friedrich-Alexander University in Erlangen-Nuremberg

Ira Gloe-Semler, since 12 May 2010
Associated union of workers secretary ver.di

Dr. Heiner Hasford
Former Board member of Münchener
Rückversicherungs-Gesellschaft AG

Harald Herber, until 12 May 2010
Employee of ERGO

Dieter Herzog, since 12 May 2010
Employee of ERGO

Dr. Alan Hippe, since 1 January 2011
Board member of ThyssenKrupp AG

Dr. Gerhard Jooss, until 31 December 2010
Former Board member of ThyssenKrupp AG

Volker Kallé, until 12 May 2010
Executive Employee of ERGO

Dr. Lothar Meyer
Former Chairman of the Board of Management
of ERGO Versicherungsgruppe AG

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

Silvia Müller
Employee of ERGO

Marco Nörenberg
Employee of ERGO

Professor Dr. Bernd Raffelhüschen
Director of the Institute for Public Finance
at the Albert-Ludwigs University in Freiburg

Wolfgang Rusch, until 12 May 2010
Employee of ERGO

Prof. Dr. Theo Siegert, until 12 May 2010
Managing Partner of de Haen Carstanjen & Sons

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

Prof. Dr. Beatrice Weder di Mauro, until 12 May 2010
Professor of Economics at the
Johannes Gutenberg University in Mainz

Dr. Theodor Weimer, since 12 May 2010
Spokesman of the Board of Management
of Unicredit Bank AG

Heinz Wink, since 12 May 2010
IT-Employee

Professor Dr. Klaus L. Wübberhorst
Chairman of the Board of GfK SE

Audit Committee

Dr. Heiner Hasford
Dr. Gerhard Jooss, until 31 December 2010
Marco Nörenberg, until 12 May 2010
Heinz Wink, since 12 May 2010
Dr. Theodor Weimer, since 1 January 2011

Board Committee

Dr. Nikolaus von Bomhard
Hans-Peter Claußen
Dr. Markus Miele, since 12 May 2010
Prof. Dr. Theo Siebert, until 12 May 2010

Nomination Committee

Dr. Nikolaus von Bomhard
Dr. Lothar Meyer
Dr. Markus Miele, since 12 May 2010
Prof. Dr. Theo Siebert, until 12 May 2010

Board of Management

Dr. Torsten Oletzky, Chairman
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, until 31 December 2010
Health Insurance Germany and Abroad

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

Dr. Christoph Jurecka, since 1 February 2011
Accounting, Taxes, Planning and
Controlling, Risk Management

Standing Committee

Dr. Nikolaus von Bomhard
Michael David
Dr. Lothar Meyer
Dr. Markus Miele, since 12 May 2010
Marco Nörenberg
Prof. Dr. Theo Siebert, until 12 May 2010

Conference Committee

Dr. Nikolaus von Bomhard
Michael David
Dr. Heiner Hasford, since 12 May 2010
Richard Sommer
Prof. Dr. Theo Siebert, until 12 May 2010

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 Insurance)

Dr. Clemens Muth, since 1 October 2010
Health Insurance Germany and Abroad

Dr. Rolf Ulrich, until 31 January 2011
Accounting, Taxes, Planning and
Controlling, Risk Management

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

Management Report

Parameters

Our business operations take place in an environment that is becoming increasingly complex and moreover is beset with a growing number of major events which impact on the insurance industry, giving rise to new risk potentials and cumulative risks.

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 sometimes 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 will 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.

At the same time, it is essential to continually revise risk models and make use of new knowledge for actuarial purposes – not least because of changing regulatory requirements. Companies like ERGO, which are among leaders when it comes to integrated risk management, are able to take advantage of the opportunities arising from this on a long-term basis. On the other hand, our short-term profitability is impaired in times of boom by the fact that, given our strong risk awareness, we pursue a rather cautious corporate policy in some areas.

Economic parameters

The overall economic parameters were affected by the global economic recovery. As expected, this recovery, which had already begun in the middle of 2009, continued in 2010. Global differences remained, however: while the economies of some industrialised countries showed weak growth, most newly industrialised and developing countries recorded high growth rates.

Economic trends varied considerably even within the euro-zone. While Spain, Greece and Ireland remained in recession and the French and Italian economies grew relatively slowly, Germany benefited enormously from the sweeping recovery of the world economy, thanks mainly to the export-led nature of its own economy. In Eastern Europe, too, success in recovering from the deep recession was mixed. Poland and Russia recorded robust growth rates, while some Baltic and Balkan economies stagnated or shrank.

The price-adjusted GDP for Germany rose in 2010 by 3.6% (provisional estimate of the Federal Bureau of Statistics on 12 January 2011) after having shrunk in the previous year by 4.7%. The German labour market, which had proved surprisingly robust throughout the banking and economic crisis, continued its positive trend in 2010: the unemployment rate fell over the year from 8.6% in January to 7.2% in December, with an average of 7.7% across the year. The number of unemployed, averaging 3.2 million, had not been as low since 1992.

Consumer price inflation in Germany remained low in 2010. The average rate of inflation over the year was 1.1%.

Capital market trends

Capital markets were much calmer than in the previous year. Nevertheless, investor sensitivity concerning the risk of default on government bonds increased significantly. In the course of the year, Greece and Ireland both had to be supported with funds from their EU partners and the International Monetary Fund.

Fluctuations on the international stock markets remained in check compared to the previous two years and only at times reflected remaining uncertainty about the economic trend and the stability of the financial system. While the Euro Stoxx 50 ended the year some 6% down, the DAX was around 16% higher than at the beginning of the year.

Continuing uncertainty on government bond markets, high unemployment and low inflation pressure in many industrialised countries prompted their central banks to maintain a policy of low interest rates. The base rate of the ECB and the Bank of England remained at 1% and 0.5% respectively. The Federal Reserve Bank kept its base rate on hold at 0–0.25% and in the autumn adopted a further round of unconventional monetary-policy measures to keep long-term interest rates low.

The return on ten-year German government bonds fell over the year from 3.4% to 3.0%. The return on US government bonds fell from 3.8% to 3.3%.

Insurance market trends

The overall economic development has a strong effect on the rise in premiums in the insurance industry, especially regarding property-casualty insurance. 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.

At 4.7% (provisional estimate of the German Insurance Association, the GDV), growth for the overall premium volume of German insurance companies was even higher than in the previous year (4.2%). As in 2009, this extraordinary increase was primarily due to single-premium business in life insurance. The rise in premiums in the area of private health insurance was also very high. By contrast, there was only a slight rise in premiums for property-casualty insurance.

Life insurance in 2010

Against the background of continuing difficult capital market conditions in 2010, customers appreciated the advantages offered by life insurance: the protection against biometric risks such as death, old age or invalidity as well as guarantees. In 2010, the industry recorded another rise in single premiums for new business, making for a good growth in premiums overall. According to provisional figures from the GDV, premium income for life insurance, including pension funds and retirement funds, rose by 6.2% to €90.4 billion (85.1 bn).

There was strong demand in 2010 for classical annuity insurance – in particular single-premium business – as a form of private old-age provision. New regular-premium business fell slightly throughout the industry, for example for Riester and unit-linked pension policies. The restrained business trend overall for company pension schemes also continued in 2010. Direct insurance and reinsurance showed clear growth tendencies, largely on the back of new single-premium business. Business for pension funds business was down, while for retirement funds it fell well short of the exceptionally high level for single-premium business achieved in the previous year.

Private health insurance in 2010

The agreement on health policy reached between the Government parties in Germany took concrete form in 2010. The effects will be felt in the industry from 2011 (see also page 31 ff.) In 2010 the Citizen Relief Act (“Bürgerentlastungsgesetz”), which provides for simplified arrangements for deducting insurance premiums against tax, had a positive impact on private health insurance. Premiums for a comprehensive health insurance policy can be deducted up to a level of at least 80%, while those for private nursing insurance are fully deductible.

Private health insurance premiums rose by 6.0% in 2010 to a total of €33.4 billion (31.5 bn). Insurance benefits paid out, including the costs of claims settlement, rose by some 4.5% to €22.1 billion (21.4 bn). This was well above the general rise in prices.

Property-casualty insurance in 2010

The overall economic recovery in Germany pushed premiums for property-casualty business up in 2010 by 0.7% to €55.1 billion (54.7 bn). This growth was driven by both private property insurance (+1.5%) and credit insurance, which is not offered by ERGO. General accident insurance (+0.5%) and legal protection insurance (+1.0%) also contributed to premium growth. Motor insurance recorded its first slight growth in premiums (+0.5%) since 2004. Following on from the recent economic crisis, transport insurance (-2.0%) and general liability insurance (-1.0%) both recorded lower total premiums.

In 2010, claims expenditure for the year was up by 3.1% to €43.2 billion (42.8 bn) and thus rose more strongly than premiums. A major reason for this was the long period of frost at the beginning of the year, which took its toll in particular in the areas of mains-water damage, motor vehicles and accident insurance; later in the year came the "Xynthia" storm system and flooding on the Rivers Neisse and Spree. This led the combined ratio in the market to increase to some 98% (95.6%). The technical profit thus fell against the previous year by €1.2 billion to €1.1 billion. 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.

Legal and regulatory parameters

In order to avoid a new financial crisis, further changes have been made to the regulatory requirements applicable to financial markets and financial institutions. At European level, a European System of Financial Supervision (ESFS) has been established. The European Systemic Risk Board (ESRB) is also new. The tasks of these institutions are to identify macro-economic risks, act as an early warning system for the financial markets, warn against systemic risks within the EU financial market and issue appropriate recommendations. As part of the ESFS, a strong European financial supervisory authority is being set up for the insurance sector and company pension schemes which should commence its activities at the beginning of 2011. To that end, the existing Committee of European Insurance and Occupational Pensions Supervisors (CEIOPS) is being transformed into an authority (EIOPA) with certain executive rights vis-à-vis markets, insurance institutions and national supervisors. At the same time, the existing EU Committees of Banking Supervisors and Securities Regulators are also being transformed into authorities with executive rights.

With a view to the new European insurance supervisory system Solvency II, work in 2010 was concentrated on the implementing provisions to be issued, in which many important details will be dealt with. The adoption of these provisions is not expected before the summer of 2011. In Germany an act has been adopted, in line with international agreements, on the supervisory requirements relating to financial institutions' and insurance companies' systems of remuneration. Under this legislation, remuneration must always be appropriate, comprehensible and geared towards the company's sustainable development. In addition, the Federal Financial Supervisory Authority (BaFin) can refuse or restrict the payment of variable components of remuneration if the company does not meet capital adequacy requirements.

The business model of private health insurance is highly dependent on political parameters. The Act on the financing of the statutory health insurance scheme ("GKV-Finanzierungsgesetz") has abolished, with effect from 31 December 2010, the three-year waiting period introduced in 2007 for employees wishing to transfer from the statutory health insurance scheme to a private health insurance scheme. Employers may therefore again transfer to a private scheme once they have exceeded the compulsory insurance threshold. This again allows more citizens to opt for a future-proof, sustainable health cover. However, politicians have wasted the opportunity to draw a clear distinction between statutory and private health insurance with regard to optional tariffs. The statutory funds thus continue to interfere with the functioning market in private supplementary insurance. The Pharmaceuticals Reform Act ("Arzneimittelneuordnungsgesetz") now also allows our private customers to benefit from discounts on pharmaceutical products.

Management Report

Business performance

The ERGO Insurance Group recorded numerous positive developments in the year under review, especially regarding the implementation of the new brand strategy. At the same time, we achieved good increases in our results and growth too.

Positive aspects included healthy growth in premiums, up by 5.7%, and yet another very good combined ratio of 90.3% for our domestic business. We were able to make good progress in our cost objectives in Germany and experienced very pleasing growth of 11.6% for international business. On the other hand, we had to battle against difficulties encountered in the international property-casualty insurance, which meant we had to undertake write-downs on goodwill to our company in Turkey.

This write-down alone caused the consolidated result to suffer to the tune of €115 million. Nevertheless, the consolidated result increased by 105.7% to €355 million (173 m), largely thanks to the fact that there were no similar adverse capital market influences as in the previous year. This corresponds to a return on equity of 8.8% (4.8%).

Besides annual figures, which are shown in our income statement, we also calculate figures for our long-term business in life insurance and health insurance and how they have changed. The market-consistent embedded value (MCEV) dropped to €4,108 million (5,126 m) at the end of the year. This is mainly due to the changes to capital market parameters, most especially changes to interest rates. The underlying conditions for our life insurance business are not attractive as a result of current low interest rates and

the guarantees given to our life insurance customers, and this also has an impact on the following: total MCEV earnings stood at €-724 million (1,497 m) and the new business value was €141 million (132 m).

Premium income

Total premium income for the ERGO Insurance Group in the year under review was up by 5.7% to €20.1 billion (19.0 bn). Gross premiums written according to IFRS also rose by 5.7% to €18.5 billion (17.5 bn). By contrast to total premium income, gross premiums written do not include savings premiums from unit-linked life insurance and capitalisation products.

Total premiums for domestic business increased by 3.6% to €14.4 billion (13.9 bn) and for international business by 11.2% to €5.7 billion (5.1 bn). Gross premiums written in Germany climbed by 2.9% to €13.3 billion (12.9 bn) and by 13.3% to €5.2 billion (4.6 bn) abroad. Consequently, the trend towards moderate growth on the home market and considerably more dynamic growth in our international business occurred once again in the reporting year.

As we are no longer listed on the German stock market, we have chosen to leave out detailed segment reporting in this annual report. Our business is nevertheless still broken down as follows: Life (Germany), Health, Property-casualty (Germany), Direct insurance, Travel insurance and International.

ERGO Insurance Group	2010 € million	2009 € million	Change %
Total premium income	20,131	19,050	5.7
Gross premiums written	18,457	17,470	5.7
Investment result	5,243	4,401	19.1
Net insurance benefits ¹⁾	17,738	16,114	10.1
Net operating expenses	3,598	3,476	3.5
Consolidated result	355	173	105.7

¹⁾ Incl. policyholders' profit participation

Total premium income ¹⁾	2010	2009	Change
	€ million	€ million	%
Life Germany	5,241	5,190	1.0
Health	5,778	5,424	6.5
Property-casualty Germany	3,160	3,107	1.7
Direct insurance	1,358	1,197	13.4
Travel insurance	430	390	10.3
International	4,440	3,978	11.6
Total	20,131	19,050	5.7

¹⁾ Sub-consolidated Group values

A 1.0% rise in total premium income and a 1.1% increase in gross premiums written were recorded for the Life (Germany) business field. This is primarily the result of single-premium business for annuities commencing immediately. Single-premium business has become increasingly popular throughout the market whereas new business based on regular premiums is lagging behind or is even on the decline. This was also the case last year: at €295 million (303 m), regular premium new business was down by 2.5% on the previous year, whilst single-premium business recorded strong growth of 23.0% and stood at €1,150 million (935 m). Total new business was up by 16.7%; this figure is 3.5% when calculated using the more commonly known international APE (annual premium equivalent: regular premiums plus one-tenth of single premiums). This growth is very pleasing; after all, last year saw the replacement of the two main brands which are well known in this segment – Hamburg-Mannheimer and Victoria – by ERGO, which was relatively unknown in the market.

Strong growth of 6.5% was recorded in health insurance in the year under review, which is due to domestic business (+5.7%) as well as international business (+9.8%); the latter is included under the organisational unit Munich Health at Munich Re. Growth recorded for domestic business can be largely attributed to adjustments made to premiums of business in hand which we were forced to undertake as a result of rising costs in the German health industry. Nevertheless, there have been very positive developments recorded in domestic business which was up by 28.8% to €254 million (198 m). Double-digit growth was recorded for supplementary insurance policies and even higher increases were achieved in comprehensive health insurance. A major contract signed last year had a strong impact on our figures.

Moderate growth was recorded in our domestic property-casualty business in 2010, with premium income rising by 1.7%. As is generally the case, trends in growth varied among the individual lines of business. Our largest single line of business, accident insurance, witnessed a slight drop, down by 1.6%. Fewer accident insurance policies

with a guaranteed premium refund were sold, and this had an impact on overall business. At 1.5%, motor insurance recorded an increase in the year under review following difficult years in the past, which was in line with the market in general; whether or not this is an indication that the price collapse is nearing an end, remains to be seen in coming years. Our commercial and industrial insurance, up by 2.9%, was once again a main source of growth, and we have been able to acquire market shares without having to forfeit our rigorously pursued profit-related underwriting policy. In the legal protection market, which is still affected by the difficult market conditions, a 2.0% drop was recorded in direct business.

As direct insurers address customers directly, their success is very much dependent on reputation and brand awareness. Against the background of the change in the brand name last February to ERGO Direct the 13.4% rise in business for our direct insurer can be viewed particularly positively. There has been growth across all areas: Life +14.8%, health +15.4% and property-casualty +0.1%. As far as the increase in life insurance is concerned, this can be attributed largely to the so-called capitalisation product MaxiZins. We do this kind of investment-based business only via direct insurance in Germany, and here only with a separate premium reserve stock, so that any disadvantages to existing life insurance customers can be completely ruled out. Interest rates were reduced significantly during the course of the year in line with market trends. Health insurance business conducted in this segment is sold purely as supplementary insurance policies.

At 10.3%, our travel insurance segment recorded a significant rise, with German business increasing by 10.2% and international business up by 10.4%. It was evident here that the economic situation calmed down in the year under review, which led to a business recovery in the travel industry.

Investment result	2010	2009	Change
	€ million	€ million	%
Regular income	4,968	4,892	1.6
Write-ups/write-downs	-129	-958	-86.6
Realised gains/losses	479	377	27.1
Other income/expenses	-75	91	-182.7
Total	5,243	4,401	19.1

Double-digit growth was recorded yet again for international operations. Total premium income climbed 11.6% and gross premiums written were up by 14.4%. Total premium income in life insurance recorded a 5.5% increase, which was mainly due to life insurance business in Belgium and Poland, whereby growth recorded in Poland can be largely attributed to the expansion of cooperation with banks. As expected, there was a fall in single premiums for unit-linked life insurance policies in Austria. At 17.6%, a strong rise in premiums was recorded for property-casualty insurance. In Poland, whose economy suffered relatively little from the financial crisis in comparison with others, there was pleasing growth of 19.6%, which is largely due to the positive development of secondary lines of business such as technical insurance as well as bank sales. International legal protection insurance witnessed a healthy rise of 6.6%. Currency exchange rates also had a positive impact in the reporting year, whereas they had been significantly negative in the year before. This accounted for 3.4 percentage points of the 11.6% premium growth in international business.

Benefits and costs

Benefits for our customers amounted to €17.7 billion (16.1 bn) in the year under review. Apart from growth, the 10.1% rise is mainly due to the following two reasons: the higher investment result on the one hand which predominantly benefited customers in personal lines business; and significantly higher payments for losses in the property-casualty segment of international business on the other.

Expenditure on premium refunds alone climbed by €1,057 million, mainly as a result of domestic life and health insurance.

At 19.0%, the rise in claims and benefits paid of property-casualty insurance in international business was noticeably higher than in premiums earned (+12.5%). This disagreeable development is due on the one hand to the adverse effects recorded throughout the market, especially concerning motor insurance in our major markets, namely Turkey, Poland and South Korea. Furthermore, natural events, such

as the severe winter and damage caused by floods, meant a significant increase in expenditure on losses.

As regards costs, the rise in overall net operating expenditure for the ERGO Insurance Group, up by 3.5% to €3.6 billion (3.5 bn) was considerably less than growth in premiums. Nevertheless, by comparison to last year, effects which had a positive impact on results, such as deferment of acquisition costs in particular, cushioned the effects somewhat. If only administrative and acquisition costs are taken into account, then the increases – in gross terms – are 5.5% and 7.1% respectively. It should be noted here that additional costs were incurred in Germany as a result of changing brand names.

Investment result

As a major institutional investor, developments taking place on the capital markets worldwide are of immense importance to us. Interest returns on customers' monies are an essential element of success, especially as regards life or health insurance. At the same time, interest rate and currency trends on the capital markets also have a decisive impact on the income statement. In 2010, the capital market continued to be dominated by the consequences of the financial crisis.

The trends on the markets regarding interest-bearing securities were a major challenge in the year under review, as we invested the overwhelming percentage of our investments, amounting to €116 billion (113 bn) in fixed-interest securities and loans. A breakdown of our investment portfolio and major developments are detailed in this report, starting on pages 24 ff. The dramatic heightening of the crisis of confidence in the financial solvency of several European countries finally led to a debate about the future viability of the eurozone. The result came in the form of dramatic interest rate movements: firstly, a drop in returns of top-rated securities as a result of a run on quality until August, followed by a noticeable rise in interest rates

towards the end of the year. End-of-year interest rates based on ten-year government bonds fell on balance by 42 basis points.

The falling level of interest – as difficult as it was for our long-term personal lines business – had an overall positive impact on our income statement. Falling interest rates mean increases in the value of derivatives held to hedge against a persistent low interest rate scenario. The result of interest rate hedges on the consolidated result was +€19 million (–71 m).

By contrast, developments on the markets for other investment categories – e.g. shares or real estate – had a moderate impact on our results. This was not least due to the small amounts which these investment categories meanwhile account for in our overall portfolio.

As a result of the developments described above, our investment result soared by 19.1% to €5.2 billion (4.4 bn). The main impetus for this rise was the massively reduced net amount from write-downs and write-ups on investments which improved by €830 million in the year under review. This includes a write-down on our stake in the Austrian bank, ÖVAG, the top institute of the Österreichische Volksbanken. On the other hand, the net amount of unrealised gains and losses of investments for account and risk of policyholders of unit-linked life insurance had dropped by €170 million in 2010. Returns based on the average amount of investments at market value stood at 4.5% (3.9%).

Results

We were able to increase the operating result by an impressive 36.6% to €1,002 million (734 m), which is made up of the technical and non-technical result. An interest component in the shape of the technical interest yield is ascribed to the technical result. For further details on ascertaining the technical interest yield in the business fields, please refer to our explanations on page 116.

After the technical interest yield has been deducted, the non-technical result mainly comprises that part of the investment result which is not deemed as benefits to customers. It has also increased significantly in line with the considerably improved investment result and, at €366 million (–59 m) is once again significantly positive. By contrast, the technical result dropped to €636 million (793 m), which is due not least to the difficult situation in the international property-casualty business. Furthermore, higher expenditure on the provision of premium refunds was recorded in the business field Life insurance (Germany) than in the previous year.

The consolidated result increased to €355 million (173 m). Domestic property-casualty insurance, which increased the previous year's high result still further played a major part in contributing to the consolidated result. The positive increases in results recorded for domestic life insurance, health and direct insurance should also be mentioned. Indeed, the latter can be deemed exceedingly positive in face of the conversion of the brand name to ERGO Direct. There is still a need for improvement in the areas of travel insurance and international operations. We intend to improve our international business significantly in 2011.

Events after the balance sheet date

In China the ERGO Insurance Group will be founding a joint venture with the Shandong State-owned Assets Investment Holding Company (SSAIH) which will offer mainly life insurance cover for private customers in the Shandong province. The ERGO Insurance Group and SSAIH will each hold half of the shares in the joint venture. According to the joint venture agreement, the ERGO Insurance Group will pay RMB300 million (€34.0 m) for its share in the ordinary capital. The set-up of the company will commence as soon as the regulatory authority has given its approval. The company's name will be "ERGO China Life Insurance Co., Ltd."

Investment result by type of investment	2010 € million	2009 € million	Change %
Land and buildings, including buildings on third-party land	180	168	7.2
Investments in affiliated companies and associates	41	–99	–
Mortgage loans and other loans	2,138	1,962	9.0
Other securities	2,918	2,187	33.4
Other investments	–33	183	–118.3
Total	5,243	4,401	19.1

Management Report

Assets and financial position

Our capital structure is essentially determined by our insurance activities: the liabilities side of the balance sheet is dominated by technical provisions (80.8% of the balance sheet total) – future pay-out commitments to our clients. Equity (2.7% of the balance sheet total) is the most important source of funds on the liabilities side. The importance of strategic debt is increasing within the scope of our active capital management. The assets side of the balance sheet is dominated by capital investments, which essentially serve to cover technical reserves.

Equity and capital management

At the end of the financial year under review equity stood at €3.8 billion (3.9 bn). This slight drop resulted from the evolution of shareholders' unrealised gains and losses, which form part of "Other reserves". The increased risk premiums for government bonds in Portugal, Ireland, Italy, Greece and Spain led to a sharp decline in some of their prices.

Through active capital management, we ensure that ERGO's capital is maintained at an appropriate level. Our available financial resources must always be sufficient to cover the capital requirements determined both by our internal risk model and by the requirements of supervisory authorities and rating agencies. We aim to ensure that our financial strength is such that it enables us to take advantage of measure opportunities for growth, is not significantly affected by normal fluctuations in capital market conditions, and remains at a reasonable level even in the wake of major loss events or substantial falls in the stock markets.

Our internal risk model, which we use to calculate our economic risk capital, plays a key role in capital management. By economic risk capital, we mean the amount of capital that ERGO needs to have available, with a given risk appetite, to cover unexpected losses in the following year. To determine our economic risk capital, we use the economic profit-loss distribution across all risk segments. The economic risk capital corresponds to 1.75 times the value at risk of this distribution over a one-year time horizon with a confidence level of 99.5%. The value at risk with a confidence level of 99.5% gives the economic loss for ERGO which, given unchanged exposures, will be statistically exceeded in no more than one year in every 200. It represents the future

risk tolerance under Solvency II. By calculating 1.75 times the capital requirement in respect of this risk tolerance, our Group adopts a conservative approach, aimed at offering our clients a high degree of security. Through our incorporation in the group-wide capital management of Munich Re, we profit from the group's overall financial strength.

We are proposing to this year's Annual General Meeting that a dividend of €3.58 (0.60) per share be approved.

The individual insurance companies of the ERGO Group are subject to the regulatory requirements pertaining to the countries in question. In the year under review all but two of the foreign insurance companies within the ERGO Insurance Group met the local solvency requirements, and the necessary increases in capital for these two in question were carried out in January 2011. All companies in the Group have sufficient financial security in place.

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).

ERGO's financial strength and that of its major subsidiaries are assessed by leading rating agencies. The ratings are on a high level and are published on the ERGO website (www.ergo.com).

Debt capital

Debt capital shown in the balance sheet stems to a very large extent (20.4%) from Münchener Rückversicherungs-Gesellschaft AG, Munich. The remaining subordinate capital comes mainly from Münchener Rückversicherungs-Gesellschaft AG, Munich.

Technical provisions

The majority of technical provisions is contained in the business fields of Life Germany (53%) and Health (27%). Detailed information on these provisions may be found in the Notes to the financial statements on pages 101 ff.

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 pay-out pattern of technical provisions varies enormously from one line of business to another. Travel insurance concerns extremely short-term business, and claims are settled on average after only seven days. Whereas the majority of reserves are paid out within a year for property insurance, substantial amounts accrue under certain circumstances decades after concluding the respective policies in the case of life insurance or liability insurance. 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.

Investments

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 so doing, we of course abide by requirements relating to supervision, the balance sheet and tax in order to guarantee maximum certainty and profitability combined with continuous liquidity and an appropriate mixture. Taking account of the strategies which are decided in the strategic asset allocation department, 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.

As far as operational implementation is concerned, MEAG MUNICH ERGO Asset Management GmbH takes charge of the bulk of our investments. MEAG is a wholly owned subsidiary of Munich Re in which ERGO has a 40% holding.

As at 31 December 2010, MEAG managed investments with a total value of €104 billion (102 bn) on our behalf. The Group's remaining investments essentially comprise funds from unit-linked life insurance and mortgage loans. We manage the latter on our own account.

We only invest in assets from which we can expect an appropriate return; in addition to taking account of the risk capacity of the company in question, our risk management also abides by the principle of sustainability. We limit currency risks by covering expected liabilities wherever possible 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. A detailed description of how we manage investment risks can be found starting from page 36 of the risk report, where we also explain our approach to asset-liability management.

Our investment strategy takes account of social, ethical and ecological principles. Our existing capital investments and new investments in shares and in corporate, bank and state bonds are required to meet certain sustainability criteria. We invest predominantly in companies which are members of the Dow Jones Sustainability, FTSE 4 Good, ASPI, ESI or MSCI KLD 400 Social indices or which meet the sustainability criteria of recognised sustainability rating agencies. The continual and systematically applied process is implemented and monitored by our asset manager MEAG. In recent years, we have made our sustainability criteria stricter, in particular with regard to corporate and bank bonds. We are confident that applying sustainability criteria to our investments will, in the long term, have a positive impact on risk and earnings.

Major developments and structure of investment categories

As at 31 December 2010, our investments were worth €116 billion (113 bn), an increase of 2.7%, of which €5.0 billion (4.0 bn) accounted for investments for the benefit of life insurance policyholders who bear the investment risk; their increase of 23.1% is principally due to the positive trend of the stock markets. The following remarks on the composition of our investments relate to the investment portfolio not including investments for the benefit of life insurance policyholders who bear the investment risk.

Type of investments	2010 € million	2009 € million
Land and buildings, including buildings on third-party land	2,719	2,692
Investments in affiliated companies and associates	642	615
Mortgage loans and other loans	48,695	46,279
Other securities	57,872	58,331
Other investments	1,502	1,336
Total	111,431	109,251
Investments for the benefit of life insurance policyholders who bear the investment risk	4,957	4,026

In 2010, our investments continued to consist primarily of fixed-interest securities, loans and short-term fixed-interest investments. Of these, over 40% were government bonds or instruments engaging the liability of public institutions. 19% of them were bonds of Portuguese, Italian, Irish, Greek or Spanish issuers. In addition, approximately 41% of our interest-bearing portfolio consisted of first-class collateralised securities and receivables, 47% of which were German pfandbriefs.

As in the past, our interest-bearing portfolio as a whole is characterised by a good rating structure. These are described in more detail in the Notes starting on page 82.

In the reporting period we again increased the duration of our bond portfolio; this reflects the average period over which the capital is tied up and stood on the cut-off date for the report at 6.7 years (6.3). 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. On the other hand, we are also concerned about the risk of growing interest rates. We have securities in our portfolio which offer us some protection against a rise in interest rates associated with future inflation.

Investments in tangible assets such as shares and real estate also improve protection against the risk of inflation and diversify our investment portfolio. In 2010 we carried out a precautionary restructuring which reduced the market value of our share portfolio, including our stakes in affiliated and associated companies, to €3.4 billion (3.6 bn). On the cut-off date our economic share exposure after hedging stood at 1.4 (1.5)%. We did not expand our real-estate portfolio in 2010.

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 fallen since the beginning of the year to €0.4 billion (0.6 bn).

In terms of interest, we initially recorded a falling level of risk-free interest rates in 2010, though it rose again at the end of the year to a level slightly below that recorded at the end of the previous year. Against this, risk premiums on government bonds rose for the bonds of some countries in the eurozone, above all those of Greece, Ireland and Portugal. Overall, the net amount from unrealised gains and losses from our fixed-interest securities in the category “available for sale” fell to €0.5 billion (1.8 bn).

Reserves of our loans assessed at amortised cost rose to €1.5 billion (1.3 bn). All in all, our off-balance-sheet valuation reserves (including owner-occupied property) rose to €2.9 billion (2.4 bn).

Investments

No significant investments in shareholdings took place in the reporting year other than pure capital investments.

At our Düsseldorf headquarters we are investing in the construction of a fail-safe computer centre and application-oriented IT control room as part of a newly built section of the building.

We have invested an amount running into tens of millions in the advertising campaign to promote our ERGO brand as an operational insurance brand in Germany. We have completely revamped our image and logo and, in the middle of the year, launched a major advertising campaign to raise awareness of the brand and its positioning on the market. The trade journal "kontakter" elected it the campaign of the year in Germany.

All investments have been financed using funds from ongoing business operations.

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 premiums 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 50) 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.

Net cash inflow from operating activities was €4.0 billion (5.0 bn). The basis for determining it is the consolidated result amounting to €355 million (173 m). On the one hand, it is increased by the change in technical reserves of €4.6 billion (6.3 bn). This was largely due to the interest

on life insurance and health insurance policies; the high previous year's figure was due to a strong increase of the provision for premium refunds in 2009. Another major item worth mentioning here is the change in deposits retained and accounts receivable and payable of €0.1 billion (2.6 bn); the high previous year's figure resulted from the change of a life reinsurance contract.

The cash outflow from investment activities of €4.0 billion (4.8 bn) is generally determined by payments for the acquisition of other investments or investments in unit-linked life insurance; they amounted to €3.3 billion (3.7 bn) and €657 million (711 m) respectively. In addition, the 2009 figure was affected by the acquisition of the ERV.

At €90 m (84 m), the cash outflow from financing activities was again very insignificant; alongside dividends of €45 million (2 m) lower interest payments for debt are worth mentioning.

Overall, cash in hand at the end of 2010 was nearly unchanged at €1.4 billion; this figure includes operating balances with banks, cheques and cash in hand.

Management Report

Other success factors

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, whose feedback we use to continually improve our needs-oriented products and solutions, and
- our corporate responsibility towards our employees, society and the environment.

Customers and customer relationships

Our products are geared towards all customer groups – private clients as well as small and medium-sized businesses and industrial clients. ERGO offers them products and services for old-age provision and wealth creation as well as health, legal and travel protection. In addition, our sales channels 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, and other banks. Products of other partners and our comprehensive 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.

At the same time, the clear association of brands with lines of businesses makes for easier orientation. The name ERGO is associated with life and property-casualty insurance, DKV with health insurance, D.A.S. with legal protection and ERV with travel insurance.

We attach great importance to clear communication and a close dialogue with our customers – an aspiration which is reflected in our service pledge “to insure is to understand”. Customers are able to make suggestions via various channels and can, for example, give us detailed feedback on the Internet. By expressing their wishes regarding our products and services, our clients help us continually improve what we offer.

Our field staff place great value on advice, support and service – and not just during their sales pitch. We see ourselves as an all-encompassing problem solver for our customers long after the contract has been signed and seek to convince our clients with our fair and swift claims settlement and helpful everyday services or health services. The quality of our claims management has been certified by the German Association for the Certification of Management Systems (DQS) according to the DIN-EN-ISO9001 standard, which involves controls and claims controlling, as well as regular onsite checks.

Staff

Our Group-wide uniform management structure allows for a targeted use of synergies. Our staff put the Company's strategic orientation into practice with quality and flexibility, thereby securing our successful position on the market.

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 for our Group, either as salaried employees or as full-time 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.

2010 was marked in Germany by the readjustment required by our new brand strategy. This process of change was accompanied by numerous consultations and events during which employees were able to learn about and contribute towards the new mission statement. The pledge to our staff derived from the mission statement and the follow-up measures to be taken are an integral part of the HR strategy developed in 2010.

A Group-wide staff survey in Germany was carried out in the year under review. This survey was used to ascertain staff satisfaction with working conditions, direct leadership, cooperation with colleagues, work and learning opportunities and with the ERGO Group as a whole. On the basis of its results, measures have been devised to increase the staff's overall satisfaction with the ERGO Group still further. These measures will mostly be implemented in 2011. This staff survey will be repeated regularly in future.

At the end of the reporting year there were 32,997 (33,152) salaried employees working for the ERGO Insurance Group, of which 26,748 (26,577) were employed in back-office and 6,249 (6,575) were salaried field sales staff.

The average age of our employees is 40.7 (40.4), and the average length of service 11.5 (11.5) years. The percentage of women stood at 56.7% (56.8%).

Ensuring that our staff have qualifications which meet the needs of our industry still has a high priority in the context of 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.

We attach great importance to offering traineeships in order to gain qualified and motivated staff on a long-term basis. In 2010, the ERGO Insurance Group and its agencies in Germany trained 1,583 (1,539) school leavers, which equals a ratio to total working staff of 6.7% (6.5%).

Social commitment

To us social commitment means taking active responsibility vis-à-vis our staff and customers for the environment and community in which we live and work. As a Group with international operations, we therefore feel bound by the model of sustainability. This is consistent with our business in the long term: as an insurer, we give a pledge for the future and in so doing help people to shape their lives. ERGO supports selected scientific, cultural and social projects as well as projects in the area of health promotion.

As well trained junior employees are indispensable to the future viability of a modern company, ERGO is committed to the education and training of young people and to teaching and research in universities. For example, in the 2009-2010 academic year we fostered dialogue between schools and industry as a main sponsor of the "Schule macht Zukunft" competition for schools embracing the future. The ERGO "Jugend und Zukunft" (Youth and Future) Foundation advises socially disadvantaged young people when making the transition to training and work, and each year it awards a €100,000 national sponsorship prize for initiatives supporting children and young people.

As part of our commitment to the arts, the fostering of musical talent and experiences for children and young people is particularly close to our heart. For example, we sponsored the "3-2-1-Ignition" series of concerts at the Düsseldorf Tonhalle and the "SingPause" project involving trained singers regularly singing in primary schools in Düsseldorf.

Our companies and staff also support social institutions and projects in Germany and throughout the world. More than 5,000 of our staff are members of the "ergo: wir helfen" and "D. A. S.ler helfen" societies, which help people in need. As part of our brand launch in the summer of 2010, thousands of our employees throughout Germany took part in a sponsored cycle, donating a euro per kilometre cycled to social projects. It raised some €75,000 in total. One of the focal points of our social commitment is the integration of disabled people. This is promoted in particular by the customer services of DKV Seguros in Spain, which employs only disabled staff to man its customer phone lines – a great idea which has also been copied by ERGO Hestia in Poland. As part of the "The Big Kick to Johannesburg" project, around 2,000 sales partners of the sales organisation HMI dribbled a football from Germany to South Africa. They covered the 10,500 km in over 49 days. Every time the ball was touched, donations were made to the charity "Ein Herz für Kinder" (a heart for children). A total of €150,000 was raised.

In order to contribute to a healthier society, ERGO supports health education and promotes measures targeted at the diagnosis, treatment and prevention of disease. For example, as part of an information campaign, ERGO Hestia in Poland and ERGO in Estonia are informing women about breast cancer in so-called "Mammobuses" and are offering preventive check-ups (mammograms) free of charge.

Environment

Environmental protection has been an important concern for ERGO for many years, and we see it as being part and parcel of our social responsibility. The environmental management system which has been implemented in parts of our Group for more than ten years already was successfully extended and expanded in 2010. With the adoption of the ERGO Environmental Principles in 2010, the basis was created for the certification of ERGO Versicherungsgruppe AG in May under ISO Standard 14001, which is applicable worldwide. Alongside the head office in Düsseldorf, staff in other premises have now been successfully integrated. It is planned gradually to extend this environmental management system.

As part of duties imposed by the “Global Compact” environmental initiative of the United Nations, which the Munich Re Group as a whole has joined, we regularly examine our potential for improvement and synergies. Munich Re publishes an annual progress report for the purposes of “Global Compact”, which also covers developments in ERGO. Munich Re’s extensive sustainability portal also gives information on the various activities of ERGO as the group’s primary insurer.

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. We are continually developing our existing security management system, taking into account international standards, such as the security standard ISO 27001 and the progress of Solvency II. There is an intensive exchange of information between ERGO and Munich Re concerning questions relating to security issues.

Ensuring that persons, information, items and assets are protected is of principal importance to ERGO. Our data privacy policy, which regulates the handling of customer 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 issues. The legal basis for processing customer data is the contractual relationship and the consent given by customers when taking out insurance cover.

Management Report

Prospects

The assessment and explanation of the likely development of our Company with its fundamental opportunities and risks are achieved to the best of our knowledge and belief by basing the findings on prospects in the industry, future economic and political parameters, as well as trends and major factors of influence. These prospects, parameters and trends may, of course, change in the future without it already being foreseeable at the moment. On the whole, the actual development of the Company and its results could therefore diverge quite considerably from the forecasts.

All in all, looking ahead at the next two financial years, we continue to expect a positive trend in the ERGO Insurance Group's business. 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

We anticipate that the world economy will continue to recover in 2011, but at a slower pace than was the case in 2010. Growth is likely to be considerably more pronounced once again in the emerging economies, first and foremost in China and India, than in industrialised countries. We expect inflation to remain low in most industrialised countries in line with the economic cycle, and higher rates will only be reached in some emerging economies.

In Germany, too, we anticipate that there will be moderate inflation as the economic momentum subsides in 2011. We expect demand from abroad to be curbed and that rising private consumer demand and investments will be the pillars of economic activity. The insurance industry is likely to benefit from the expected strong economic situation of private households and the continued recovery of the business sector.

Even though we expect the world economy to expand in 2011 and beyond, the economic prospects two years after the economic trough are still overshadowed by uncertainties. The high degree of debt by many states already unsettled investors in 2010 and could destabilise the financial system yet again. Another collapse in economic activity or a longer lasting phase of stagnation with deflationary consequences cannot be completely ruled out in some

countries. As regards life insurance, the trend in the interest rate is an important factor of success: Business profitability would suffer if the phase of low interest rates were to continue for a long time. Nevertheless, insurers have proven over the past two years that they can also cope in economically challenging times.

Capital market trends

It is probable that sustained growth in 2011 will lead to a slight rise in interest rates for German and American government bonds. As we only anticipate a slight rise in the base rate, the yield curves are likely to remain relatively steep. Trends on the currency markets will remain volatile as a result of the debate on national debt. The lax monetary policy in numerous industrialised nations, moderately positive growth and confined inflation are basically creating a positive environment for stocks and shares. As far as we are concerned, this offsets the risks posed by this outlook.

The trend in the insurance industry

As a result of the different underlying conditions reigning in some European insurance markets, we will concentrate on the developments in the segments of our home market of Germany below.

Life insurance in 2011 and 2012

The limited efficacy of pay-as-you-go social insurance systems is well known. In this context, the role of life insurance as security in old age is likely to grow even more. We anticipate that products with annuity-like payments will gain in importance over the coming years, since the security aspect is still very important to people. Consequently, the significance of minimum guarantees will rise in unit-linked insurance solutions. Moreover, innovative investment concepts will become increasingly important for this business

segment, not least due to securing a guarantee, but also as a result of customers' expectations on returns. Business impetus is also to be expected in insuring against the risks of disability or long-term nursing care.

By means of appropriate measures, for example in shaping the contract, the long-term nature of old-age provision based on single-premium policies is to be further encouraged in order to curtail demand mainly motivated by returns. The Federal Financial Supervisory Authority (BaFin), in particular, has already taken a stance on this. Furthermore, against the background of permanent low interest rates on the capital market, the legislator intends to drop the maximum permitted technical interest rate for new contracts to 1.75% with effect from 1 July 2011.

It is difficult to forecast how business will develop over the next year due to the increasing volatility of premiums as a result of the high significance of single-premium business. Assuming that there will be a moderate fall in single-premium business, the German Insurance Association (GDV) is anticipating a 3.5% drop in premium income for life insurance (including retirement funds and pension funds) in 2011.

Private health insurance in 2011 and 2012

As a result of the statutory insurance finance law (GKV Finanzierungsgesetz), the three-year waiting period imposed for the transfer from statutory health insurance (GKV) to private health insurance (PKV) for salaried employees was abolished on 31 December 2010. Salaried employees can switch to private health insurance after having exceeded the insurance threshold once. Those starting out in employment can immediately choose private health insurance if their earnings exceed the statutory insurance threshold. Legislation is thus setting an important foundation for employees to be given the freedom of choice and for privately funded healthcare. This, together with the fact that insurance premiums can be offset against tax, is likely to have a positive impact on new business.

By contrast, government did not introduce the clearer distinction in optional and supplementary tariffs between statutory health and private health insurance it had announced in its coalition agreement. Optional tariffs in the statutory healthcare system are still offering benefits not listed in the public health scheme. It is to be expected that the statutory healthcare system will continue to penetrate further into the market of private supplementary cover.

The rising expenditure on healthcare will result in increases in premiums throughout the industry in 2011, too, especially by means of premium adjustments. Provisions governing the Pharmaceutical Reform Act in Germany (AMNOG) will have a slight dampening effect on this aspect. As from 2011, manufacturers' discounts for medicines will also benefit people with private health insurance. The inclusion of the private health insurance industry in the drugs savings package is very welcome. Nevertheless, private insurers will continue to advocate a general authority over contracts with all benefit providers in the German healthcare system, in order to be able to exert greater influence on the quality and price of health benefits.

Furthermore, it is expected that the government will make a concrete proposal for the introduction of compulsory and privately funded supplementary long-term nursing care insurance in 2011. This type of supplementary insurance would be well accommodated within the realm of private healthcare insurance and, accordingly, would have a positive impact on new business.

All in all, a 6% growth in premiums is expected for private health insurance in 2011. Against the backdrop of the current situation concerning healthcare and legal parameters, there are opportunities for a positive trend for the industry in 2012 too.

Property-casualty insurance in 2011 and 2012

As a result of healthy expectations for the economy as a whole in 2011, it is anticipated that growth will be recorded in property-casualty insurance too. It is likely that the disposable income of private households will also increase because of the buoyant economic situation.

It should be possible to raise motor insurance rates, both for new as well as for existing business. It is probable that the expected rise in premiums in private property business as a result of high market penetration will only be achieved by inflation-related premium adjustments. Economic recovery is expected to take place in the commercial and industrial area. An increase in premiums is likely for transport insurance, which is dependent on the amount of turnover, as well as for general liability policies, both of which were adversely effected by the financial and economic crisis. Legal protection insurance should achieve a slight growth in the number of premiums sold. Overall, growth in 2011 could be roughly on par with figures recorded last year.

As a result of the economic function of the insurance industry, the next few years can be expected to provide a healthy demand for insurance despite global economic development forecasts being encumbered with considerable uncertainties and the inherent risk for the export industry.

ERGO's performance

We have used the revised brand presence to reposition ourselves, and are focussing strictly on our customers' wishes and needs. We are working towards clear and easy-to-understand communication with existing and prospective customers and are inviting them to give us constructive feedback. Detailed suggestions and requests which customers email to the Company are incorporated into products and processes. As from 2011, a newly appointed 'customer advocate' will represent customers' interests in internal processes in Germany. The emphasis on customer focus will be the benchmark of actions in all corporate units and companies. For instance, we are continuing to strictly adhere to our promise of less complexity and more clarity by making the letters sent out to our customers as well as our terms and conditions easier to understand. This should then have a positive impact on our business too.

All in all, we have an optimistic view of the future. Consequently, we can also see vast opportunities in the growing old-age and health provision markets in the coming years. As regards the domestic life insurance segment, we intend to develop more flexible and innovative insurance solutions which are geared towards the capital market and to invest in the set-up of a new product platform for these types of products. We are confident that we will be actively involved in the opportunities offered by this market. The overall trend in premium income will also depend on whether single-premium products will still be in great demand as was the case in 2010.

As far as private health insurance is concerned, we are still in the midst of a challenging environment, both in terms of the fiscal and political situation. As the underlying conditions concerning healthcare are currently stable, the abolition of the three-year waiting period and the tax deductibility of health insurance premiums as well as premiums for statutory health insurance are nevertheless expected to lead to a positive trend in new business as well as in premium income. Our potimised product portfolio for all target groups and sales channels, in addition to including new supplementary insurance products, will also be contributing to this aspect.

As regards domestic property-casualty insurance, we intend to record higher than average market growth, but will continue to only underwrite business on adequate terms. We will make every effort to ensure that our combined ratio is once again at the outstanding level of significantly below 95%.

Direct insurance should benefit in the coming year from the growing awareness of the brand and gross premiums written are set to increase still further. Whether or not total premiums will rise, will undoubtedly depend on the trend in interest rates and the ensuing decisions concerning the continuing availability of the capitalisation product MaxiZins.

Insofar as the economic upswing gains more ground, the travel industry is also likely to benefit, resulting in a corresponding effect on our travel insurance business.

The international life insurance business is also feeling the effect of positive underlying conditions. However, growth will largely depend on how demand for single-premium business develops. The international property-casualty insurance is all set to maintain good growth provided that no economic setbacks or exchange rate losses occur. We intend to significantly improve our combined ratio.

All in all, total premium income is set to be in the range of €20-21 billion in 2011. The lower threshold takes into account the rising uncertainty concerning single-premium life insurance business in face of the currently high level. In terms of the consolidated result, we are looking to achieve a figure of €450-550 million in 2011 and to continue along this path in 2012 too.

Management Report

Risk report

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. 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. The risk management organisation is headed by the Chief Risk Officer (CRO) to whom 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. The 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

The 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 that of 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 fields of business, companies, type of risks, 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 the 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 significance and classification of the risks.

Control and monitoring systems

The Group-wide project to develop our internal risk control system (IKS) was continued in 2010. Our 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 regulation bodies. The Board of Management has overall responsibility for IKS, and it falls structurally under the responsibility of the CRO. Responsibility for content is borne by the experts and staff in the company units in question. By incorporating staff in this way we have reinforced the basis for a uniform understanding of risk within the Group and have improved our risk and controlling awareness.

The holistic management approach of IKS means that we can achieve a rise in efficacy and efficiency in identifying, analysing, assessing and documenting major risks and key controlling aspects. The optimisation of risk and control accountability by means of clear competence structures and risk management measures also creates transparency. By systematically linking major risks and processes together, a risk map has been developed for the ERGO Insurance Group which indicates all the relevant risk checkpoints.

The efficacy of IKS in major processes and applications is assessed by the Group internal auditors as part of audit planning over several years.

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

Risk reporting

The central unit of IRM is in charge of risk reporting, which complies with current legal requirements (e.g. based on Section 55c German Insurance Supervisory Act, VAG). It also informs the public and creates internal 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 claims and

occurrences, meaning that management are 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 tolerance 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 of 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 risk, risk caused by default on receivables from insurance business, investment risk, operational risk and other risk.

Underwriting risks

Management of underwriting risk takes a central role. 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 obligation on a sustained basis.

We underwrite private and corporate client insurance business which result 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 obligation 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 further 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	• Biometric risk	• Premium risk
• Interest-rate risk	• Lapse risk	• Major and very large loss risk
• Other market risk	• Claims risk	• Reserve risk
• Lapse risk	• Technical interest-rate 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 business.

A differentiated analysis of the underwriting risk 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.

Risk from default on receivables from insurance business

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

On the reporting date, accounts receivable, where payment due was more than 90 days old, accounted for €241 million (152 m). To hedge the risk, we have therefore taken precautionary measures by making adjustments to the value of receivables. On average, 9.5% (9.8%) 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.

43.8% (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:

Investment risk

Investments undertaken by the ERGO Insurance Group represent a major source of income and can 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 (AL 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, and take 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).

Assets managed by the companies themselves (some shareholdings and real estate, as well as property loans, mortgages, refinancing loans, loans on policy, civil servants and staff loans, deposits retained and surpluses from unit-linked life policies) are monitored in the same way as assets managed by MEAG, namely by means of projections and internal reports. 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

Receivables from reinsurers according to rating classes	2010 € million	2009 € million
Rating class 1 (AAA)	1	1
Rating class 2 (AA)	43	25
Rating class 3 (A)	23	13
Rating class 4 (BBB and less)	–	–
No rating	17	6

strictly defined processes. The trigger landscape, which is in operation throughout the Group, differentiates between three danger levels involving different measures.

The levels are derived from the risk tolerance 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 equity markets.

Proactive risk management has enabled a considerable reduction in the adverse effects of the financial market crisis for the ERGO Insurance Group. Over the past couple of years we have 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 2010 financial year, too, ongoing development took place as regards risk management activities in investments. Worth mentioning are improvements to early-warning systems concerning liquidity and credit risks. It was possible to reduce the risk of default by a contract partner from stand-alone derivatives by introducing and developing collateral management.

The requirements of the accounting standard as set out in IFRS 7 is complied with in the following depiction of investment risks.

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

Market risk

A 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 changed to the interest rate, share price risk, risks due to changes in property value, exchange rate risk, asset-liability mismatch risk and credit spread risk due to deteriorating creditworthiness.

Market price fluctuations do not only have an impact on our investments, they also have an effect on our underwriting liabilities, particular 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 93.2% (93.6%) 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 and the investment result. 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 in the past. We are still pursuing a defensive investment strategy due to continuing volatile developments expected 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 risk in the ERGO Insurance Group is 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 risk 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 in time.

Credit risk

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 assessments 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 by 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.

As regards bond portfolios, 93.0% (93.4%) recorded a rating of at least the third highest category “strong” at the end of the financial year (for details, please refer to [6g] to [6i] 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.

The diversification of the investment portfolio within the ERGO Insurance Group 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

Bonds portfolio according to individual categories	Share in all interest-bearing investments %	Rating at least category “strong” %
Bank bonds/loans against promissory notes	8.5	77.1
Covered bonds/pfandbriefs	40.7	99.7
Government bonds	39.7	92.1
Corporate bonds	4.6	55.1
Other	6.5	90.5

Government bonds – selected countries	Fair values € million	Carrying amounts € million
Portugal	605	719
Republic of Ireland	1,463	1,799
Italy	3,135	3,223
Greece	1,063	1,576
Spain	1,594	1,799

critical situation in the banking sector and government bonds in the 2010 financial year through constant verification of the maximum limits with some 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.

Investments in eurozone countries which are deep in debt (Portugal, Republic of Ireland, Italy, Greece, Spain) amount to 7% of investments. In spite of the high budget deficit and high public debt we do not anticipate that Portugal, Republic of Ireland, Italy and Spain will be downgraded even further in the mid-term by the rating agencies to outside the investment grade or against the background of the EU/IMF aid programmes with an acute liquidity crisis. The future solvency of Greece will largely depend on the success of consolidating the budget which has since been introduced and continued international support. A breakdown of government bond exposures in market and nominal values is shown at the top of the page:

Liquidity risk

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 investments and 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. On the other hand, debts from derivative business are secured as a result of collateral management agreements with the respective counterparty.

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). The 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. During the period of low interest rates in the 2010 financial year, returns on reinvestments were already benefiting from this hedging business. 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 pfandbriefs.

Variable external financing by banks has been hedged in part by 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, the 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 risk

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 strictly pursued, is to make employees aware of possible risks and to establish an appropriate risk culture.

The “Continuous Improvement of the Competitive Position” project was more or less concluded in the year under review following the introduction of new processes and structures within ERGO. The optimisation of these processes is still continuing.

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 schemes ensure that our employees are highly motivated.

Companies are under 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 in domestic and international ERGO companies. A special reporting procedure has been set up with the ERGO Fraud Prevention Officer in major fraud cases. The number of cases reported both in Germany and abroad shows the increasing sensitivity for these topics in ERGO companies as well as the progress in the increasingly strict handling and sanctioning of these

cases. The ERGO Board of Management receives a report at least once every quarter and the audit committee of the Supervisory Board is notified every six months.

ITERGO, which is part of the ERGO Group, is in charge of the management of IT systems and the risks associated with it. 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.

The implementation of emergency management as a major part of business continuity management was more or less concluded. 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. A follow-on project will define and implement the major measures to keep company areas operating which are critical to business activities. Furthermore, the organisation and planning of emergency measures will be steadily developed and current requirements implemented.

Other risk

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.

In line with the current reports on certain court judgements, for example a statement of instalment supplements, reputation risks may arise irrespective of the question of a legal binding force. A forecast cannot currently be made as to whether certain verdicts may also have an impact on the company’s existing business. This will have to be monitored over the course of time.

As far as socio-political risks are concerned, the so-called “national insurance scheme” (Bürgerversicherung), in particular, is a threat to private health insurance. By making it compulsory for everybody to be covered by public health insurance, the scheme would at least bring an end to private health insurers’ new business in comprehensive insurance. Legal constitutional hurdles argue against including people who are already privately insured. We have been observing this risk for many years and are publicly taking a stance on the disadvantages of this type of health insurance scheme. There are similar proposals for a national long-term nursing care insurance scheme.

The future regulatory requirements on risk management have become more transparent, as the Solvency II project of the European Union has made headway. Indeed, the draft on the implementing provisions of the Solvency II Expert Group (SEG) created more transparency. There are, nevertheless, still provisions which need to be clarified, especially calibrating quantitative requirements on solvency and, hence, our capital base required to meet this in the future.

Risks associated with bad business decisions, poor implementation of decision 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 introduced a new brand strategy in 2010. A project structure created especially to oversee the change-over meant that the legal entities and systems have all been successfully switched over. Our customers received extensive information on the changeover before it was carried out. Consequently, we were able to draw the project structure to a close in November 2010.

The risk of losses as a result of 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 Group (e. g. in the central External Communications 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. Amongst 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 the 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 earning situation of the Group in the long run. The individual companies within the ERGO Insurance Group are all subject to the regulatory requirements in the respective country of their business activities. In the year under review all but two of the foreign insurance companies within the ERGO Insurance Group met the local solvency requirements, and the necessary increases in capital for these two in question were carried out in January 2011. All companies in the Group have sufficient financial security in place.

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.

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Consolidated balance sheet as at 31 December 2010

Assets	Notes to the consolidated financial statements	2010 € million	2009 € million
A. Intangible assets			
I. Goodwill	[1] p. 78	276.9	384.4
II. Other intangible assets	[2] p. 80	622.3	614.9
		899.2	999.3
B. Investments			
I. Land and buildings, including buildings on third-party land	[3] p. 81	2,718.9	2,691.7
II. Investments in affiliated companies and associates	[4] p. 82	642.3	614.7
Thereof: associates valued at equity		515.8	494.2
III. Mortgage loans and other loans	[5] p. 82	48,694.6	46,278.7
IV. Other securities	[6] p. 83		
1. Held to maturity		42.1	83.9
2. Available for sale		57,164.7	57,478.5
3. Held for trading		665.6	768.4
		57,872.4	58,330.8
V. Other investments	[7] p. 94	1,502.5	1,335.7
		111,430.7	109,251.5
C. Investments for the benefit of life insurance policyholders who bear the investment risk		4,957.2	4,025.7
D. Reinsurers' share in technical provisions	[8] p. 94	4,857.2	4,727.7
E. Receivables	[9] p. 95		
I. Current tax receivables		346.9	441.5
II. Other receivables		4,393.4	4,072.9
		4,740.3	4,514.4
F. Cash at bank, cheques and cash in hand		1,439.5	1,438.6
G. Deferred acquisition costs	[10] p. 96		
– Gross		6,522.9	6,437.1
– Reinsurers' share		244.0	230.2
– Net		6,278.9	6,206.9
H. Deferred tax assets	[11] p. 96	2,268.7	1,964.2
I. Other assets	[12] p. 98	2,382.2	2,396.8
Total assets		139,253.9	135,525.3

Equity and liabilities	Notes to the consolidated financial statements	2010 € million	2009 € million
A. Equity	[13] p. 99		
I. Issued capital and capital reserve		841.4	841.4
II. Retained earnings		2,170.0	2,122.5
III. Other reserves		255.2	577.1
IV. Consolidated result attributable to ERGO equity holders		343.8	161.6
V. Non-controlling interests		175.0	154.9
		3,785.4	3,857.4
B. Subordinated liabilities	[14] p. 101	434.6	437.7
C. Gross technical provisions			
I. Unearned premiums	[15] p. 101	1,883.9	1,677.2
II. Provision for future policy benefits	[16] p. 102	93,617.5	91,011.1
III. Provision for outstanding claims	[17] p. 103	7,621.5	7,300.3
IV. Provision for premium refunds and policyholders' dividends	[18] p. 106	9,202.9	9,706.0
V. Other technical provisions	[19] p. 107	140.7	112.5
		112,466.5	109,807.1
D. Gross technical provisions for life insurance policies where the investment risk is borne by the policyholders	[20] p. 107	5,209.8	4,117.2
E. Other accrued liabilities			
I. Provisions for post-employment benefits	[21] p. 107	1,182.5	1,077.8
II. Tax provisions	[22] p. 111	1,363.4	1,262.6
		2,545.9	2,340.4
F. Liabilities			
I. Current tax receivables		843.0	964.7
II. Other receivables	[23] p. 112	11,267.7	11,410.6
		12,110.7	12,375.3
G. Deferred tax liabilities	[11] p. 96	2,701.0	2,590.2
Total equity and liabilities		139,253.9	135,525.3

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Consolidated income statement for the financial year 2010

	Notes to the consolidated financial statements	2010 € million	2009 € million
1. Gross premiums written	[24] p. 114	18,457.0	17,469.5
2. Earned premiums			
– Gross		18,279.8	17,388.0
– Ceded share		997.8	1,238.9
– Net		17,282.0	16,149.2
3. Income from technical interest	[25] p. 116	4,690.0	4,234.3
4. Expenses for claims and benefits	[26] p. 117		
– Gross		18,374.6	16,729.8
– Ceded share		636.2	615.4
– Net		17,738.4	16,114.3
5. Operating expenses	[27] p. 117		
– Gross		3,822.3	3,909.8
– Ceded share		224.8	433.6
– Net		3,597.6	3,476.2
6. Technical result (2.–5.)		636.1	792.9
7. Investment result	[28] p. 118		
– Investment income		7,216.0	7,047.4
– Investment expenses		1,972.9	2,646.2
– Total		5,243.1	4,401.1
Thereof: income from associates valued at equity		20.1	–83.2
8. Other operating income	[29] p. 120	346.8	287.4
9. Other operating expenses	[29] p. 120	533.6	513.3
10. Deduction of income from technical interest		4,690.0	4,234.3
11. Non-technical result (7.–10.)		366.3	–59.1
12. Operating result		1,002.4	733.8
13. Other non-operating result	[30] p. 120	–326.0	–319.0
14. Impairment losses of goodwill	[31] p. 120	114.9	62.2
15. Finance costs	[32] p. 120	46.3	62.6
16. Taxes on income	[33] p. 121	160.1	117.3
17. Consolidated result		355.2	172.7
Thereof:			
– Attributable to ERGO equity holders		343.8	161.6
– Attributable to non-controlling interests		11.4	11.1

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Statement of recognised income and expense

	2010 € million	2009 € million
Consolidated result	355.2	172.7
Currency translation		
Gains (losses) recognised in equity	39.5	3.1
Included in the income statement ¹⁾	–	–
Unrealised gains and losses on investments		
Gains (losses) recognised in equity	–62.5	518.5
Included in the income statement ¹⁾	–291.7	–113.2
Change resulting from valuation at equity		
Gains (losses) recognised in equity	–	–0.5
Included in the income statement ¹⁾	–	–
Change resulting from cash flow hedges		
Gains (losses) recognised in equity	–3.6	–1.4
Included in the income statement ¹⁾	–	–
Actuarial gains and losses on defined benefit plans	–33.7	–101.5
Other changes	–24.1	–166.3
Income and expense recognised directly in equity	–376.1	138.7
Total recognised income and expense	–20.9	311.4
Thereof:		
– Attributable to ERGO equity holders	–43.5	304.1
– Attributable to non-controlling interests	22.6	7.3

¹⁾ Consolidated income statement

Consolidated Financial Statements

Changes in Group equity

Equity development	Equity attributable to ERGO equity holders	
	Issued capital and capital reserve	Retained earnings
	€ million	€ million
Status at 31 December 2008	841.4	2,306.6
Allocation to retained earnings	-	57.1
Consolidated result	-	-
Income and expense recognised directly in equity	-	-251.9
Currency translation	-	-
Unrealised gains and losses on investments	-	-
Change resulting from valuation at equity	-	-
Change resulting from hedging	-	-
Actuarial gains and losses on defined benefit plans	-	-96.3
Other changes	-	-155.6
Total recognised income and expense	-	-251.9
Change in shareholdings in subsidiaries	-	-
Change in consolidated group	-	10.7
Dividend	-	-
Status at 31 December 2009	841.4	2,122.5
Allocation to retained earnings	-	161.6
Consolidated result	-	-
Income and expense recognised directly in equity	-	-65.5
Currency translation	-	-
Unrealised gains and losses on investments	-	-
Change resulting from valuation at equity	-	-
Change resulting from hedging	-	-
Actuarial gains and losses on defined benefit plans	-	-35.3
Other changes	-	-30.2
Total recognised income and expense	-	-65.5
Change in shareholdings in subsidiaries	-	-3.3
Change in consolidated group	-	-
Dividend	-	-45.3
Status at 31 December 2010	841.4	2,170.0

			Equity attributable to ERGO equity holders	Non-controlling interests	Total equity
Other reserves		Consolidated result			
Unrealised gains and losses	Reserve from currency translation	Valuation result from hedging			
€ million	€ million	€ million	€ million	€ million	€ million
285.2	-105.3	2.9	57.1	180.1	3,568.0
-	-	-	-57.1	-	-
-	-	-	161.6	11.1	172.7
393.5	2.3	-1.4	-	-3.8	138.7
-	2.3	-	-	0.8	3.1
394.0	-	-	-	11.3	405.3
-0.5	-	-	-	-	-0.5
-	-	-1.4	-	-	-1.4
-	-	-	-	-5.2	-101.5
-	-	-	-	-10.7	-166.3
393.5	2.3	-1.4	161.6	7.3	311.4
-	-	-	-	-27.6	-27.6
-	-	-	-	-4.9	5.8
-	-	-	-	-	-
678.6	-103.0	1.5	161.6	154.9	3,857.4
-	-	-	-161.6	-	-
-	-	-	343.8	11.4	355.2
-355.4	37.2	-3.6	-	11.2	-376.1
-	37.2	-	-	2.3	39.5
-355.4	-	-	-	1.2	-354.2
-	-	-	-	-	-
-	-	-3.6	-	-	-3.6
-	-	-	-	1.6	-33.7
-	-	-	-	6.1	-24.1
-355.4	37.2	-3.6	343.8	22.6	-20.9
-	-	-	-	1.6	-1.7
-	-	-	-	-	-
-	-	-	-	-4.1	-49.4
323.2	-65.9	-2.1	343.8	175.0	3,785.4

Consolidated Financial Statements

Consolidated cash flow statement for the financial year 2010

	2010 € million	2009 ¹⁾ € million
Consolidated result	355.2	172.7
Net change in technical provisions	4,586.3	6,324.1
Change in deferred acquisition costs	-63.1	-2.3
Change in deposits retained and accounts receivable and payable	53.5	-2,655.3
Change in other receivables and liabilities	-538.4	-286.0
Gains and losses on the disposal of investments	-478.7	-379.3
Change in securities held for trading	51.5	868.5
Change in other balance sheet items	121.9	352.6
Other income/expenses without impact on cash flow	-38.3	594.6
I. Cash flows from operating activities	4,049.9	4,989.6
Inflows from losing control of consolidated subsidiaries	-	0.7
Outflows from obtaining control of consolidated subsidiaries	-2.2	-177.1
Change from the acquisition, sale and maturities of other investments	-3,304.6	-3,735.4
Change from the acquisition and sale of investments for unit-linked life insurance	-656.8	-710.7
Other	-5.9	-198.6
II. Cash flows from investing activities	-3,969.5	-4,821.1
Inflows from increases in capital and from non-controlling interests	0.1	-
Outflows to ownership interests and non-controlling interests	-0.7	-27.6
Dividend payments	-49.4	-2.4
Change from other financing activities	-40.2	-53.9
III. Cash flows from financing activities	-90.2	-83.9
Cash flows for the financial year (I.+ II.+ III.)	-9.8	84.6
Effect of exchange rate changes on cash	10.7	-
Cash at the beginning of the financial year	1,438.6	1,354.0
Cash at the end of the financial year	1,439.5	1,438.6
Additional information:		
Income tax paid (net)	-158.2	-71.2
Interest paid	382.2	516.7
Interest received	4,582.4	4,444.9
Dividends received	151.8	195.5

¹⁾ Previous year's figures adjusted pursuant to IAS 7 (see "Changes in principles of presentation and consolidation").

Consolidated Financial Statements

Principles of presentation and consolidation

International accounting rules

The consolidated financial statements of ERGO Versicherungsgruppe AG are based on Section 315 a para. 3 of the German Commercial Code (HGB) in conjunction with Section 315 a para 1 HGB and 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 standards 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 (IABS) have been referred to as "International Financial Reporting Standards (IFRS)" since 2002; the standards from previous years continue to be referred to as "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 governing 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 (DSR) were also observed provided they do not contradict the applicable IFRS.

Figures for previous year

Figures for the previous year have been calculated on the same basis as figures for the 2010 financial year.

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 where they have the actual ability to control (subsidiaries). Special purpose entities, such as special funds, are included in the consolidated accounts according to SIC 12 if, from an economic perspective, they are controlled by ERGO.

ERGO Lebensversicherung AG, Hamburg, ERGO Versicherung AG, Düsseldorf, DKV Deutsche Krankenversicherung AG, Cologne, D. A. S. Deutsche Automobil Schutz Allgemeine Rechtsschutz-Versicherungs-AG, Munich, Victoria Lebensversicherung AG, Düsseldorf, ERGO Pensionsfonds AG, Düsseldorf, Vorsorge Lebensversicherung AG, Düsseldorf, ERGO International AG, Düsseldorf, 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.

On 24 November 2010 ERGO Versicherungsgruppe AG, through its subsidiary EUROPÄISCHE Reiseversicherung AG, Munich, acquired a further 75.0% stake in its subsidiary CJSIC "European Travel Insurance", Moscow, which had previously been accounted for using the equity method. The purchase consideration was €2.5 million. The ERGO Insurance Group now holds 100% of all shares.

Furthermore, EUROPÄISCHE Reiseversicherung AG, Munich, increased its share in its subsidiary Geschlossene Aktiengesellschaft Europäische Reiseversicherung, Kiev, by 70.1% for a purchase consideration of €0.9 million on 25 November 2010, which had previously been accounted for using the equity method. The ERGO Insurance Group now holds a 95.3% stake.

The purpose of increasing the stakes held in these companies is to expand travel insurance business in Russia and in the Ukraine.

The ERGO Insurance Group increased its stake in ERGO Daum Direct General Insurance Co. Ltd., Seoul, by a further 6.2% by acquiring shares which had been issued in 2010 (5.6 million shares). The purchase consideration was €18.3 million. The balance on capital consolidation of €3.1 million was netted against retained earnings.

As part of the new brand strategy “New ERGO” the following mergers were effected backdated to 1 January 2010:

On 1 July 2010 D.A.S. Deutscher Automobil Schutz Versicherungs-AG, Munich, and Hamburg-Mannheimer Sachversicherungs-AG, Hamburg, were merged with ERGO Versicherung AG, Düsseldorf (formerly, Victoria Versicherung AG, Düsseldorf). The net assets and all rights and obligations of both companies have thus been transferred to ERGO Versicherung AG, Düsseldorf.

On 1 October 2010 Victoria Krankenversicherung AG, Düsseldorf, was merged with DKV Deutsche Krankenversicherung AG, Cologne, with the same legal consequences.

On 4 October 2010 Hamburg-Mannheimer Rechtsschutzversicherungs-AG, Hamburg, was merged with D. A. S. Deutscher Automobil Schutz Allgemeine Rechtsschutz-Versicherungs-AG, Munich, with the same legal consequences.

The merged companies Hamburg-Mannheimer Sachversicherungs-AG, Hamburg; Hamburg-Mannheimer Rechtsschutzversicherungs-AG, Hamburg; Victoria Krankenversicherung AG, Düsseldorf and D.A.S. Deutscher Automobil Schutz Versicherungs-AG, Munich, were no longer included in the consolidated group as a result of these internal mergers.

In the financial year under review DAS Legal Protection Insurance Company Ltd., Toronto, and a further eight non-insurance companies were included in the consolidated group of the ERGO Insurance Group for the first time.

Further, a special fund is no longer included in the consolidation.

A list of all shareholdings is on page 128 ff.

Number of consolidated subsidiaries¹⁾

Development during the financial year	Germany	International	Total
31 December previous year	59	104	163
Additions	5	6	11
Reductions	4	–	4
31 December financial year	60	110	170

¹⁾In addition, 44 German and 1 international special funds were included in the consolidated group.

Consolidation methods

The annual accounts of subsidiaries and special purpose entities included in the consolidated accounts follow uniform accounting and valuation principles. 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.

Acquisitions are accounted for by the purchase method. In order to determine the equity capital at the time of acquisition, the assets and liabilities of the subsidiary or special fund are measured at fair value. The acquisition costs of 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 subsidiaries or special purpose entities after their initial 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 deemed of minor importance.

Number of companies valued at equity

Development during the financial year	Germany	International	Total
31 December previous year	18	18	36
Additions	2	–	2
Reductions	–	4	4
31 December financial year	20	14	34

Associated companies

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

In case of shareholdings amounting to between 20% and 50% of the voting power, the entities in question are deemed to be associates unless it can be clearly demonstrated that there is no significant influence.

Recognition and measurement

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

The use of estimation procedures is highly important in order to value technical provisions in particular, as there are usually no market prices available and the development of future cash flows of insurance contracts cannot be finally predicted ex ante. Discretionary decisions and estimated valuations are also highly significant for a number of other positions.

Our internal processes are directed towards reliably establishing valuations under consideration of all relevant information as far as is possible. The basis used to determine values are the best insights of management into the matters under consideration at the balance sheet date. It is nevertheless in the nature of these positions that estimated values may have to be adjusted over time if new insights have to be taken into consideration for a valuation.

As a result of existing uncertainties in estimating, discretionary decisions to be taken always contain a subjective component. This may mean that comparable issues are accounted for by ERGO differently to another company, more so as the range of realistic assumptions may be relatively wide. However, this does not mean that a valuation has not been made in a proper way, but it reflects both different insights and a different assessment of future developments.

Discretionary decisions and estimated valuations are especially relevant for the following positions and are detailed in the notes on these positions:

- Goodwill and other intangible assets
- Fair values and impairment of financial instruments
- Deferred acquisition costs
- Technical provisions
- Pension provisions
- Deferred taxes
- Contingent liabilities

Changes in accounting and valuation methods

The application of recognition, measurement and disclosure methods follows the principle of consistency. In the 2010 financial year the following new IFRSs had to be applied for the first time:

Due to changes made to IFRS 2 (revised 06/2009), Share-based Payment, accounting of cash-settled share-based payments is clarified. Essentially, the question was re-determined on how subsidiary companies account in their own financial statements for certain cash-settled share-based compensation agreements. Under such agreements the subsidiary receives goods or services from employees or suppliers which are, however, paid for by the parent company or another group company. The new rules do not have any impact on ERGO.

The revisions of IFRS 3 (revised 01/2008), Business Combinations, as well as IAS 27 (revised 01/2008), Consolidated and Separate Financial Statements, concern especially changes to the accounting for shareholdings which are not

controlled, successive share purchases, costs of acquisitions and contingent purchase considerations. The impact of the changes on ERGO in 2010 results from the subsequent change to IAS 7, Statement of Cash Flows, which requires that changes in shareholdings in subsidiaries, not involving a loss of control should be classified as cash-flows from financing activities. The cash flow statement for the previous year was restated.

The change to IAS 39 (revised 07/2008), Financial Instruments – Recognition and Measurement 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 do not have any effect on ERGO.

The changes which were published in April 2009 in the IFRS project “Annual Improvements” also have to be applied for the first time to accounting periods starting on or after 1 January 2010. They concern a total of ten standards and two interpretations and are of minor importance to ERGO. Following the process of annual improvements, published in May 2008, changes to IFRS 5, Non-current Assets Held for Sale and Discontinued Operations, have to be applied for the first time to accounting periods beginning on or after 1 July 2009. This change is also insignificant to ERGO.

Based on Regulation (EC) No 1606/2002 of the European Commission, the following interpretations had to be applied for the first time but had no material impact on the financial statements of ERGO: IFRIC 12, Service Concession Arrangements, IFRIC 15, Agreements for the Construction of Real Estate, IFRIC 16, Hedges of a Net Investment in a Foreign Operation, and IFRIC 18, Transfer of Assets by Customers. This is also true for Interpretation IFRIC 17, Distributions of Non-Cash Assets to Owners, with compulsory first application according to the regulations of IASB.

In December 2010 IASB published guidelines on the preparation of management commentaries. This publication is not an IFRS, but forms a non-compulsory framework for preparing a report which accompanies and explains an IFRS-based year-end report. This guidance may be applied voluntarily as from December 2010. The rules for preparing a management report in accordance with the German Commercial Code (HGB) are similar to those in the Practice Statement. As based on Section 315a para. 3 HGB, in conjunction with Section 315a para. 1 HGB, ERGO is obliged to

provide a management report, meaning that its management reporting is already comparable to that required by the guidelines.

In September 2010 IASB also concluded the first phase of its project for revising the framework on preparing and presenting financial statements and published the new chapter 1 “Objective of General Purpose Financial Reporting” and Chapter 3, “Qualitative Characteristics of Useful Financial Information”. The aim of the overall project is to provide a sound foundation for future IFRS accounting standards that are principles-based and internationally consistent. The revised chapters, as published, therefore represent the relevant basis for accounting according to IFRS.

In all other respects the accounting, valuation and consolidation principles are consistent with those in the consolidated financial statements as at 31 December 2009.

Standards not yet in force and changes to standards

Changes to IAS 32 (revised 10/2009), Financial Instruments: Presentation, apply for the first time to financial years which start on or after 1 February 2010. The change means that certain subscription rights and options and option warrants in foreign currency (i.e. a currency other than the functional currency) now have to be accounted for by the issuer whose financial instruments these rights refer to as shareholders’ equity and no longer as liabilities.

Interpretation IFRIC 19, Extinguishing Financial Liabilities with Equity Instruments, is to be applied for the first time to financial years which start on or after 1 July 2010. The Interpretation contains guidance as to how financial liabilities have to be accounted for in line with IAS 39 if the creditor accepts shares or other financial instruments to settle such liabilities in full or in part.

The following amended standards are obligatory for financial years which start on or after 1 January 2011:

The revision of IAS 24 (revised 11/2009), Related Party Disclosures, simplifies the reporting requirements of state-controlled entities. Certain relations to related parties which result from a state participation in a private enterprise are now exempt from some reporting requirements according

to IAS 24 in the changed Standard. The definition of related companies and persons has also been fundamentally revised. The changes are of minor importance to ERGO.

The changes which were published in the IFRS project "Annual Improvements" in May 2010 concern six IFRS and Interpretation IFRIC 13. The changes are of minor importance to ERGO. The changes to IFRS 3, Business Combinations, must be applied to financial years which start on or after 1 July 2010.

The amended Interpretation IFRIC 14 (revised 11/2009), IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction, allows companies to recognise as an asset the benefit of a funding surplus if they comply with the minimum funding requirement. This change has no practical significance for ERGO.

IFRS 9 (11/2009 and revised 10/2010), Financial Instruments, is meant to replace the previous rules under IAS 39 for the accounting and valuation of financial instruments. Due to the nature of its complexity the whole project is divided into three phases. The new rules already adopted in IFRS 9 from the first phase of the project particularly concern the valuation of financial instruments. Accordingly, financial instruments will, in future, only be distinguished between valuation at amortised acquisition cost or at fair value with recognised profits or losses of changes in valuation. The distinction is to be made based on the company's business model as well as on the contractual cash flows of the assets. Additionally, it is also possible for financial instruments to be valued at fair value without recognition of profit or loss, but it is then not allowed to transfer changes in valuation to profit or loss when they were previously recognised directly in equity. There is also the possibility of a voluntary valuation at fair value (fair value option). The valuation rules for financial liabilities have not been changed except that if the fair value option is used, changes in valuation are then taken directly to equity due to a change in the company's creditworthiness.

The other two phases deal with rules for the recognition of impairment and the accounting of hedges. The rules are still under discussion and are planned to be integrated into IFRS 9 after completion of the whole project.

Changes to IFRS 7 (revised 10/2010), Financial Instruments: Disclosures, Improving Disclosures about Financial Instruments, contains expanded disclosure requirements for transferring financial assets in order that the impact of such transactions on risk exposure and therefore on the financial situation of companies becomes more transparent.

The changes to IFRS 12 (revised 12/2010), Taxes on Income, Deferred Tax: Recovery of Underlying Assets, refer to the issue that the valuation of deferred taxes depends on whether the book value of an asset is realised through use or disposal. This distinction is frequently not clear in practice. This is now clarified by introducing the refutable assumption that the realisation of the book value is normally through disposal.

These standards have not yet been adopted in the European Union.

Long-term assets and groups available for sale

In the fourth quarter 2009 we sold real estate used by third parties with a total book value of €20.6 million, which became the property of the purchaser during the second quarter of 2010. The profit on disposal was €0.1 million.

We also decided in the fourth quarter 2009 the disposal of an office property used by third parties and with a book value of €22,3m. A contract for the sale of this property with change of ownership as from 1 July 2010 was signed in April 2010. The profit on disposal was €8.6m.

Assets

Intangible assets

Goodwill from the initial consolidation of subsidiaries is always tested for impairment at least once annually in accordance with IAS 36. If there are indications that there may be impairment we also carry out non-scheduled impairment tests. For the impairment tests, goodwill is allocated to the cash-generating units or group of units which are meant to draw synergies from the business combination. A write-down requirement may arise from comparing the book value (including the attributed goodwill) of a

cash-generating unit or group of units with the recoverable amount. The recoverable amount is the maximum of the fair value less costs of disposal and the value in use (cash value of future cash flows which are expected to be generated by cash-generating unit or group of units). If the recoverable amount is lower than the book value, an unscheduled write-down equivalent to the difference is made.

Other intangible assets mainly comprise purchased and internally generated software and acquired insurance portfolios. The latter are shown at their present value of future profits (PVFP). This is calculated as the cash value of expected profits from the acquired portfolio without considering new business and tax effects. Scheduled write-downs are based on the realisation of surpluses from the insurance portfolios which have been used in the PVFP calculation. 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. Other intangible assets are tested for impairment at each balance sheet date and write-downs made if required. The write-downs of acquired insurance portfolios are shown under net operating expenses. Depreciation and amortisation undertaken to software and other intangible assets are spread across the consolidated income statement between investment expenses, expenses for claims and benefits and net operating expenses. Where it is impossible to attribute costs to areas of activity, they are shown under other non-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 of over 40 to 55 years. If the recoverable amount of land and buildings fall below their carrying amount, the carrying amount is

written down to the recoverable amount. Impairment losses are recognised as investment expenses 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 ERGO Lebensversicherung AG, Hamburg. Consequently, ERGO Lebensversicherung AG, Hamburg, has taken over the rights and obligations of these companies.

In the 2000 financial year, Victoria Grundstücksverwaltungs-Gesellschaft GbR leased the building complex of Victoria-platz 1, 2 and Fischerstrasse 8–10 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 of repurchasing 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 ERGO Lebensversicherung 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 USD116.5 million (114.2 m) for risks associated with the transaction.

Shares in affiliated companies which are not consolidated due to their minor importance are recognised at fair value, insofar as these can be reliably measured. As far as shares are quoted on the stock market, 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.

Shareholdings 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. Appropriate adjustments to the accounting and valuation principles of ERGO are made for the annual accounts of major associated companies in accordance with IAS 28.27. Exceptional transactions of material importance for a true and fair picture of the associate's financial position are recognised in the same financial year. Shareholdings in associates which are of minor importance regarding the asset, financial and earnings situation of the Group are recorded at fair value insofar as this can be reliably measured. To determine the fair value, we use the share price at the balance sheet date if the shareholdings 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 amortised cost in accordance with the effective interest method. Write-downs for impairments are made in cases where the repayment of a loan can no longer be expected.

Fixed-interest securities held to maturity are measured at amortised cost in accordance with the effective interest method.

Fixed-interest or non-fixed-interest securities available for sale that are not held for trading or recognised under loans are accounted for at fair value. If 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 attributable to policyholders by the life and health insurers on realisation (provision for deferred premium refunds), are recognised directly in equity under 'other reserves'.

Securities at fair value through profit or loss comprise securities held for trading and securities designated 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 Insurance Group uses a range of valuation models for this purpose, details of which may be obtained from the following table (page 58).

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

Deposits retained are claims on our customers from reinsurance accepted. They amount to the cash deposits contractually retained by customers. We show them at nominal value.

Deposits with financial institutions are shown at amortised cost based on the effective interest method.

Repurchase agreements and securities lending

Under repurchase agreements we, as the lender, acquire securities with the obligation to sell them back to the borrower at a later date. As the risks and rewards from the securities remain with the borrower, they are not posted as such in our accounts but are shown as a receivable from the borrower under "other investments, deposits with banks". Interest income from these transactions is recognised in the investment result.

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

Valuation models

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

Recognition of financial instruments

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

Determining fair values

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

All financial instruments recognised at fair value are allocated to one of the valuation hierarchy levels or 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 classes.

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 the ERGO Insurance Group 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.

Investments allocated to Level 2 are valued using modules based on observable market data, and here 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 parameters 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 ensuing effects.

Net investment result

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

Impairment

Regularly, at each balance sheet date, we assess whether there is 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. To assess whether there is an impairment in the value of fixed-interest securities or of loans, indications that the issuer may have significant financial difficulties as well as the current market situation and news situation concerning the issuer are taken into consideration.

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

In impairment tests of our financial assets (with the exception of equity investments), we generally first assess whether objective evidence of impairment exists for items that are individually significant. If this is not the case, and also in the case of 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 (equity and liabilities item D, Gross technical provisions for life insurance policies where the investment risk is borne by the policyholders), which are included in the technical result. The change in technical provisions also includes changes from additional premium components. Recognising these investments at fair value, with impact on profit or loss, avoids valuation mismatches that would otherwise occur due to different measurement of the corresponding provisions.

Reinsurers' share in technical provisions

Our reinsurers' shares in the technical provisions are determined according to the respective contractual agreements; please refer to Equity and Liabilities, Item C: Gross technical provisions. Credit risks are taken into consideration.

Receivables

Current tax receivables and other receivables are shown at nominal value. We set up debt provisions if there are indications of substantial loss in value; please refer to Assets, Item B: Investments – impairments.

Current tax receivables are real income taxes of the individual companies which result from the respective national taxation. Other tax receivables are shown under other receivables.

Cash in bank, cheques and cash in hand

Cash and cash equivalents are shown at nominal value.

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 Equity and Liabilities, Item C '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: please refer to the notes on Equity and Liabilities, Item C: Gross technical provisions.

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. We take into consideration changes in tax rates and tax legislation which have already been passed at the balance sheet date. Deferred tax assets are recorded if a realisation of the corresponding receivable is probable.

Other assets

Other assets are generally recorded at amortised cost. Land and buildings for own use, which are shown here, are valued as for Assets, Item B: Investments, 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.

Liabilities

Equity

The items 'issued capital' and 'capital reserve' contain amounts that ERGO Versicherungsgruppe AG equity holders have paid in on shares. The capital reserve is charged with those external costs which are directly related to equity capital measures, after taking into consideration tax effects.

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 cash-flow hedges as well as the hedging of a net investment in a foreign business. Write-ups of equity investments available for sale are also recognised in this equity item.

We record non-controlling interests 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 share in the result attributable to non-controlling interests is shown as part of 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.

Gross technical provisions

Technical provisions are shown gross in the balance sheet under inclusion of the share attributable to reinsurers; please refer to the notes on Assets, Item D: Reinsurers' share in technical provisions. The reinsurers' share is determined and shown according to the individual reinsurance contracts. Acquisition costs for insurance contracts are recognised as assets and amortised over the term of the contracts; please see notes on Assets, Item G: Deferred acquisition costs. The basis for the valuation of the technical provisions is FASB Accounting Standards Codification Subtopic 944-40 (previously Standards FAS 60, FAS 97 und FAS 120).

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.

Provisions 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. In the German insurance business, biometric calculation principles are used under reference to the tables of the Association of German Actuaries (Deutsche Aktuarvereinigung e.V.) In international insurance business it is mainly the tables of the national actuaries' associations which are used. Discounting is effected with an interest rate which is limited by the respective highest interest rate allowed by supervisory agencies. 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. Technical provisions in life insurance where the investment risk is borne by the policyholders (gross).

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 a provision for a terminal bonus. 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 principle 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 AlterZerG 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 for 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 area 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 the 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 ceding insurers. The provision for outstanding claims is largely not discounted with the exception of some provisions concerning occupational disability, liability and personal accident insurance. In these cases a discount rate is applied which is allowed by the regulatory authorities, and the provisions in question are discounted.

Provision for premium refunds

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 12a 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 for 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 amounts to between 50% to 92.5%.

When terminal bonuses are determined they are reclassified from the provision for premium refunds to the provision for future policy benefits without effecting profit and loss. Here the funds reserved for terminal bonuses and available funds in the provision for performance-related premium funds 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 those under impairment losses/unscheduled changes in the notes to

the consolidated financial statements. The adequacy of unearned premiums and of the provision for outstanding claims is assessed in relation to the realistically estimated future amounts to be paid. The adequacy 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.

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

This item encompasses the provision for future policy benefits in life 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 Investments for the account and risk of life insurance policyholders. Besides this, in accordance with FASB Accounting Standards Codification Subtopic 944-40 (formerly FAS 97), they may include additional premium components; see notes on Equity and Liabilities, Item C Gross technical provisions. 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 market values of the related investments, they are matched by opposite changes of the same amount in the investment 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 corresponding provisions.

Other accrued liabilities

This item includes inter alia the provision for pensions and similar obligations. 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 company's obligations. Under defined benefit plans, the staff member is promised a particular level or retirement benefit either by the companies or by a pension fund. The company's 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. The calculation includes not only 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 and 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.

Furthermore, the item also includes other provisions. These are set up 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. Details of the calculation of fair values are shown under Assets, Item B: Investments.

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: Deferred tax liabilities.

Direct minority interests in special funds are measured at fair value.

Deferred tax liabilities

Under IAS 12, deferred tax liabilities must be recognised in cases where asset items have to be valued higher, or liability 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), see Notes on assets, Item H: Deferred tax assets

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 DSR 2-20, which applies specifically to insurance companies.

Foreign currency translation

The reporting currency of the ERGO Insurance Group is the euro. The balance sheets of foreign subsidiaries, which do not operate in euros, are translated according to the functional currency concept at year-end exchange rates, the income statements at average quarterly exchange rates. Translation differences resulting from this are shown under equity (other reserves). Foreign currency transactions are essentially translated into the respective local currency of group companies according to IAS 21.

Additionally, we apply the principle of currency matching. This means that Group companies which have a major part of their business in foreign currencies usually hedge against losses from fluctuations in exchange rates by attempting to hold assets and liabilities in the foreign currencies in the same amounts. Any remaining profits or losses from translation of foreign currencies into the respective national currency are shown in other non-operating income or expenses.

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.

Consolidated Financial Statements

Disclosures on the type and extent of risks stemming from insurance policies and financial instruments

ERGO's report on risks to which the company is exposed as a result of its business operations is based on several legal provisions:

IFRS 4 requires details on the type and extent of risks which stem from insurance contracts. IFRS 7 requires analogous disclosure on risks resulting from financial instruments. In addition, Section 315 para. 2 no. 2 of the German Commercial Code (HGB) requires that the management report also includes details of risk management goals and methods, of methods for hedging transactions as well as of risks pertaining to financial instruments. These requirements are specified in more detail in the German Accounting Standard (DRS) 15 on management reporting as well as in DRS 5 and DRS 5-20 on risk reporting in general and on risk reporting by insurance companies.

Reporting on risks does not only concern accounting, it involves in particular the activity of ERGO's integrated risk management (IRM). Information about risks are made both in the risk report as part of the management report as well as in explanations about risks stemming from insurance contracts and financial instruments in the notes to the financial statements. The management report includes a detailed explanation about the organisation of risk management as well as ERGO's risk strategy, gives a brief description of major risks to which we are exposed. By contrast, the notes to the financial statements provide details about the various types of risks stemming from insurance contracts and describe the uncertainties in assessing them. For risks associated with financial instruments, explanations also contain information on maximum credit risk exposure, the residual terms and the rating as well as a sensitivity analysis concerning the market price risk in line with the provisions governing IFRS 7.

Both the risk report and the disclosure on risks associated with insurance contracts and financial instruments in the notes should be consulted in order to gain a full understanding of the risks to which ERGO is exposed. Where deemed necessary, we make reference to the risk report and explanations to the respective items in corresponding remarks.

Risks from life insurance contracts

For our life insurers, major risks include biometric risk, interest-rate risk as well as lapse risk. Technical provisions and deferred acquisition costs are calculated based on biometric accounting principles, i.e. assumptions made concerning the trend in mortality and disability, as well as discount interest rates and technical interest rates which depend on the contract or tariff. Further, assumptions made on calculating the probability of cancellation and surplus 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 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.

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 74.

Product category	Features	Significant risks
<ul style="list-style-type: none"> • Life insurance • Term life insurance 	<ul style="list-style-type: none"> • 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 	<ul style="list-style-type: none"> • 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
<ul style="list-style-type: none"> • Annuity insurance 	<ul style="list-style-type: none"> • Predominantly guaranteed life-long pension • Actuarial assumptions mainly fixed when contract is concluded, premium adjustments not possible 	<ul style="list-style-type: none"> • Longevity: increase in expected expenditure for annuities due to sustained rise in life expectancy in the portfolio
<ul style="list-style-type: none"> • Occupational disability and disablement insurance 	<ul style="list-style-type: none"> • Long-term policies with a guaranteed limited annuity in the event of disablement • Actuarial assumptions fixed when contract is concluded 	<ul style="list-style-type: none"> • 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

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 of taking out the policy. 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 interest relevant for the portfolio which are relating to provisions for future policy benefits and provisions for outstanding claims are shown in table [16b] and [17] of the notes to the consolidated financial statements.

The main risk comes when the terms of fixed interest-bearing 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 74.

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 economically insignificant.

As regards unit-linked policies in our portfolios, investments are at the expense and risk of the policyholders. 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 guarantee amounting to the sum of gross premium 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. 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.

Expected future technical cash flow (gross) ¹⁾	2010 € million	2009 € million
Up to one year	-3,375	-2,423
Over one year and up to five years	-13,197	-12,950
Over five years and up to ten years	-18,295	-19,691
Over ten years and up to twenty years	-26,048	-28,474
Over twenty years	-39,484	-42,020

¹⁾ Premiums less guaranteed benefits and costs (excl. unit-linked products)

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 underwritten liabilities in accordance with IFRS 4 explicitly takes this policyholders' 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 74.

Liquidity risks

A liquidity risk might exist if the cash outflow from claims payments and costs incurred would exceed the cash inflow from premiums and investments. As we are predominantly involved in long-term business, we therefore analyse the expected future surplus from cash inflows from premium payments and cash outflows from benefits and costs.

As regards business in force on the balance sheet date, expected future technical surpluses are shown in the table according to maturity bands. Only technical cash flows are taken into account here, hence reimbursements from investments, i.e. capital gains and investments coming up for renewal, are not included in the figures. If those reimbursements from investments are taken into account, whose cash flows have largely been offset with liabilities by our asset-liability management, positive items occur as expected. The liquidity risk is thus minimised in this segment.

It should be noted that these forecast figures may be associated with a considerable degree of uncertainty.

Further details on liquidity risks can be read in the risk report on page 39.

Health insurance risks

The biometric risk, lapse risk, benefits risk and the technical interest-rate risk are the major risks for our health insurers. Technical provisions and deferred acquisition costs are calculated based on biometric principles, i.e. on assumptions pertaining to trends in mortality and morbidity. In addition, the discount interest or technical interest rate as well as the lapse behaviour pertaining to the respective contract or tariff are to be taken into account. Besides, other market risks as well as the liquidity risk have to be taken into consideration.

Product category	Features	Significant risks
• Health insurance	<ul style="list-style-type: none"> • 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 	<ul style="list-style-type: none"> • 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 risk and lapse risk

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

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 interference from legislation and courts as regards the spread of opportunities and risks on which the conclusion of contracts between the respective partners of insurance are based.

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 and drawing on the benefits will develop in the future. 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 the tariff where actual benefits deviate from calculated benefits on a permanent basis. 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 pandemic are 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 the 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 over the remaining period of the liabilities, reinvestment yield lags behind discount rates, the calculated interest return cannot be generated solely from investment income. The sensitivity towards any change in the interest rate is measured within the framework of an embedded value analysis, see page 74.

Impact on equity and the consolidated income statement

If investment income should not be sufficient an additional provision may be required or impairment losses on deferred acquisition costs may 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 assumed 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 the interest rate 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 from insurance claims payments and costs related 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 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 technical cash flows are considered, inflows from investments – i.e. investments income and investments that become free – are not included in the quantification. 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 this segment.

It should be borne in mind that these forward-looking estimated values 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 39.

Property-casualty insurance risk

Of particular importance in these lines of business 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 also has to be taken into account.

Expected future technical cash flow (gross)	2010 € million	2009 € million
Up to one year	776	392
Over one year and up to five years	2,465	1,468
Over five years and up to ten years	418	-492
Over ten years and up to twenty years	-10,208	-9,247
Over twenty years	-97,361	-79,548

Premiums, claims and expenses according to lines of business	2010	2009	2008	2007
	€ million	€ million	€ million	€ million
Gross premiums				
Motor	1,724	1,534	1,569	1,350
– thereof for motor liability	910	808	818	745
– thereof for other motor	814	726	751	605
Accident	902	888	861	848
Fire and property	773	736	722	712
Liability	532	516	514	513
Transport and aviation	154	127	131	135
Other	735	693	323	254
Legal expenses	968	942	922	911
Total	5,787	5,436	5,041	4,723
Claims ratio % (net)				
Motor	88.2	83.2	77.2	79.1
– thereof for motor liability	90.6	84.7	79.1	84.7
– thereof for other motor	85.2	81.3	75.1	72.1
Accident	35.3	33.1	35.0	37.6
Fire and property	68.6	55.4	63.1	64.8
Liability	46.1	55.0	48.1	55.0
Transport and aviation	64.8	67.1	62.8	62.7
Other	52.3	53.0	40.6	43.2
Legal expenses	55.2	57.7	56.5	56.1
Total	62.5	59.8	58.5	59.3
Combined Ratio % (net)				
Motor	113.9	108.0	101.8	105.6
– thereof for motor liability	115.5	109.6	103.5	110.9
– thereof for other motor	112.1	106.0	99.9	99.1
Accident	72.2	68.5	72.1	75.4
Fire and property	104.7	90.7	97.7	102.8
Liability	78.9	86.5	80.8	87.9
Transport and aviation	94.4	93.1	88.4	89.3
Other	96.0	97.0	82.4	79.1
Legal expenses	96.8	97.8	95.8	95.0
Total	97.0	93.5	91.3	93.5

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

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 portfolios and regular recalculation of premiums ensure that premium income and claims payments remain in an appropriate balance.

Large and very large losses

Following the strong focus on private customer lines of business there are, on the one hand, very few risks concerning future cash flows and, on the other, little 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 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 risks. From this analysis, 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 portfolio is 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 excesses 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 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 settlements 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-casualty business. We observe our settlement results continually, thereby ensuring that the assumptions on which the evaluation of the reserves is based always reflect the latest development. 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.

Net claims expenditure as a % of earned net premiums	2010	2009	2008	2007	2006	2005	2004	2003
Claims ratio	62.5	59.8	58.5	59.3	56.4	57.8	57.8	58.2

Actuarial 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 [17d]) the trend in claims ratios for property-casualty insurance including legal protection:

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 rate risk

Economically, an interest-rate risk derives in principle from the need to earn a return on the investment 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 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.

Liquidity risks

Liquidity 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.

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 temporarily 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 details on liquidity risks can be read in the risk report on page 39.

Cash flows and liquid funds (gross) in individual calendar years	2010 € million	2009 € million	2008 € million	2007 € million	2006 € million
Premiums received	5,787	5,436	5,041	4,723	4,298
Claims payments for financial year	1,871	1,686	1,430	1,376	1,105
Claims payments for previous years	1,423	1,319	1,267	1,149	1,144
Costs	1,965	1,799	1,601	1,526	1,431
Liquid funds	529	632	743	672	617

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 impact on 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 and this method covers more than 94% (94%) of long-term insurance business. The sensitivities given below measure the impact of changes in the calculation bases on the calculated economic value. They take into account our risk minimisation measures and tax effects.

ERGO continues to adhere to the strict rules of market-consistent evaluation at the end of the year. The low interest-rate level and high volatility at the reporting date of 31 December 2010 result in distortions in life insurance in particular, owing to the long-term interest-rate guarantees.

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 lines of business in equal measure and thus obstructs the so-called “balance provided by the community of insurers”. 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 36.

The distribution 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 positions 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 the assumption of 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.

Embedded value sensitivities (market risks) € million	2010	2009
Embedded value on the balance sheet date	4,108	5,126
Change in the event of a sustained increase in interest rates by 100 BP	1,099	585
Change in the event of a sustained decrease in interest rates by 100 BP	-1,632	-1,173
Change in the event of a 10% decrease in the value of equities and real estate	-143	-94
Changes in the event of an increase in mortality by 5% in the case of contracts mainly covering the mortality risk	-29	-23
Changes in the event of an decrease in mortality by 5% in the case of contracts mainly covering the longevity risk	-58	-45
Change in the event of an increase in morbidity by 5%	-28	-25
Change in the event of an increase in the lapse rate by 10%	14	-27

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 stated in the notes under [16] Provision for future policy benefits are allocated to this type of policies. Following the corresponding margins in the calculations it is also possible under moderately changed assumptions to provide the pledged commitments without having to carry out an adjustment to the provisions. 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 profits. 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 derive 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 underwriting risks benefit from diversification effects which, together with our wide range of different risk policy measures, significantly reduce the overall risk. This means that the underwriting risks can be planned and controlled.

Credit risks from ceded reinsurance business

In connection with ceded business the credit risk is also of relevance.

For provisions ceded to reinsurers, our reinsurers have credit ratings shown in the table below.

Out of these, 94% is directly collateralised through deposits, hence 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 36.

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 market value of $\pm 10\%$, $\pm 30\%$ of the delta-weighted exposure. For interest-sensitive instruments, on the other hand, the market fluctuation of a global interest rate change of ± 100 BP and ± 200 BP is calculated using duration and convexity. The reaction of interest derivatives to changes in the underlying market value is taken into account by means of the delta of the derivative. By contrast, changes in exchange rates affect both interest and equity-sensitive instruments as well as shareholdings. The sensitivity of instruments in foreign currencies is established by multiplying the euro market value by the hypothetical currency

Technical provisions ceded to reinsurers according to rating	2010 %	2009 %
AAA	3	3
AA	61	58
A	35	36
BBB and less	–	–
No rating available	1	2

Market price risk for shares – Change in market value of investments sensitive to share prices

Change in share price	Impact on	Impact on	Impact on	Impact on
	profit or loss ¹⁾	equity ¹⁾	profit or loss ¹⁾	equity ¹⁾
	2010	2010	2009	2009
	€ million	€ million	€ million	€ million
Increase of 30%	-43	633	-126	705
Increase of 10%	-15	211	-69	235
Decrease of 10%	-125	-71	-38	-154
Decrease of 30%	-447	-140	-206	-367
Market values on 31 December 2010		2,879		2,909

¹⁾Gross before tax and policyholder participation in surplus

fluctuation of $\pm 10\%$. Shareholdings and alternative investments (private equity, hedge funds and commodities) are analysed together with shares.

The effects of events on the capital market listed here do not take into account tax and the provision for premium refunds (gross amounts stated). This means the analysis does not make allowance for the effects resulting from policyholders' dividends in the segment of personal lines insurance. The consequences for the results and equity as shown below would be significantly reduced if these effects were taken into account. It is also assumed that the changes on the capital markets occur instantaneously and that therefore neither the limit systems nor active counter-measures would work.

In the analysis, more than 95% of investments undertaken by the ERGO Insurance Group are taken into account. Compared to an analysis based on 100%, the difference resulting from the missing 5% is negligible.

A rise in the share prices does not generally have any effect on the assets side of the income statement. 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 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.

Market price risk for interest rates – Change in market value of investments sensitive to interest rates

Change in interest rate	Impact on	Impact on
	profit or loss ¹⁾	equity ¹⁾
	2010	2010
	€ million	€ million
Increase of 200 BP	-133	-5,637
Increase of 100 BP	-185	-2,934
Decrease of 50 BP	182	1,553
Decrease of 100 BP	424	3,164
Market values on 31 December 2010		105,881

¹⁾Gross before tax and policyholder participation in surplus

Change in interest rate	Impact on	Impact on
	profit or loss ¹⁾	equity ¹⁾
	2009	2009
	€ 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 2010		103,569

¹⁾Gross before tax and policyholder participation in surplus

Market price risk for exchange rates – Change in market value of investments sensitive to exchange rates

Change in exchange rates	Impact on	Impact on	Impact on	Impact on
	profit or loss ¹⁾	equity ¹⁾	profit or loss ¹⁾	equity ¹⁾
	2010	2010	2009	2009
	€ million	€ million	€ million	€ million
Increase of 10%	15	31	15	16
Decrease of 10%	-15	-31	-15	-16
Market values on 31 December 2010		3,249		3,121

¹⁾ Gross before tax and policyholder participation in surplus

In terms of their market value, the fixed interest-bearing investments of the ERGO Insurance Group react to interest rate fluctuations in a way similar to a level-coupon bond with a residual term of about seven years. As part of the investments are valued at amortised cost, the effects shown nevertheless deviate from this.

In case of interest rate fluctuations, the effects on the income statement are insignificant compared to the effects on equity, since the majority of the changes in value of fixed interest-bearing investments are offset against equity without having any effect on the income statement. Furthermore, about 45% of the investments taken into account in this analysis are accounted for at amortised cost. This means that changes in market values do not have any effect on the financial statements.

In economic terms, the equity effect of fixed interest-bearing investments is counter-balanced by the change in economic value on the liabilities side. For this reason, our asset-liability management gears our investments in such a way that the effects of interest fluctuations on the value of investments on the one hand and on the economic value of liabilities on the other offset each other. With regard to the balance sheet, however, these balancing measures do not have any effect since significant amounts of the liabilities shown on the balance sheet are not valued on the basis of the current interest rate development.

Market risk – exchange rates

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 a 10% rise in the currency rate is to be understood as a 10% appreciation in the foreign currency compared to the euro.

Consolidated Financial Statements

Notes on the balance sheet – assets

[1] Goodwill

Major items included here are the goodwill of DKV Seguros y Reaseguros, Saragossa, from the acquisition in the 1997 financial year and the goodwill of ERGO Previdenza, Milan, from the acquisition in the 2000 financial year. Goodwill positions which amount to more than €30 million of the total Group goodwill are considered to be significant in line with IAS 36.134.

Allocation of goodwill to cash-generating units

For impairment tests, goodwill is allocated to those cash-generating units or group of units which are meant to draw synergies from the respective business combination. At the

same time, the unit or group of units to which the goodwill has been allocated is the lowest level at which goodwill is monitored for internal management purposes. We have allocated the goodwill amounts to legal entities or groups of legal entities.

Our goodwill at 31 December 2010 was allocated to a cash-generating unit or a group of cash generating units as follows:

Development during the financial year	2010 € million	2010 € million	2010 € million	2010 € million	2009 € million
Year of acquisition	1997	2000	–	–	–
Cash-generating units or group of cash-generating units	DKV Seguros	ERGO Previdenza	Other	Total	Total
Gross carrying amount at 31 December previous year	49.5	43.1	566.8	659.4	657.7
Accumulated impairment losses at 31 December previous year	–	10.0	265.0	275.0	212.8
Carrying amount at 31 December previous year	49.5	33.1	301.8	384.4	444.9
Currency translation differences	–	–	4.8	4.8	0.7
Additions	–	–	2.6	2.6	1.1
Disposals	–	–	–	–	–
Impairment losses	–	–	114.9	114.9	62.2
Carrying amount at 31 December financial year	49.5	33.1	194.3	276.9	384.4
Accumulated impairment losses at 31 December financial year	–	10.0	379.9	389.9	275.0
Gross carrying amount at 31 December financial year	49.5	43.1	574.1	666.8	659.4

The impairment tests of goodwill positions classified as significant were carried out under the following assumptions:

The calculation of the recoverable amount of DKV Seguros y Reaseguros, Saragossa, was based on the value-in-use method. The basis for deriving withdrawable surpluses was medium-term planning which was in force at the check in the third quarter of 2010, and which spans a period of three years. The cost of capital used was 9.2% and was based on the Capital Asset Pricing Model. The individual cost of capital components (risk-free interest rate, beta factor, market risk premium) were derived from market data. For the phase of the perpetual annuity, we have assumed a sustainable exponential growth of the surpluses relevant to the valuation of 1%. No impairment losses were identified, and additional sensitivity analyses were applied to the discount interest rates and the growth rates. Even the resulting earnings made under these assumptions were always above the book value of the cash-generating unit being reviewed.

The recoverable amount of ERGO Previdenza, Milan, was derived on the basis of the market-consistent embedded value, which is usual in personal lines insurance business. The capital market parameters and volatilities applied are based on the cut-off date on 31 December 2009. There were also no indications for the recognition of impairment losses. Sensitivity analyses were carried out on the assumed technical risks, costs, capital market parameters and volatilities. The results thereby obtained were always above the book value of the cash-generating unit.

For the impairment tests on the remaining goodwill positions the following assumptions were made:

- The recoverable amount was derived on the basis of the value-in-use method or the market-consistent embedded value concept.
- The discount rate employed to calculate the value-in-use figure was calculated as cost of capital and amounts to between 7.3% and 16.0% depending on the respective cash-generating unit or group of units taken.
- The Capital Asset Pricing Model (CAPM) is used to calculate the discount interest rate. It is calculated from a risk-free base rate plus a risk premium, 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 risk-free base rate as well as the beta factor are taken from market data. For periods beyond the detailed cash flow planning growth rates of between 0.5 and 6.6% were used.

The calculation is carried out before tax. A reconciliation with the capital costs of the ERGO Insurance Group is not possible.

Other goodwill figures totalling €194.3 million (301.8 m) were allocated to several cash-generating units or groups of units.

Impairment losses in the period

Goodwill impairment tests in the 2010 financial year resulted in impairment losses of €114.9 million. These were charged to the income statement under impairment losses of goodwill.

The impairment loss reported is due to the goodwill following the acquisition of the shareholding in ERGO Sigorta A. S., Istanbul. As a result of the economic development of local insurance activities, an impairment test in the second quarter of 2010 led to a write-off of the entire goodwill amounting to €114.9 million.

At Group level, the impairment test was carried out on all cash-generating units in Turkey (ERGO SIGORTA A. S., Istanbul, ERGO Emeklilik ve Hayat A. S., Istanbul, and ERGO PORTFÖY YÖNETİMİ A. S., Istanbul). The fair value less cost of disposal of this group of cash-generating units was based on a capitalised earnings method. The discount rates were calculated from local capital market data and stood between 13.2% and 16.0%. There were no suitable figures from comparable transactions available.

[2] Other intangible assets

Development during the financial year	Software	Purchased insurance portfolios	Other	Total	Total
	2010 € million	2010 € million	2010 € million	2010 € million	2009 € million
Gross carrying amount at 31 December previous year	669.4	620.4	338.8	1,628.6	1,559.2
Accumulated impairment losses at 31 December previous year	555.4	355.3	103.1	1,013.7	933.3
Carrying amount at 31 December previous year	114.0	265.2	235.8	614.9	625.9
Currency translation differences	0.8	–	2.2	2.9	0.6
Change in consolidated group	–	–	–	–	19.3
Additions	83.2	–	43.4	126.6	133.2
Disposals	5.0	–	0.4	5.4	18.4
Reclassification	4.3	6.0	–14.2	–3.9	0.6
Depreciation	33.7	47.9	42.3	124.0	162.2
Impairment losses	4.7	–	–	4.7	2.2
Write-ups	–	15.9	–	15.9	18.1
Carrying amount at 31 December financial year	158.8	239.0	224.5	622.3	614.9
Accumulated impairment losses at 31 December financial year	594.9	400.1	115.1	1,110.1	1,013.7
Gross carrying amount at 31 December financial year	753.7	639.1	339.9	1,732.7	1,628.6

Acquired insurance portfolios comprise amortised book values of €180.6 million which stem from the acquisition of Bank Austria Creditanstalt Versicherung AG. Other intangible assets include rights equivalent to real property amounting to €6.0 million (1.4 m).

Additions mainly represent acquired and internally developed software which, among other things, include the extension of a standard portfolio management system in our foreign subsidiaries. The remaining net amount from

reclassifications of €–3.9 million results from the first-time application of IFRIC 12 at Marina Salud S.A., Alicante.

Restrictions on disposals and pledges as security account for €4.4 million (1.3 m). Commitments to acquire other intangible assets amount to €0.6 million (3.9 m). Costs of €15.6 million (18.4 m) for research and development incurred in connection with software projects were not capitalised but recognised as expenses.

[3] Land and buildings, including buildings on third-party land

Development during the financial year	2010 € million	2009 € million
Gross carrying amount at 31 December previous year	3,439.6	3,506.7
Accumulated depreciation and impairment losses at 31 December previous year	747.9	728.7
Carrying amount at 31 December previous year	2,691.7	2,778.1
Currency translation differences	44.2	1.0
Change in consolidated group	–	–16.2
Additions	80.5	88.8
Disposals	61.7	14.7
Write-ups	2.7	3.3
Depreciation	55.2	56.1
Impairment losses	28.9	33.9
Reclassification	45.7	–56.4
Other	–	–2.1
Carrying amount at 31 December financial year	2,718.9	2,691.7
Accumulated depreciation and impairment losses at 31 December financial year	810.4	747.9
Gross carrying amount at 31 December financial year	3,529.3	3,439.6
Fair value as at 31 December financial year	3,644.5	3,605.5

Restrictions on disposals and pledges as security exist for land and buildings totalling €995.4 million (682.3 m).

Buildings are depreciated over a period of 40 to 55 years on a straight-line basis. Non-scheduled depreciation and write-ups are generally caused by adjustments to market value. The valuation is performed for each site individually, except where valuation units are formed. Valuations are mainly conducted by in-house appraisers as well as external ones in some instances. The valuation is largely based on ascertaining the sustainability of income and expenditure flows

while taking into consideration the development of the market situation where the property is located. The fair value is calculated for each individual property by discounting future net payments at the time of valuation.

Interest rates are applied depending on the type of property involved: residential property 3.5 to 5.5%, commercial property 4.3 to 8.0% and retail property from 4.0 to 8.3%.

[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 €113.6 million (97.1 m). The book value of interests in associates valued at equity is €515.8 million (494.2 m). The fair value of shareholdings in associated companies generally valued using the equity method on the reporting date is €837.2 million (629.1 m). The fair value of stakes in associated companies which are accounted for at equity includes shareholdings valued at €70.5 million (50.1 m) for which publicly quoted share prices are available. In the year under review, losses of €13.9 million (14.5 m) from associated companies were not recorded. Overall, the losses produced by associates but not recorded came to €14.4 million (17.4 m).

The assets of all associated companies total €7,906.1 million (7,269.8 m), the liabilities €5,999.6 million (5,676.6 m), the annual results € -40.7 million (-269.0 m) and the turnover €1,028.0 million (2,212.7 m). For associated companies not valued at equity, the assets total €301.5 million (236.0 m), liabilities €274.8 million (210.1 m), annual results € -0.8 million (0.4 m), and turnover €111.7 million (105.4 m). The full list of all shareholdings can be found in the “List of shareholdings as at 31 December 2010 in accordance with Section 313 para. 2 of the German Commercial Code”.

[5] Mortgage loans and other loans

[5a]

Mortgage loans and other loans	Carrying amounts		Fair values	
	2010 € million	2009 € million	2010 € million	2009 € million
Mortgage loans	4,483.8	4,584.0	4,771.3	4,795.2
Loans and advance payments on insurance policies	611.7	612.8	611.8	706.5
Other loans	43,599.1	41,081.8	44,845.9	42,049.3
Total	48,694.6	46,278.7	50,229.0	47,551.1

Other loans comprise mainly government bonds, pfand-briefs and promissory notes by banks.

The fair value of mortgage loans and other miscellaneous loans is determined by recognised methods of valuation in line with the present value principle and taking into account observed market parameters.

[5b]

Rating categories	Carrying amounts	
	2010 € million	2009 € million
Other securities		
AAA	22,207.2	20,384.8
AA	16,100.8	15,132.9
A	4,441.4	4,451.7
BBB	392.5	710.5
BB and less	110.3	40.2
No rating	347.0	361.7
Total	43,599.1	41,081.8

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 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.

[5c]

Maturity structure	Carrying amounts		Fair values	
	2010 € million	2009 € million	2010 € million	2009 € million
Contractual period to maturity				
Up to one year	1,742.9	1,094.3	1,812.0	1,111.3
Over one year and up to two years	1,491.1	1,843.2	1,543.1	1,916.3
Over two years and up to three years	1,450.7	1,569.2	1,502.5	1,640.6
Over three years and up to four years	2,145.0	1,673.9	2,255.8	1,764.0
Over four years and up to five years	3,256.6	2,274.7	3,459.8	2,408.7
Over five years and up to ten years	13,223.1	14,520.8	13,717.3	15,130.1
Over ten years	25,385.3	23,302.7	25,938.5	23,580.1
Total	48,694.6	46,278.7	50,229.0	47,551.1

[6] Other securities

[6a]

Other securities – held to maturity	Carrying amounts		Unrealised gains/losses		Fair values	
	2010 € million	2009 € million	2010 € million	2009 € million	2010 € million	2009 € million
Government bonds	–	1.5	–	–	–	1.5
Debt securities of banks	42.1	82.4	0.9	2.2	43.0	84.6
Total	42.1	83.9	0.9	2.2	43.0	86.1

[6b]

Allocation of investments measured at fair value to levels of the fair value hierarchy	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 ¹⁾	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 ²⁾	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 policy- holders 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.

²⁾ Including hedging derivatives.

Reconciliation for investments allocated to Level 3	Other securities – available for sale		Held for trading (including deriva- tives) ²⁾	Other securities – at fair value through profit or loss		Total
	Fixed- interest	Non-fixed- interest ¹⁾		Designated as at fair value through profit or loss		
	€ million	€ million	€ million	€ million	€ million	€ million
Carrying amount at 31 December 2008	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
Settlement	–	–	–	–	–	–
Transfer	–	–	–	–	–	–
to Level 3	–	–	–	–	–	–
out Level 3	–	–	–	–	–	–
Carrying amount at 31 December 2009	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.

²⁾ Including hedging derivatives.

Allocation of investments measured at fair value to levels of the fair value hierarchy				2010
	Level 1 € million	Level 2 € million	Level 3 € million	Total € million
Other securities, available for sale				
Fixed-interest securities	37,615.0	16,074.0	188.5	53,877.5
Non-fixed-interest securities	2,266.0	579.4	441.9	3,287.2
	39,881.0	16,653.4	630.3	57,164.7
Investments in affiliated companies and associates				
affiliated companies recognised at fair value	–	–	113.6	113.6
associates recognised at fair value	–	–	12.9	12.9
	–	–	126.5	126.5
Other securities at fair value through profit or loss				
Held for trading ¹⁾	8.5	444.9	–	453.4
Designated as at fair value through profit or loss	–	241.6	–	241.6
	8.5	686.5	–	695.0
Investments for the benefit of life insurance policy- holders who bear the investment risk	4,957.2	–	–	4,957.2
Total	44,846.7	17,339.9	756.8	62,943.4
Break down in %	71	28	1	100

¹⁾ Including hedging derivatives.

In the financial year 2010, we reallocated a portion of the asset-backed securities/mortgage-backed securities in our portfolio from Level 3 to Level 2. Owing to the recovery of the markets, we were able to use observable market data

again for valuing the relevant products. At the same time, we reallocated some participations from Level 2 to Level 3, since observable inputs for valuing them were not available on the market.

Reconciliation for investments allocated to Level 3	Other securities – available for sale		Investments	
	Fixed- interest	Non-fixed- interest	Affiliated companies recognised at fair value	Associates recognised at fair value
	€ million	€ million	€ million	€ million
Carrying amount at 31 December 2009	394.8	308.1	-	-
Gains and losses	23.0	-91.5	3.8	-0.2
Gains (losses) recognised in the income statement	18.3	-96.1	-0.1	-0.4
Gains (losses) recognised in equity	4.7	4.6	3.9	0.2
Acquisitions	1,029.8	170.2	2.2	-
Disposals	-453.5	-60.7	-	-
Transfer	-805.7	115.6	107.7	13.0
to Level 3	3.1	117.7	118.4	13.0
out Level 3	-808.8	-2.0	-10.7	-
Change in market values of derivatives	-	-	-	-
Carrying amount at 31 December 2010	188.5	441.8	113.7	12.9
Gains (losses) recognised in the income statement that are attributable to investments shown at the end of the financial year	-	-63.0	-	-

¹⁾ Including hedging derivatives.

Other securities – at fair value through profit or loss		Total
Held for trading (incl. derivatives) ¹⁾	Designated as at fair value through profit or loss	
€ million	€ million	€ million
0.1	–	703.0
0.2	–	–64.6
0.2	–	–78.1
–	–	13.5
0.7	–	1,202.9
–0.5	–	–514.6
–	–	–569.4
–	–	252.2
–	–	–821.5
–0.5	–	–0.5
–	–	756.8
–	–	–63.0

As investments in affiliated companies and associates measured at fair value were still allocated to Level 2 in the previous year, these items do not contain any figures for 31 December of the previous year. The reclassification to Level 3 is reflected in the transfers related to these holdings. Extensive transfers from fixed-interest securities available for sale and, in particular, the resultant substantial reduction in investments allocated to Level 3 as a whole are due to the reclassification of certain asset-backed securities/mortgage-backed securities to Level 2.

[6c]

Other securities – available for sale	Carrying amounts		Unrealised gains/losses		Fair values	
	2010 € million	2009 € million	2010 € million	2009 € million	2010 € million	2009 € million
Fixed-interest securities						
Government bonds						
Germany	4,444.2	4,871.8	256.1	176.2	4,700.3	5,048.0
Rest of EU	15,854.7	12,812.6	-822.0	229.7	15,032.7	13,042.3
USA	360.2	612.5	-1.5	2.8	358.7	615.4
Other	854.9	1,478.8	20.1	14.4	875.0	1,493.1
	21,513.9	19,775.7	-547.3	423.0	20,966.6	20,198.8
Corporate debt securities	15,857.9	16,260.8	542.9	602.1	16,400.8	16,862.9
Other	16,034.8	15,865.0	475.3	730.3	16,510.1	16,595.3
	53,406.6	51,901.5	470.9	1,755.4	53,877.5	53,656.9
Non-fixed-interest securities						
Shares	1,231.6	1,324.0	249.2	483.4	1,480.8	1,807.4
Investment funds						
Equity funds	400.6	438.2	76.6	67.2	477.2	505.4
Bond funds	306.8	372.8	-3.7	19.4	303.1	392.3
Real estate funds	509.2	524.1	9.6	6.8	518.9	530.9
	1,216.6	1,335.1	82.5	93.5	1,299.1	1,428.5
Other	482.3	569.7	25.0	15.9	507.3	585.6
	2,930.5	3,228.9	356.7	592.7	3,287.2	3,821.6
Total	56,337.1	55,130.4	827.6	2,348.1	57,164.7	57,478.5

Quoted securities account for 3.7% (4.5%) of the given balance sheet value.

Around two thirds of the debt instruments of companies are pfandbriefs and issues by development banks and similar institutions. The remaining portfolio comprises debt instruments of German regional authorities (with each single risk being less than 7.7%), bonds issued by banks and by state banks (with state guarantees) and asset-backed securities and mortgage-backed securities which, to a large extent, have implicit state guarantees or above-average ratings.

A sum of €213.6 million (574.9 m) from unrealised gains/losses totalling €827.6 million (2,348.1 m) is contained in equity (retained earnings) after deductions were made for expenditure on deferred premium refunds, deferred taxes and non-controlling interests as well as effects of consolidation.

Restrictions on disposals and pledges as security account for €112.4 million (78.4 m). €17,903.1 million (951.1m) 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.

[6d]

Other securities – at fair value through profit or loss		
	2010 € million	2009 € million
Held for trading		
Fixed-interest securities	49.7	49.9
Non-fixed-interest securities	3.5	3.7
	53.3	53.6
Derivatives	370.7	322.0
Designated as at fair value through profit or loss		
Fixed-interest securities	233.2	372.5
Non-fixed-interest securities	8.4	20.3
	241.6	392.8
Total	665.6	768.4

In the year under review changes in the value of hedging instruments were partially shown affecting net income. Besides listed rates, 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.

[6e]

Maturity structure Other securities – held to maturity	Carrying amounts		Fair values	
	2010 € million	2009 € million	2010 € million	2009 € million
Contractual period to maturity				
Up to one year	28.5	37.6	28.7	38.2
Over one year and up to two years	6.3	29.9	6.5	30.6
Over two years and up to three years	2.9	6.5	3.1	6.9
Over three years and up to four years	4.2	3.4	4.4	3.7
Over four years and up to five years	0.2	6.2	0.2	6.5
Over five years and up to ten years	–	0.2	–	0.2
Over ten years	–	–	–	–
Total	42.1	83.9	43.0	86.1

[6f]

Maturity structure Other securities – available for sale; fixed-interest securities	Carrying amounts		Fair values	
	2010 € million	2009 € million	2010 € million	2009 € million
Contractual period to maturity				
Up to one year	3,365.3	4,620.9	3,410.5	4,686.8
Over one year and up to two years	3,687.1	3,505.2	3,801.4	3,628.2
Over two years and up to three years	4,447.9	4,067.3	4,607.3	4,243.0
Over three years and up to four years	4,271.6	4,325.5	4,455.3	4,544.8
Over four years and up to five years	3,786.5	4,982.1	3,877.1	5,200.2
Over five years and up to ten years	18,951.3	17,909.2	18,941.8	18,687.2
Over ten years	14,896.9	12,491.3	14,784.1	12,666.8
Total	53,406.6	51,901.5	53,877.5	53,656.9

Shares make up the major part of variable-yield securities.

[6g]

Rating categories	Carrying amounts	
Other securities – held to maturity		
	2010	2009
	€ million	€ million
AAA	–	10.1
AA	2.2	0.3
A	39.4	69.3
BBB	–	0.8
BB and less	–	–
No rating	0.5	3.5
Total	42.1	83.9

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.

[6h]

Rating categories	Fair values	
Other securities – available for sale; fixed-interest securities		
	2010	2009
	€ million	€ million
AAA	29,710.5	31,306.2
AA	11,803.3	11,010.2
A	6,385.7	6,162.9
BBB	4,124.0	4,181.0
BB and less	1,719.4	653.9
No rating	134.6	342.7
Total	53,877.5	53,656.9

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.

[6i]

Rating categories	Fair values	
Other securities – at fair value through profit or loss; fixed-interest securities ¹⁾		
	2010	2009
	Mio. €	Mio. €
AAA	36.8	50.4
AA	142.7	199.6
A	74.6	122.2
BBB	14.7	31.8
BB and less	2.6	4.1
No rating	11.6	14.3
Total	283.0	422.4

¹⁾ €233.2m (372.5m) are apportionable to securities which are 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.

[6j]

Disposal proceeds	2010	2009
Other securities – available for sale	€ million	€ million
Fixed-interest securities	11,838.0	20,435.2
Non-fixed-interest securities		
Quoted	2,799.6	2,746.4
Unquoted	230.6	363.6
	3,030.2	3,109.9
Total	14,868.2	23,545.2

[6k]

Realised gains and losses	2010	2009
Other securities – available for sale	€ million	€ million
Gains on disposal		
Fixed-interest securities	359.6	455.7
Non-fixed-interest securities	425.8	300.4
	785.5	756.0
Losses on disposal		
Fixed-interest securities	152.7	205.8
Non-fixed-interest securities	88.5	305.6
	241.3	511.4
Total	544.2	244.7

[6l] 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. Derivates are used to hedge against currency, interest rates and market price risks. This is done at the individual Group company level within the framework of individual supervisory regulations and additional internal company directives. The risk of default is virtually

non-existent in the case of products traded on the stock exchange. OTC derivatives, on the other hand, harbour a theoretical risk in the amount of the replacement costs. Consequently, only top-quality counterparties are chosen by the ERGO Insurance Group for these 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	2010	2009
			€ million	€ million
Positive	No	Investments, other securities, held for trading	370.7	322.0
	Yes	Other assets	29.4	23.0
Negative	No	Liabilities, other liabilities	-91.0	-127.1
	Yes			
Total			309.1	217.8

[6m] 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 2010 they amounted to €309.1 million (217.8 m), 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 associated with life insurance are hedged using swaptions. These options upon receipt of a fixed interest rate are shown in the category 'interest-rate risk/over-the-counter'. At the reporting date, the fair value of the aforementioned swaptions was €186.0 million (176.0 m). The underlying nominal amount was €7.4 billion (10.8 bn). The investment result from derivatives includes a profit of €76.4 million (-374.3 m) stemming from fluctuations in the value of these options. Although the derivatives basically serve to hedge against market risks, they do not meet the strict requirements of IAS 39 for hedge accounting. IAS 39 distinguishes between fair value hedges, cash flow hedges and the hedging of a net investment in a foreign business.

Fair value hedges

In the case of fair value hedges, the change in the fair value of the hedging instrument and the change in the fair value of the hedged instrument are generally recognised in the income statement under the item "investment result". As far as the ERGO Insurance Group is concerned, hedging relationships in the form of fair value hedges are used to selectively and efficiently reduce interest-rate risks of parts of the portfolio and to mitigate risks following changes to the market price. There were no such hedges in the 2010 financial year.

Cash flow hedges

Cash flow hedges play a role in countering fluctuations that may be caused, for example, by variable interest payments. Derivatives are mainly used by the Group to hedge against interest rate risks. Changes to 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, caused by the hedged circumstance, is the relevant equity item reversed with recognition in the income statement. The change to the fair value of the hedging instrument assignable to the ineffective portion of the hedging is negligible. The equity item from cash flow hedges was €3.3 million (1.5 m) on the reporting date. The net fair value of derivatives falling into this category on the reporting date came to €29.4 million (23.0 m).

Hedging a net investment in a foreign business

As at 31 December 2010, a currency hedge was in place in the form of a forward exchange contract of a nominal SGD78 million (Singapore dollars). The equity position from the hedge of a net investment in a foreign business was €-5.4 million (-) on the cut-off date.

Open positions	Periods to maturity in years						Total	
	< 1 € million	1–2 € million	2–3 € million	3–4 € million	4–5 € million	> 5 € million	2010 € million	2009 € million
Interest-rate risks								
Traded on the stock exchange								
Fair values	-1.3	-	-	-	-	-	-1.3	2.0
Notional principal amounts	469.5	-	-	-	-	-	469.5	3,843.6
Over-the-counter								
Fair values	35.8	52.9	15.7	131.4	17.9	57.7	311.3	255.8
Notional principal amounts	1,579.8	1,650.8	1,004.8	2,478.8	769.8	4,005.3	11,489.0	12,957.7
Total								
Fair values	34.4	52.9	15.7	131.4	17.9	57.7	310.0	257.9
Notional principal amounts	2,049.2	1,650.8	1,004.8	2,478.8	769.8	4,005.3	11,958.5	16,801.3
Currency risks								
Traded on the stock exchange								
Fair values	-	-	-	-	-	-	-	-
Notional principal amounts	-	-	-	-	-	-	-	-
Over-the-counter								
Fair values	-19.5	0.1	-	-	-	0.1	-19.3	-43.8
Notional principal amounts	3,374.3	0.1	-	-	-	243.5	3,617.9	3,719.1
Total								
Fair values	-19.5	0.1	-	-	-	0.1	-19.3	-43.8
Notional principal amounts	3,374.3	0.1	-	-	-	243.5	3,617.9	3,719.1
Equity and index risks								
Traded on the stock exchange								
Fair values	3.3	-	-	-	-	-	3.3	-11.3
Notional principal amounts	671.4	-	-	-	-	-	671.4	539.4
Over-the-counter								
Fair values	-	-	0.1	0.5	14.2	1.9	16.6	15.8
Notional principal amounts	0.3	0.1	2.2	48.2	63.0	38.3	152.0	143.0
Total								
Fair values	3.3	-	0.1	0.5	14.2	1.9	20.0	4.4
Notional principal amounts	671.7	0.1	2.2	48.2	63.0	38.3	823.3	682.5
Credit risks								
Traded on the stock exchange								
Fair values	-	-	-	-	-	-	-	-
Notional principal amounts	-	-	-	-	-	-	-	-
Over-the-counter								
Fair values	-0.1	-0.6	-	-	-0.9	-	-1.6	-0.8
Notional principal amounts	66.0	10.3	-	-	330.0	-	406.3	-10.3
Total								
Fair values	-0.1	-0.6	-	-	-0.9	-	-1.6	-0.8
Notional principal amounts	66.0	10.3	-	-	330.0	-	406.3	-10.3
Other Risks								
Fair values	-	-	-	-	-	0.1	0.1	0.1
Notional principal amounts	-	-	-	-	-	-	-	10.0
Total								
Fair values	18.2	52.4	15.8	131.8	31.2	59.7	309.1	217.8
Notional principal amounts	6,161.3	1,661.2	1,007.0	2,526.9	1,162.7	4,287.1	16,806.1	21,202.5

[6n]

The following table shows the period until maturity and amount of cash flows hedged at the balance sheet date.

Notional principal amounts of hedged transactions	2010 € million	2009 € million
Contractual period to maturity		
Up to one year	45.3	37.6
Over one year and up to two years	–	–
Over two years and up to three years	–	–
Over three years and up to four years	25.0	–
Over four years and up to five years	–	25.0
Over five years	225.0	225.0
Total	295.3	287.6

[7] Other investments

Other investments comprise deposits retained on assumed reinsurance business at €139.5 million (122.0 m) and deposits with banks totalling €1,363.0 million (1,213.7 m). The latter includes €133.2 million (86.6 m) from repurchase agreements that have been booked by us as the lender to borrowers for securities lent under repurchase agreements.

By contrast to the purely economic view, the book value of these other financial assets represents the maximum credit exposure according to IFRS 7 at the balance sheet date. As the 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

Reinsurers' share in technical provisions	2010 € million	2009 € million
Unearned premiums	141.1	134.2
Provision for future policy benefits	3,668.4	3,567.0
Provision for outstanding claims	855.4	818.9
Other technical provisions	192.3	207.7
Total	4,857.2	4,727.7

[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 procedures. Deferred tax rebate entitlements are stated under deferred tax assets.

€236.2 million (262.3 m) in receivables from tax concern corporate tax for domestic companies. Receivables from insurance representatives account for €421.9 million (359.9 m) of amounts receivable from direct insurance business. Receivables include amounts of €370.6 million (314.4 m) which result from contracts without significant risk transfer. These contracts are not subject to IFRS 4. By contrast to the purely economic view, the carrying amount of the receivables represents the maximum exposure to credit risk at the cut-off date in accordance with IFRS 7. As other receivables generally have a term of less than one year, the fair values largely correspond to the carrying amounts.

Receivables	2010 € million	2009 € million
Current tax receivables	346.9	441.5
Other receivables		
Interest and rent	2,105.4	2,110.2
Amounts receivable on direct business	1,041.4	976.5
Amounts receivable from contracts without significant risk transfer	370.6	314.4
Accounts receivable on reinsurance business	98.6	66.4
Other receivables	777.4	605.5
	4,393.4	4,072.9
Total	4,740.3	4,514.4

[9b]

Maturity structure of receivables	Carrying amounts	
	2010 € million	2009 € million
Contractual period to maturity		
Up to one year	4,468.0	4,339.0
Over one and up to two years	37.5	27.3
Over two years and up to three years	34.9	22.2
Over three years and up to four years	35.6	22.7
Over four years and up to five years	36.1	24.0
Over five years and up to ten years	102.8	70.7
Over ten years	25.5	8.5
Total	4,740.3	4,514.4

[10] Deferred acquisition costs

Deferred acquisition costs (gross)	2010 € million	2009 € million
Status at 31 December previous year	6,437.1	6,654.9
Currency translation differences	7.0	1.7
Newly deferred acquisition costs	853.1	867.5
Amortisation	-677.4	-822.3
Impairment losses	-100.6	-272.8
Change in consolidated group/other effects	3.8	8.2
Carrying amount at 31 December financial year	6,522.9	6,437.1

Scheduled changes include amortisation as well as scheduled return on interest. Non-scheduled changes comprise write-ups and write-downs resulting from changes made to assumptions on which the calculations are based and which need to be readjusted. The long-term interest level

in the financial year had to be revised significantly to take account of the long-term current interest return on investments. The current lower interest margin led to exceptional write-downs of deferred acquisition costs.

[11] Deferred tax assets

The deferred tax assets and liabilities recognised in the consolidated balance sheet concern the following balance sheet items:

[11a]

Causes of origin	Assets	Assets	Liabilities	Liabilities
	2010 € million	2009 € million	2010 € million	2009 € million
Assets				
Intangible assets	7.5	5.0	103.3	117.5
Investments	1,042.2	985.5	1,197.5	1,207.8
Deferred acquisition costs	2.2	2.1	567.1	543.2
Other assets	582.6	397.7	449.6	360.7
Total Assets	1,634.5	1,390.3	2,317.5	2,229.2
Equity and liabilities				
Technical provisions (net)	295.5	280.5	274.7	309.4
Other accrued liabilities	185.9	188.2	77.9	10.6
Other liabilities	69.0	48.5	30.9	41.0
Total equity and liabilities	550.4	517.2	383.5	361.0
Off balance sheet				
Loss carry-forwards and tax credits	83.8	56.7	-	-
Total	2,268.7	1,964.2	2,701.0	2,590.2

Of the change of €193.7 million (82.2 m) in net deferred tax liabilities, €48.5 million (151.5 m) was recognised in earnings and €145.2 million (-69.3 m) without impact on profit or loss.

No deferred taxes were recorded for temporary differences of €103.3 million (102.2 m) in conjunction with shares in subsidiaries and associated companies – so-called outside basis differences.

Deferred taxes on loss carry-forwards were recognised as assets to the extent that the tax result planning led with sufficient certainty to an expected use. We have broken down the existing deferred tax assets on loss carry-forwards as follows:

[11b]

Development of deferred tax assets for loss carry-forwards and tax credits	31 December previous year	Changes due to subsequent tax adjustments	Subsequent additions and reductions due to changes in valuation allowances	Additions due to new losses	Set off against income	Other changes	31 December financial year
	€ million	€ million	€ million	€ million	€ million	€ million	€ million
Deferred tax assets for							
Corporation tax loss carry-forwards	48.4	-2.0	2.3	32.3	-4.6	0.5	77.0
Trade tax loss carry-forwards	8.3	0.2	-0.3	2.5	-1.0	-2.8	6.8
Loss carry-forwards from capital losses	-	-	-	-	-	-	-
Tax credits	-	-	-	-	-	-	-
Total	56.7	-1.8	2.0	34.8	-5.6	-2.3	83.8

[11c]

Tax loss carry-forwards and tax credits	2010			2009		
	For which deferred tax assets are recognised € million	For which deferred tax assets are not recognised € million	Total € million	For which deferred tax assets are recognised € million	For which deferred tax assets are not recognised € million	Total € million
Corporation tax loss carry-forwards						
Expiring in up to three years	11.3	37.3	48.6	15.2	3.5	18.7
Expiring in over three years and up to ten years	148.0	24.3	172.3	11.9	66.9	78.8
Expiring in over ten years	15.6	5.6	21.2	12.8	1.1	13.9
Not expiring	147.2	283.3	430.5	167.4	472.6	640.0
	322.1	350.5	672.6	207.3	544.1	751.4
Trade tax loss carry-forwards						
Not expiring	43.6	192.5	236.1	53.1	188.1	241.2
Loss carry-forwards from capital losses						
Expiring in up to three years	-	-	-	-	-	-
Expiring in over three years and up to ten years	-	-	-	-	-	-
Expiring in over ten years	-	-	-	-	-	-
Not expiring	-	-	-	-	-	-
Tax credits						
Expiring in up to three years	-	-	-	-	-	-
Expiring in over three years and up to ten years	-	-	-	-	-	-
Expiring in over ten years	-	-	-	-	-	-
Not expiring	-	-	-	-	-	-
Total	365.7	543.0	908.7	260.4	732.2	992.6

[12] Other assets

[12a]

	2010 € million	2009 € million
Owner-occupied property	1,506.1	1,587.6
Assets from insurance contracts	466.1	424.3
Tangible assets and inventories	222.5	217.7
Other	187.5	167.3
Total	2,382.2	2,396.8

[12b]

Owner-occupied property – development during the financial year	2010 € million	2009 € million
Gross carrying amount at 31 December previous year	2,146.1	1,947.8
Accumulated depreciation and impairment losses at 31 December previous year	558.5	478.7
Carrying amount at 31 December previous year	1,587.6	1,469.1
Currency translation differences	1.5	0.1
Change in consolidated group	–	15.0
Additions	86.0	94.7
Disposals	12.4	14.1
Write-ups	2.3	10.3
Depreciation	33.7	43.3
Impairment losses	5.7	0.7
Reclassification	–119.5	56.4
Carrying amount at 31 December financial year	1,506.1	1,587.6
Accumulated depreciation and impairment losses at 31 December financial year	577.8	558.5
Gross carrying amount at 31 December financial year	2,083.9	2,146.1
Fair value as at 31 December financial year	1,645.0	1,722.0

Non-scheduled write-downs and write-ups are mainly caused by adjustments to market value.

An amount of €–73.6 million of reclassifications totalling €–119.5 million (56.4 m) results from the first-time application of IFRIC 12 at Marina Salud S.A., Alicante.

Consolidated Financial Statements

Notes on the balance sheet – equity and liabilities

[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 broken down into 75,492,117 individual bearer no-par-values shares.

The Board of Management is 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 €97.5 million by issuing up to €37.5 million new bearer no-par-value shares (authorised capital).

Authorised capital of €97.5 million for the issue of shares worth up to €37.5 million is available for bearers or creditors of convertible bonds or bonds with warrants which may be issued by 8 May 2012.

[13b] Retained earnings

Retained earnings can be broken down into the statutory reserve of ERGO Versicherungsgruppe AG of €0.5 million and other retained earnings of the Group whose development and composition are detailed in the overview on pages 48f.

[13c] Claims equalisation reserves

The claims equalisation reserve to be recorded as equity in line with provisions governing IFRS/US-GAAP is €373.4 million (412.7 m).

[13d] Other reserves

Other reserves contain €12.9 million (12.9 m) in unrealised gains and losses from the valuation at equity of associated companies and €310.3 million (665.7 m) unrealised gains and losses from mainly other securities available for sale as well as interests in unconsolidated affiliates.

[13e]

Unrealised gains and losses on investments	2010 € million	2009 € million
Unconsolidated affiliated companies	101.1	93.6
Associates valued at equity	23.1	23.1
Hedging	20.8	21.1
Other securities – available for sale		
Fixed-interest	470.9	1,755.4
Non-fixed-interest	356.7	592.7
	827.6	2,348.1
Less:		
Provision for deferred premium refunds recognised in equity	623.6	1,650.7
Deferred taxes recognised in equity	55.3	182.0
Non-controlling interests	10.8	9.6
Consolidation effects	-38.1	-36.5
Total	321.1	680.1

[13f]

Tax effects in the income and expenses recognised directly in equity	Before tax	Tax	After tax	Before tax	Tax	After tax
	2010 € million	2010 € million	2010 € million	2009 € million	2009 € million	2009 € million
Currency translation	39.5	–	39.5	3.1	–	3.1
Unrealised gains and losses on investments	-479.2	-125.0	-354.2	545.9	140.6	405.3
Change resulting from valuation at equity	–	–	–	-0.5	–	-0.5
Change resulting from hedging	-5.3	-1.7	-3.6	-1.7	-0.3	-1.4
Actuarial gains and losses on defined benefit plans	-49.5	-15.8	-33.7	-147.3	-45.8	-101.5
Other changes	-30.4	-6.3	-24.1	-174.0	-7.7	-166.3
Income and expenses recognised directly in equity	-524.9	-148.8	-376.1	225.5	86.8	138.7

[13g]

Non-controlling interests	2010 € million	2009 € million
Unrealised gains and losses on investments	10.8	9.6
Share in consolidated result	12.1	6.1
Other equity	152.1	139.1
Total	175.0	154.9

[14] Subordinated liabilities

Subordinated liabilities include ERGO Versicherungsgruppe AG's entry into an existing subordinated loan incurred by the Munich Re on the one hand. The item also comprises bearer bonds from Bank Austria Creditanstalt

Versicherung AG (BA-CA Versicherung) on paid-in supplementary capital on the other. On the cut-off date the fair value of subordinated liabilities came to €427.0 million (436.2 m).

[15] Unearned premiums

[15a]

Unearned premiums	2010 € million	2009 € million
Gross	1,883.9	1,677.2
Reinsurers' share	141.1	134.2
Net	1,742.8	1,543.0

[15b]

Development of unearned premiums	2010 € million	2009 € million
Status at 31 December previous year	1,677.2	1,517.8
Currency translation effects	29.6	11.1
Change in consolidated group	–	67.9
Addition/disposal portfolio	–	–1.2
Gross premiums written	18,457.0	17,469.5
Earned premiums (gross)	18,279.8	17,388.0
Status at 31 December financial year	1,883.9	1,677.2

[16] Provision for future policy benefits

[16a]

Provision for future policy benefits	2010 € million	2009 € million
Gross	93,617.5	91,011.1
Reinsurers' share	3,668.4	3,567.0
Net	89,949.1	87,444.2

[16b]

Gross provision for future policy benefits according to actuarial interest rates	2010 € million	2009 € million
Actuarial interest rate ≤ 2.5%	6,177.3	4,724.9
Actuarial interest rate > 2.5% and ≤ 3%	18,253.2	18,414.7
Actuarial interest rate > 3% and ≤ 3.5%	27,525.6	27,582.1
Actuarial interest rate > 3.5% and ≤ 4%	15,884.6	15,570.9
Actuarial interest rate > 4%	21,231.9	20,182.0
Without actuarial interest rate	4,544.9	4,536.5
Total	93,617.5	91,011.1

[16c]

Development of gross provision for future policy benefits	2010 € million	2009 € million
Status at 31 December previous year	91,011.1	89,076.3
Currency translation differences	5.3	-0.4
Changes		
Scheduled	2,771.7	1,935.9
Unscheduled	0.2	-0.7
Other	-170.9	-
Status at 31 December financial year	93,617.5	91,011.1

As from the 2010 financial year, unearned revenue liability which concerns unit-linked business is no longer shown as a provision for future policy benefits but is in its entirety

recorded gross under technical provisions to the extent that the investment risk is borne by the policyholders. The amount of €170.9 million (-) is shown under "Other".

[17] Provision for outstanding claims

[17a]

Provision for outstanding claims	2010 € million	2009 € million
Gross	7,621.5	7,300.3
Reinsurers' share	855.4	818.9
Net	6,766.1	6,481.5

The gross provision for outstanding claims comprises level premium reserve for pensions from health, motor, accident and liability insurance amounting to €375.2 mil-

lion (354.2 m). These were calculated based on actuarial principles with a discount rate of up to 4.0%.

[17b]

Provision for outstanding claims (net)	2010 € million	2009 € million
Development in the financial year		
Status at 31 December previous year	6,481.5	5,923.2
Claims expenses (including expenses for claims settlement)		
Financial year	13,886.6	12,449.0
Previous years	-433.8	695.4
Total	13,452.8	13,144.4
Thereof: payments (including payment for claims settlement)		
Financial year	10,814.3	10,484.6
Previous years	2,380.2	2,169.3
Total	13,194.5	12,653.9
Other changes	26.3	12.7
Change in consolidated group	-	55.1
Status at 31 December financial year	6,766.1	6,481.5

[17c]

Expected payments from the provisions for outstanding claims in property-casualty business	2010 %	2009 %
Up to one year	41.6	41.7
Over one year and up to five years	34.5	34.1
Over five years and up to ten years	13.2	14.5
Over ten years and up to fifteen years	5.7	4.6
Over fifteen years	5.0	5.1
Total	100.0	100.0

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.

[17d] Net run-off results for business posted in line with property-casualty insurance

Claims payments for the individual accident years

(per calendar year, net)

Accident year Calendar year	≤ 2000	2001	2002	2003
2000	1,409.6	–	–	–
2001	750.3	725.5	–	–
2002	321.6	349.4	828.3	–
2003	193.0	145.5	458.6	1,009.6
2004	138.2	76.0	166.8	503.3
2005	130.7	47.9	80.8	198.3
2006	112.0	35.2	42.3	81.1
2007	84.0	24.5	30.9	43.5
2008	69.4	17.2	24.5	39.5
2009	61.7	17.6	20.0	23.5
2010	48.5	9.7	14.8	19.3

Claims reserve for the individual accident years

at the respective reporting dates (net)

Accident year Reporting date	≤ 2000	2001	2002	2003
31 December 2000	2,179.3	–	–	–
31 December 2001	1,497.7	884.1	–	–
31 December 2002	1,093.3	526.5	956.0	–
31 December 2003	778.9	489.9	474.9	1,089.8
31 December 2004	716.4	242.1	356.3	600.3
31 December 2005	706.9	182.0	254.1	323.5
31 December 2006	571.4	171.3	188.1	252.9
31 December 2007	541.7	140.6	177.9	195.5
31 December 2008	448.7	103.8	117.8	188.1
31 December 2009	372.8	99.7	103.0	125.4
31 December 2010	311.0	79.6	96.1	106.2

Ultimate loss for the individual accident years

at the respective reporting dates (net)

Accident year Reporting date	≤ 2000	2001	2002	2003
31 December 2000	3,588.9	–	–	–
31 December 2001	3,657.6	1,609.6	–	–
31 December 2002	3,574.7	1,601.4	1,784.2	–
31 December 2003	3,453.4	1,710.3	1,761.8	2,099.4
31 December 2004	3,529.1	1,538.5	1,809.9	2,113.2
31 December 2005	3,650.3	1,526.3	1,788.6	2,034.7
31 December 2006	3,626.8	1,550.8	1,764.8	2,045.2
31 December 2007	3,681.0	1,544.7	1,785.6	2,031.4
31 December 2008	3,657.5	1,525.0	1,749.9	2,063.5
31 December 2009	3,643.3	1,538.5	1,755.1	2,024.2
31 December 2010	3,630.0	1,528.1	1,763.0	2,024.4
Currency-adjusted net runoff result	–41.1	81.6	21.2	75.0
Change 2009 to 2010	13.3	10.5	–7.9	–0.2

The values in the run-off triangles cover virtually 100% of our Group's portfolio of property-casualty business. The breakdown of the sums according to year of occurrence for the years up to and including 2009 is different to that of the previous year because of a correction in the notification

of data for ERV. The final amount in any one year of occurrence comprises all payments made for that year up to the reporting date, plus the claims reserve at the reporting date. If all losses incurred were known on the balance sheet date, the ultimate loss status for the year in question

2004	2005	2006	2007	2008	2009	2010	Total € million
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
1,060.6	-	-	-	-	-	-	-
527.8	1,111.4	-	-	-	-	-	-
171.1	569.7	1,113.8	-	-	-	-	-
81.2	177.4	586.6	1,295.2	-	-	-	-
49.9	89.3	186.5	645.5	1,424.4	-	-	-
34.8	48.9	90.7	182.2	686.5	1,560.4	-	-
21.5	36.1	50.8	99.2	204.6	744.7	1,714.5	2,963.6

2004	2005	2006	2007	2008	2009	2010	Total € million
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
1,182.4	-	-	-	-	-	-	-
535.5	1,274.7	-	-	-	-	-	-
364.6	591.4	1,290.9	-	-	-	-	-
277.7	373.6	576.6	1,351.2	-	-	-	-
216.2	273.0	366.1	602.8	1,495.3	-	-	-
176.1	231.8	267.5	381.1	660.8	1,596.5	-	-
141.5	172.9	219.3	287.2	424.4	691.5	1,692.7	4,222.2

2004	2005	2006	2007	2008	2009	2010	Total € million
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
2,243.0	-	-	-	-	-	-	-
2,123.9	2,386.1	-	-	-	-	-	-
2,124.1	2,272.6	2,404.7	-	-	-	-	-
2,118.4	2,232.1	2,276.9	2,646.4	-	-	-	-
2,106.9	2,220.9	2,253.0	2,543.6	2,919.7	-	-	-
2,101.5	2,228.6	2,245.1	2,504.0	2,771.7	3,156.8	-	-
2,088.4	2,205.8	2,247.6	2,509.3	2,739.8	2,996.5	3,407.1	27,140.0
154.6	180.3	157.1	137.1	179.9	160.3	n.a.	1,106.1
13.1	22.8	-2.5	-5.3	31.8	160.3	n.a.	236.0

would remain the same. The run-off triangles are based on figures adjusted for exchange rate effects. To this end, all figures are translated from the respective local currency into the Group currency (euro), consistently using the exchange rates applicable at the end of the year under review (i.e. at

31 December 2010). This also ensures that neutral net run-off results in the original currency (i.e. where the ultimate loss originally estimated for the year of occurrence and current loss estimate concur) do not lead to currency-related run-off effects when expressed in the Group currency.

[18] Provision for premium refunds and policyholders' dividends

[18a]

Provision for premium refunds and policyholders' dividends	2010 € million	2009 € million
Gross	9,202.9	9,706.0
Reinsurers' share	66.0	73.8
Net	9,136.9	9,632.2

[18b]

Gross provision for premium refunds and policyholders' dividends	2010 € million	2009 € million
Provision for premium refunds (based on national regulations)	5,188.1	4,860.1
Provision for deferred premium refunds		
Recognised directly in equity	619.4	1,651.1
Recognised in profit and loss	3,395.5	3,194.8
	4,014.8	4,845.9
Total	9,202.9	9,706.0

[18c]

The development of provisions for profit-related and fixed premium refunds, calculated in line with national or legislative regulations or as a result of terms of contract, as

well as provision for deferred premium refunds which are different depending on whether based on local accounting principles or those of IFRS/US-GAAP, is shown below.

Provision for premium refunds and policyholders' dividends	2010 € million	2009 € million
Development during the financial year		
Provision for premium refunds (based on national regulations)		
Status at 31 December previous year	4,860.1	4,437.0
Change in consolidated group	328.0	423.1
Status at 31 December financial year	5,188.1	4,860.1
Provision for deferred premium refunds		
Status at 31 December previous year	4,845.9	4,570.0
Changes resulting from unrealised gains and losses on investments (recognised directly in equity)	-1,031.7	903.6
Changes resulting from other revaluations (recognised in profit or loss)	200.7	-627.7
Status at 31 December financial year	4,014.8	4,845.9
Total provision for premium refunds		
Gross	9,202.9	9,706.0
Reinsurers' share	66.0	73.8
Net	9,136.9	9,632.2

[18d]

The surplus allocation from direct bonuses in life insurance business amounts to €243.8 million (267.5 m), and

is granted in addition to the performance-related premium refund.

[19] Other technical provisions

Other technical provisions	2010 € million	2009 € million
Gross	140.7	112.5
Reinsurers' share	126.3	133.9
Net	14.4	-21.4

[20] Gross technical provisions for life insurance policies where the investment risk is borne by policyholders

Gross technical provisions for life insurance policies where the investment risk is borne by policyholders	2010 € million	2009 € million
Status at 31 December previous year	4,117.2	2,969.7
Changes in consolidated group	-	-
Currency translation differences	1.8	0.3
Savings premiums	939.7	944.9
Unrealised gains/losses on fund assets	275.1	460.7
Withdrawal for expenses and risk	43.9	49.5
Withdrawal for benefits	314.6	254.6
Other	234.4	45.7
Status at 31 December financial year	5,209.8	4,117.2

These provisions are valued retrospectively. The withdrawal from premiums for technical risks and the provision for future policy benefits are conducted on the basis of cautious assumptions concerning anticipated mortality and disability. Here, as with the provision for future policy benefits for non-unit-linked life insurance, the underlying calculation is based on best estimates with adequate provision for safety margins. The provisions are directly covered by the investments for the benefit of life insurance policyholders who bear the investment risk. Marginal amounts in relation to these

investments arise as a result of including unearned revenue liability in these provisions. As from the 2010 financial year the unearned revenue liability which concerns unit-linked business is no longer shown as a provision for future policy benefits, but is completely recorded under technical provisions as a gross amount to the extent that the investment risk is borne by the policyholders. The amount of €170.9 million (-) is shown under "Other".

[21] Provisions for pensions and similar benefits

[21a]

For the majority of staff employed with the ERGO Insurance Group, Group companies have either undertaken direct retirement provision or by means of payments made to private institutions. The nature and extent of pension sums are geared towards the respective terms of the pension scheme in question (pension terms, specific contractual promises etc.), and are generally based on the length of service and salary of the person concerned. A difference is made between defined contribution and defined benefit pension schemes. As far as defined contribution plans are concerned, member companies within the Group pay premiums to insurers on a voluntary basis as a result of terms in a contract. After paying the premiums, the companies do not have any further benefit obligations. Regular premium

payments amounting to €31.9 million (34.3 m) are expenses incurred during the current year. Defined benefit plans within the ERGO Insurance Group are financed by means of provisions for pension fund liabilities, which consist of both current pensions as well as entitlements to pensions payable in the future. Provisions for pension fund liabilities are calculated throughout the Group using the projected unit credit method in line with IAS 19 (revised in 2004). Future obligations are calculated using actuarial methods with a realistic estimate on relevant variables. Pension benefits anticipated under a dynamic aspect at the beginning of the actual retirement period are spread over the employee's entire period of active employment.

Change in the present value of defined benefit obligations under defined benefit plans	2010 € million	2009 € million
Status at 31 December previous year	1,191.0	939.0
Currency translation differences	3.8	2.7
Change in consolidated group	–	31.9
Current service cost	39.3	30.8
Interest cost	59.6	56.9
Actuarial gains/losses	54.4	158.1
Payments	–41.1	–36.9
Past service cost	4.9	4.7
Other	2.3	3.8
Status at 31 December financial year	1,314.2	1,191.0

[21b]

Change in the plan assets for defined benefit plans in the financial year	2010 € million	2009 € million
Status at 31 December previous year	114.4	95.7
Currency translation differences	3.4	2.3
Change in consolidated group	–	–
Expected return	6.2	5.3
Actuarial gains/losses	–2.4	–0.2
Capital transfer	12.8	11.1
Payments	–3.2	–2.5
Other	2.2	2.7
Status at 31 December financial year	133.4	114.4

The defined benefit pension schemes also include benefits for medical care. The present value of earned rights

for these benefits was €90.0 million (74.0 m) on the cut-off date.

[21c]

Change in the reimbursement rights for defined benefit plans in the financial year	2010 € million	2009 € million
Status at 31 December previous year	71.5	61.2
Expected return	2.8	2.2
Actuarial gains/losses	0.6	3.3
Capital transfer	5.3	5.1
Payments	-1.4	-1.0
Other	-1.5	0.7
Status at 31 December financial year	77.3	71.5

Insurance claims stem from reinsurance which has been taken out to cover the pension obligations.

[21d]

Funded status of the defined benefit plans	2010 € million	2009 € million
Unfunded obligations		
Present value	1,159.6	1,054.6
Past service cost not yet recognised	-	-
Other	0.1	0.1
Net balance sheet liability	1,159.7	1,054.7
Wholly/partly funded obligations		
Present value	154.6	136.4
Fair value of plan assets	-133.4	-114.4
Past service cost not yet recognised	-	-
Other receivables	1.6	1.1
Other	-	-
Net balance sheet liability	22.8	23.1
Total net balance sheet liability	1,182.5	1,077.8

[21e]

Change in the provision for defined benefit plans in the financial year	2010 € million	2009 € million
Status at 31 December previous year	1,077.8	844.1
Currency translation differences	0.6	0.4
Change in consolidated group	-	31.9
Expenses	95.5	84.9
Payments	-36.5	-33.3
Capital transfer to plan assets	-12.8	-11.1
Transfer to other receivables	0.5	0.3
Actuarial gains/losses recognised in equity	54.3	154.4
Other	3.1	6.2
Status at 31 December financial year	1,182.5	1,077.8

[21f]

Breakdown of expenses booked in the financial year	2010 € million	2009 € million
Current service cost	39.3	30.8
Interest cost	59.6	56.9
Expected return on plan assets	-6.2	-5.3
Expected return on reimbursements	-2.8	-2.2
Past service cost	4.9	4.7
Other	0.7	-0.1
Total	95.5	84.9

The actual return on plan assets amounts to €3.8 million (5.1 m), and the actual return on reimbursements to €3.4 million (5.5 m). The expenses are shown mainly under ‘Operating expenses’ and ‘Expenses for claims and benefits’ in the consolidated income statement. Actuarial gains/losses included

in the income and expenses for the financial year amount to €54.2 million (150.3 m) and €200.1 million (145.9 m) cumulative, taking currency fluctuations and other changes into account.

[21g]

Breakdown of plan assets to cover pension obligations	2010 %	2009 %
Non-fixed-interest securities	24.5	33.9
Fixed-interest securities and loans	70.4	61.9
Land and buildings	0.1	0.3
Other	5.0	3.9
Total	100.0	100.0

[21h]

The consolidated companies used the following assumptions (weighted average values) in order to calculate their pension obligations:

Assumptions	2010 %	2009 %
Discount rate	4.7	5.0
Expected rate of return on fund assets	4.9	5.1
Expected rate of return on reimbursement	4.8	4.5
Future increases in entitlement/salary	2.7	2.8
Future pension increases	1.7	1.9
Medical cost trend rate	2.5	2.9

[21i]

The expected rate of return on plan assets is determined on the basis of anticipated long-term capital yields. Capital transfers to plan assets amounting to €1.6 million are expected for the 2011 financial year. A one percent

change in costs for medical care would have the following impact on the amount of pension commitments and pension expenditure:

	Increase by one percentage point € million	Reduction by one percentage point € million
Present value of defined benefit obligations	17.5	-13.7
Pensions Expenses	1.6	-1.2

[21j]

Other figures for the current financial year and previous years	2010 € million	2009 € million	2008 € million	2007 € million	2006 € million
Present value of defined benefit obligations (excluding medical-care benefits)	1,224.2	1,117.1	883.3	921.0	983.2
Plan assets	133.4	114.4	95.7	94.8	89.9
Deficit	1,090.8	1,002.7	787.6	826.2	893.3
Experience-related changes in liabilities	-2.5	14.1	2.0	20.9	-131.0
Experience-related changes to plan assets	-0.2	0.1	0.1	-	-

[22] Other provisions

[22a]

Other provisions	2010 € million	2009 € million
Provision for		
Unearned commission	171.8	178.7
Early-retirement benefits/semi-retirement	119.5	153.8
Outstanding invoices	110.9	106.2
Bonuses	47.4	49.2
Other in-house staff and field representatives' remuneration	43.4	37.9
Impending losses	43.0	44.4
Holiday and overtime pay	38.8	32.7
Anniversary benefits	35.0	36.9
Sales contests	28.0	26.8
Miscellaneous	725.6	596.0
Total	1,363.4	1,262.6

The provisions for early retirement and semi-retirement and for service awards are mainly long-term, whereas the provisions for commissions, outstanding invoices, holiday and time-off entitlement and other provisions are mainly of a short-term nature.

Other provisions include amounts totalling €254.1 million (262.5 m) for restructuring measures as part of the "Continuous Improvement in Competitiveness" project.

[22b]

Other provisions – development during the financial year	2010 € million	2009 € million
Status at 31 December previous year	1,262.6	1,106.6
Currency translation differences	2.3	0.8
Change in consolidated group	–	22.6
Consumption	847.4	1,110.3
Release	61.3	72.0
Discounting effects	4.2	2.4
Additions	1,003.4	1,313.6
Other changes	–0.5	–1.2
Status at 31 December financial year	1,363.4	1,262.6

[23] Other liabilities

[23a]

Liabilities	2010 € million	2009 € million
Other liabilities		
Deposits retained on ceded business	4,267.5	4,154.6
Accounts payable on direct insurance business	3,790.5	3,697.9
Amounts due to banks	328.6	361.9
Accounts payable on reinsurance business	115.9	118.3
Interest and rents	41.7	37.4
Accruals and deferred income	15.8	14.1
In connection with social security	11.3	8.1
Miscellaneous other liabilities	2,696.3	3,018.3
Total	11,267.7	11,410.6

Liabilities resulting from 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.

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.

Deposits retained on ceded business are collateral for technical provisions covering business ceded to reinsurers and

[23b]

The table below shows the contractual maturities on liabilities. As liabilities from direct insurance business are inseparable with the underlying insurance business, the resulting liquidity risk can only be explained together with the corresponding insurance contracts.

Deposits retained on ceded business do not have a fixed maturity date, their release is generally dependent on the run-off of the corresponding provisions. Consequently, both items are not taken into account in the table below.

Liabilities	2010	2009
Maturity structure	€ million	€ million
Contractual period to maturity		
Up to one year	2,549.9	3,066.8
Over one year and up to two years	213.5	32.7
Over two years and up to three years	40.9	25.1
Over three years and up to four years	1.4	11.8
Over four years and up to five years	9.1	0.8
Over five years and up to ten years	301.8	372.9
Over ten years	93.1	48.0
Total	3,209.8	3,558.0

[23c]

Allocation of other liabilities measured at fair value to levels of the fair value hierarchy	2010			
	Level 1	Level 2	Level 3	Total
	€ million	€ million	€ million	€ million
Other liabilities – derivatives	5.4	85.6	–	91.0

Allocation of other liabilities measured at fair value to levels of the fair value hierarchy	2009			
	Level 1	Level 2	Level 3	Total
	€ million	€ million	€ million	€ million
Other liabilities – derivatives	28.2	98.9	–	127.1

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Notes on the consolidated income statement

[24] Premiums

[24a]

Premiums	2010 € million	2009 € million
Total premiums	20,131.2	19,050.0
Gross premiums written	18,457.0	17,469.5
Change in unearned premiums (- = expense)	-177.1	-81.5
Gross earned premiums	18,279.8	17,388.0
Ceded premiums written	999.7	1,228.0
Change in unearned premiums (reinsurers' share) (- = income)	-1.9	10.8
Ceded premiums	997.8	1,238.9
Net earned premiums	17,282.0	16,149.2

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 €73.8 million (87.3 m) and in German health insurance to €412.2 million (263.6 m).

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.

[24b]

Gross premiums written by business areas and lines of business	2010 € million	2009 € million
Life Germany	4,421.3	4,372.6
Health	5,778.0	5,424.4
Property-casualty Germany	3,008.3	2,990.7
Thereof:		
Personal accident	737.6	752.1
Motor	599.6	591.0
Fire and property	510.3	496.3
Liability	471.1	467.0
Legal expenses	419.3	428.0
Transport and aviation	100.4	99.5
Other	170.0	156.8
Direct insurance	885.2	853.8
Thereof:		
Life	494.3	499.4
Health	278.2	241.6
Personal accident	36.6	35.8
Motor	17.3	18.3
Other	58.9	58.7
Travel insurance	426.7	387.4
International	3,937.3	3,440.6
Thereof:		
Life	1,559.2	1,415.1
Property-casualty	2,378.0	2,025.5
Thereof:		
Motor	1,107.5	924.3
Legal expenses	548.2	514.1
Other	722.4	587.1
Total	18,457.0	17,469.5

[24c]

Gross premiums written by countries	2010 € million	2009 € million
Germany	13,256.7	12,877.8
Poland	935.2	694.6
Belgium	884.5	751.0
Spain	662.3	604.0
Austria	573.0	615.9
Italy	513.3	480.3
Turkey	355.4	317.4
The Netherlands	203.2	197.7
Other	1,073.4	930.8
Total	18,457.0	17,469.5

[25] Income from technical interest

The income statement for the Group splits the operational result into the technical and non-technical result, where the former is allocated an interest component in the form of a technical interest income. This interest income results from the financial investment of technical provisions and policyholders' claim of parts of the non-technical result.

Depending on the type of insurance business and the related legal regulations the technical interest income needs to be interpreted in different ways:

In German life insurance the income from technical interest for German life business comprises the gains and losses from unit-linked life insurance plus the guaranteed interest rate and profit sharing on the basis of the IFRS investment result, based on supervisory regulation. For the companies outside Germany, the income from technical interest corresponds to the risk-free interest on the provision for future policy benefits at the relevant national interest rate and the gains and losses from unit-linked life insurance as far as contracts exist to this effect.

In the health segment the income from technical interest for German business corresponds to the allocation of interest to the ageing reserve (actuarial interest) and the allocation to the provision for premium refunds. The latter is based on the investment result exceeding the actuarial interest rate and on policyholders' participation in the other non-technical result components.

In property-casualty insurance we take into account that provisions created in earlier years were invested at higher interest rates than are available on the market today. Consequently, the technical interest income is the risk-free interest on our technical provisions at the respective historic interest rate for the period for which the premium was invested.

[26] Net expenses for claims and benefits

Net expenses for claims and benefits	2010 € million	2009 € million
Claims and benefits paid	13,847.3	13,677.4
Change in provision for outstanding claims	293.9	409.6
Change in provision for future policy benefits and other provisions	2,306.1	1,753.3
Expenses for premium refunds and policyholders' bonuses	1,739.8	687.2
Other technical result (- = income)	187.5	202.2
Gross expenses for claims and benefits	18,374.6	16,729.8
Claims and benefits paid	652.8	1,023.5
Change in provision for outstanding claims	35.6	-80.8
Change in provision for future policy benefits and other provisions	100.0	-61.6
Expenses for premium refunds and policyholders' bonuses	4.7	9.6
Other technical result (- = expenses)	-157.0	-275.2
Reinsurers' share of expenses for claims and benefits	636.2	615.4
Claims and benefits paid	13,194.5	12,654.0
Change in provision for outstanding claims	258.3	490.4
Change in provision for future policy benefits and other provisions	2,206.1	1,814.9
Expenses for premium refunds and policyholders' bonuses	1,735.0	677.6
Other technical result (- = income)	344.5	477.4
Net expenses for claims and benefits	17,738.4	16,114.3

[27] Net operating expenses

Net operating expenses	2010 € million	2009 € million
Acquisition costs	2,749.7	2,566.5
Administration expenses	1,119.2	1,060.7
Deferred acquisition costs	-70.6	240.8
Amortisation of PVFP	24.2	41.7
Gross operating expenses	3,822.3	3,909.8
Reinsurers' share of acquisition costs	2.6	2.3
Reinsurers' share of deferred acquisition costs	-12.5	224.8
Commission received on ceded business	234.8	206.5
Reinsurers' share of operating expenses	224.8	433.6
Net operating expenses	3,597.6	3,476.2

[28] Investment income and expenses (before deduction of technical interest)

Investment income and expenses

	Regular income		Write-ups	
	2010 € million	2009 € million	2010 € million	2009 € million
Land and buildings, including buildings on third-party land	232.6	247.0	2.7	3.3
Investments in affiliated companies	7.4	6.5	–	–
Investments in associates	11.3	–41.1	9.8	–
Mortgage loans and other loans	2,111.5	1,934.1	15.0	–
Other securities				
Held to maturity	2.9	5.5	–	–
Available for sale				
Non-fixed-interest	147.0	191.0	0.1	–0.4
Fixed-interest	2,329.9	2,368.1	23.3	8.4
	2,476.9	2,559.1	23.4	7.9
At fair value through profit or loss				
Held for trading				
Non-fixed-interest	0.1	0.2	0.1	–
Fixed-interest	1.3	2.9	5.3	29.2
Derivatives	81.9	80.1	712.1	349.6
	83.3	83.2	717.5	378.8
Designated as at fair value through profit or loss				
Non-fixed-interest	–	0.1	–	–
Fixed-interest	8.8	15.7	–	–
	8.8	15.8	–	–
Total at fair value through profit or loss	92.1	99.0	717.5	378.8
Total other securities	2,572.0	2,663.6	740.9	386.8
Deposits retained on assumed reinsurance, and other investments	33.7	81.9	–	–
Subtotal	4,968.5	4,891.9	768.4	390.1
Investments for the benefit of life insurance policyholders who bear the investment risk	–	–	–	–
Expenses for the management of investments, other expenses	–	–	–	–
Total	4,968.5	4,891.9	768.4	390.1

The result for land and buildings including buildings on third-party land contains rental income of €232.6 million (247.0 m). The result from shares in affiliated companies represents a deferred receipt of €39 million from the disposal of the NHL Group in 2005 which became due at

the end of 2009. The gain is recorded under “Investment income”. Total expenditure on interest amounts to €42.3 million (67.0 m). Expenses incurred for administration of investments come to €197.2 million (190.0 m), of which €34.3 million (39.4 m) are for repairs and maintenance.

Income		Expenses				Other		Investment	
Gains on disposal		Write-downs		Losses on disposal		expenses/income		result	
2010	2009	2010	2009	2010	2009	2010	2009	2010	2009
€ million	€ million	€ million	€ million	€ million	€ million	€ million	€ million	€ million	€ million
30.2	7.6	85.5	90.0	-	-	-	-	180.0	167.9
39.6	7.3	9.4	12.9	8.0	8.6	-8.0	-8.9	21.7	-16.6
0.8	13.1	3.1	53.1	-	-	-	-1.2	18.9	-82.4
35.3	98.5	18.7	70.1	4.9	-	-	-	2,138.2	1,962.5
-	-	-	-	-	-	-	-	2.9	5.6
425.8	300.4	167.2	294.0	88.5	305.6	-	-	317.3	-108.6
359.6	455.7	3.3	76.7	152.7	205.8	-	-	2,556.7	2,549.7
785.5	756.0	170.5	370.7	241.3	511.4	-	-	2,874.0	2,441.0
0.2	0.3	-	-	-	0.1	-	-	0.5	0.4
-	-	0.7	6.4	-	0.1	-	-	5.9	25.7
223.8	402.5	609.4	745.2	380.2	386.0	-	-	28.1	-299.0
224.0	402.8	610.2	751.6	380.2	386.2	-	-	34.5	-272.9
-	-	-	-	3.7	-	-	-	-3.7	0.1
10.2	4.5	-	-	8.8	7.0	-	-	10.1	13.2
10.2	4.5	-	-	12.5	7.0	-	-	6.4	13.2
234.2	407.3	610.2	751.6	392.7	393.2	-	-	40.9	-259.7
1,019.6	1,163.4	780.7	1,122.3	634.0	904.6	-	-	2,917.8	2,186.9
0.1	-	-	-	-	-	-	-	33.8	81.9
1,125.7	1,289.9	897.3	1,348.5	646.9	913.2	-8.0	-10.1	5,310.4	4,300.1
-	-	-	-	-	-	271.2	441.2	271.2	441.2
-	-	-	-	-	-	-338.5	-340.2	-338.5	-340.2
1,125.7	1,289.9	897.3	1,348.5	646.9	913.2	-75.2	91.0	5,243.1	4,401.1

[29] Other operating result

Other operating result	2010 € million	2009 € million
Income from services rendered and from broking funds and insurance policies	213.7	144.3
Income from owner-occupied property	32.1	35.3
Interest from other than investments	25.2	18.8
Income from releases from other non-technical provisions	52.9	60.7
Miscellaneous	22.8	28.3
Other operating income	346.8	287.4
Expenses for services rendered and for broking funds and insurance policies	154.0	137.8
Expenses for owner-occupied property	25.0	41.3
Interest charges and similar expenses	135.3	110.6
Other write-downs	28.4	62.3
Allocation to other non-technical provisions	23.3	21.8
Miscellaneous	167.6	139.6
Other operating expenses	533.6	513.3
Total	-186.8	-225.9

[30] Other non-operating result

Other non-operating result	2010 € million	2009 € million
Foreign currency exchange gains	1,137.4	1,398.9
Miscellaneous	103.5	153.9
Other non-operating income	1,240.9	1,552.8
Foreign currency exchange losses	1,172.7	1,435.9
Miscellaneous	394.2	435.9
Other non-operating expenses	1,566.9	1,871.8
Other non-operating result	-326.0	-319.0

Other non-operational expenses (miscellaneous) include amounts totalling €24.2 million (137.7 m) for restructuring

measures as part of the “Continuous Improvement in Competitiveness” project.

[31] Impairment losses of goodwill

In accordance with IFRS 3, there is no longer a scheduled amortisation of goodwill stated in the balance sheet. An impairment test was carried out at the balance sheet date.

Impairment loss of goodwill from capital consolidation amounts to €114.9 million (62.2 m), which were accounted for by the cash-generating units in Turkey in the financial year.

[32] 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 insurance business. Costs totalling €46.3 m million (62.6 m)

stem primarily from liabilities of ERGO Versicherungsgruppe AG due to Münchener Rückversicherungs-Gesellschaft AG, Munich. The loans serve to strengthen the liquidity basis in order to finance strategic assets.

[33] Taxes on income

[33a]

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	2010 € million	2009 € million
Current tax for financial year	298.4	286.0
Current tax for other periods	-89.8	-17.1
Deferred tax resulting from the occurrence or reversal of temporary differences	-36.6	-151.3
Deferred tax resulting from the occurrence or reversal of loss carry-forwards and write-downs	-29.0	-2.4
Write-downs of other deferred taxes	17.6	-
Effects of changes in tax rates or tax law on deferred tax	-0.5	2.1
Total	160.1	117.3

[33b]

The Group tax rate corresponds to the average fiscal charges for all domestic Group companies, and this amount is made up of German corporate tax amounting to 15% (15) plus a 5.5% (5.5) solidarity surcharge. 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.

Reconciliation to effective tax expenses	2010 € million	2009 € million
Result before taxes on income (after other tax)	515.3	290.0
x Group tax rate 32% (32%)		
= Expected taxes on income	164.9	92.8
Tax effect of:		
+ none-deductible expenses	113.2	45.8
- tax-free income	-83.4	-39.7
+ tax rate differences	16.8	6.0
+ tax for prior years	-90.3	-15.0
+ amortisation of goodwill or PVFP	36.8	20.9
+ miscellaneous	2.1	6.5
= Taxes on income shown	160.1	117.3

[34] Personnel expenses

Personnel expenses	2010 € million	2009 € million
Wages and salaries	1,492.3	1,412.3
Social security contributions and employee assistance	315.4	266.1
Expenses for employees' pensions	87.6	101.5
Total	1,895.2	1,779.9

[35] Long-term incentive plan

In each of the years 2002 to 2009 ERGO Versicherungsgruppe AG and some subsidiaries initiated long-term incentive schemes for members of the board and for selected managing directors. This remuneration

component with a long-term motivational effect aimed at a sustainable rise in the share price of Munich Re. Those entitled received a defined number of share appreciation rights which can only be exercised if a waiting period of two years has expired, the Munich Re share price has risen by at least 20% since the scheme began, and the Euro

Incentive plan	2009	2008
Plan commencement	1 July 2009	1 July 2008
Plan end	30 June 2016	30 June 2015
Old initial share price	-	-
New initial share price after 2003 capital increase	97.57 €	121.84 €
Intrinsic value 2010 for one right	15.73 €	-
Fair value 2010 for one right	17.10 €	9.15 €
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	-	-
Exercised	-	-
Forfeited	-	-
Number of rights on 31 December 2007	-	-
Exercisable at year-end	-	-
Additions	-	132,306
Exercised	-	-
Forfeited	-	-
Number of rights on 31 December 2008	-	132,306
Exercisable at year-end	-	-
Additions	118,979	5,707
Exercised	-	-
Forfeited	-	-
Number of rights on 31 December 2009	118,979	138,013
Exercisable at year-end	-	-
Additions	-	-
Exercised	-	-
Forfeited	-	-
Number of rights on 31 December 2010	118,979	138,013
Exercisable at year-end	-	138,013

Stoxx 50 index has been surpassed at least twice for three months each in the seven years of the scheme. Appreciation rights to date could only be exercised under the schemes initiated in 2003 to 2005.

2007	2006	2005	2004	2003	2002
1 July 2007	1 July 2006	1 July 2005	1 July 2004	1 July 2003	1 July 2002
30 June 2014	30 June 2013	30 June 2012	30 June 2011	30 June 2010	30 June 2009
-	-	-	-	86.24 €	260.37 €
134.07 €	108.87 €	88.10 €	88.65 €	82.02 €	247.64 €
-	4.43 €	25.20 €	24.65 €	-	-
5.65 €	10.25 €	25.30 €	24.75 €	-	-
-	-	-	-	-	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
94,115	-	-	-	-	-
-	-	30,486	24,278	4,143	-
10,422	6,849	-	-	-	-
83,693	123,818	125,090	45,887	10,887	35,665
-	-	125,090	45,887	10,887	35,665
-	-	-	-	-	-
-	-	16,983	2,000	-	-
-	-	-	-	-	-
83,693	123,818	108,107	43,887	10,887	35,665
-	123,818	108,107	43,887	10,887	35,665
3,605	5,868	-	-	-	-
-	-	13,304	2,859	-	-
-	-	-	-	-	35,665
87,298	129,686	94,803	41,028	10,887	-
87,298	129,686	94,803	41,028	10,887	-
-	-	-	-	-	-
-	-	43,953	30,555	10,887	-
-	-	-	-	-	-
87,298	129,686	50,850	10,473	-	-
87,298	129,686	50,850	10,473	-	-

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Other information

[36] Cash flow statement

For a comment on the cash flow statement, reference is made to the management report, page 26.

[37] Total remuneration of the Supervisory Board and the Board of Management

Expenditure for the Supervisory Board totalled €0.8 million (0.7 m).

Total remuneration for the Board of Management's members for their activities on behalf of the holding company and Group companies amounted to €9.0 million (10.2 m). Former members of the Board of Management and their surviving

dependants received €5.5 million (3.8 m) in total. A provision of €41.2 million (40.8 m) has been set aside for current and future pension payments to this group of people.

An overview of the members of the Company's Supervisory Board and Board of Management are on pages 14 and 15. This is part of the notes to the consolidated financial statements.

[38] Group affiliation

The annual general meeting of ERGO Versicherungsgruppe AG passed a resolution on 12 May 2010 to transfer the shares of the minority shareholders in ERGO Versicherungsgruppe AG, Düsseldorf, to Münchener Rückversicherungs-Gesellschaft AG, Munich, against a cash settlement in accordance with Section 327a et seq. of the German Stock Companies Act (AktG). On registration of the resolution in the commercial register on 5 July 2010 the shares of the minority shareholders were transferred to Münchener Rückversicherungs-Gesellschaft AG, Munich, in accordance with Section 327e para. 3 AktG.

As at 31 December 2010, Münchener Rückversicherungs-Gesellschaft AG, Munich, controls directly and via its

subsidiary P.A.N. GmbH & Co. KG, Grünwald, 100% of the issued share capital of ERGO Versicherungsgruppe AG, Düsseldorf.

ERGO Versicherungsgruppe AG, Düsseldorf, has prepared these consolidated financial statements as at 31 December 2010 according to International Financial Reporting Standards and is also included in the consolidated financial statements of Münchener Rückversicherungs-Gesellschaft AG, Munich.

The consolidated financial statements are accessible on the website of the company register. They are also available from the companies upon request.

[39] Auditor's fees

Auditor's fees were paid for services rendered by the Group auditors KPMG Bayerische Treuhandgesellschaft AG Wirtschaftsprüfungsgesellschaft Steuerberatungsgesellschaft, Munich, and affiliated companies in the meaning of Section 271 para. 2 of the German Commercial Code, to the parent company and consolidated subsidiaries in accordance with the following table.

With effect from 1 February 2010 KPMG CIS, i.e. KPMG Russia, Georgia, Ukraine, Armenia, Kazakhstan and Kyrgyzstan,

have joined KPMG Europe LLP. These KPMG companies are therefore affiliated companies of KPMG Deutschland in addition to KPMG Spain, KPMG Switzerland, KPMG LLP (UK), KPMG Belgium, KPMG Netherlands, KPMG Luxembourg and KPMG Turkey in the meaning of Section 271 para. 2 of the German Commercial Code. Auditor's fees which require disclosure therefore include all the above.

Auditor's fees	2010 € million	2009 € million
Audits of financial statements	5.3	5.6
Other assurance and appraisal services	1.7	1.4
Tax consultancy services	0.4	0.6
Other services	0.3	0.2
Total	7.7	7.8

[40] Related parties

The ERGO Insurance Group maintains various reinsurance relationships with the Münchener Rückversicherungs-Gesellschaft AG, Munich, as well as with some of its reinsurance subsidiaries. In the year under review, premiums totalling €643.4 million (868.2 m), i.e. 64.4% (70.7%) of total reinsurance premiums were reinsured with them. In the reporting year a total of €467.7 million (840.1m) in payments made as a result of claims came from reinsurers. These companies' share in deposits retained on ceded business is €2,468.0 million (2,398.1 m). The share in receivables on reinsurance business accounts for €43.2 million (24.4 m), and €21.5 million (40.8 m) in accounts payable.

In addition to subordinated liabilities ERGO Versicherungsgruppe AG was granted loans of €985.0 million (1,160.0 m) by Münchener Rückversicherungs-Gesellschaft AG, Munich, and €520.0 million (520.0 m) by itus Verwaltungs AG, Munich, for purposes of refinancing.

[41] Contingent liabilities and other financial commitments

The details listed below on contingent liabilities and other financial commitments refer to items in terms of IAS 37 and Section 251 and 285 no. 3 of the German Commercial Code (HGB) which go beyond the disclosure requirement as per IAS 37. 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 issued a letter of comfort amounting to €4.3 million (4.3 m) for a non-affiliated company. In addition, there is a letter of comfort of BA-CA Versicherung for a non-consolidated company amounting to €3.8 million (3.8 m).

Financial commitments stemming from lease transactions with land and buildings (cross border leasings) stood at

As part of an outsourcing contract, the ERGO Insurance Group has transferred the portfolio management and administration of its financial assets to MEAG MUNICH ERGO AssetManagement GmbH, Munich. The outsourcing contract comprises the management of real estate, all domestic and foreign tradable securities and loans. In addition, MEAG MUNICH ERGO AssetManagement GmbH has assumed the responsibility for building audits. MEAG MUNICH ERGO AssetManagement GmbH is an associated company of the ERGO Insurance Group.

Of ERGO's remuneration received for services rendered and for broking insurance policies, the MEAG companies' share was €10.1 million (9.5 m). Their share in the expenses in this respect was €15.5 million (16.5 m).

USD 116.5 million (114.2 m). ERGO has pledged a deposit of securities for third parties in this context.

Furthermore, statements of guarantee for non-affiliated companies of €57.6 million (61.5 m) and DKK221.5 million (222.4 m) were given. Guarantees towards other companies amounted to €15.0 million (43.0 m).

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.

ERGO Versicherung AG is member of several insurance pools which means that, if any other pool member became insolvent, it 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, ERGO Lebensversicherung AG, Victoria Lebensversicherung AG, ERGO Direkt Lebensversicherung AG and 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 €573.7 million (541.4 m).

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 declaration to indemnify the employers for new business in 2008 from a possible liability as a result of this verdict: ERGO Lebensversicherung AG, Victoria Lebensversicherung AG, Vorsorge Lebensversicherung AG, Victoria Pensionskasse AG (to be renamed ERGO Pensionskasse AG) and Hamburg-Mannheimer Pensionskasse. On the balance sheet date the risk of the aforementioned judgement being exercised came to €4.4 million (6.3 m).

[42] Investment and other financial liabilities

Commitments of Group companies to non-affiliated companies stemming from work and service contracts came to €181.3 million (122.8 m) at the end of 2010. In addition, investment commitments to non-affiliated companies stood at €445.2 million (653.4 m) and 380.0 million (–) Vietnamese Dong; for associated companies they were €149.7 million (122.0 m) and USD12.7 million (12.7 m). The aforementioned amounts are non-discounted par values.

ERGO Versicherung AG and ERGO Direkt Versicherung AG have pledged contributions to an organisation set up to assist traffic accident victims (Verkehrsofopferhilfe 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).

[43] Leasing

The ERGO Insurance Group as lessee

At the balance sheet date, future minimum lease payments under non-cancellable operating leases totalled €299.7 million (245.4 m). Payments from operating leases concern in particular rents for offices and business premises of the Group. At €0.8 million (1.1 m) on the balance sheet date, the sum of liabilities from financial leases only accounts for a subordinate amount.

The ERGO Insurance Group as lessor

Operating leases mainly involve leased property. The total of future minimum lease payments under non-cancellable leases at the balance sheet date was €533.9 million (517.3 m). The total of contingent rental payments recorded in the financial year as income was €0.8 million (2.0 m).

Maturity of leasing relationships	2010 € million	2009 € million
ERGO as lessee		
Not later than one year	66.1	53.5
Later than one year and not later than five years	182.0	135.4
Later than five years	51.6	56.6
Total	299.7	245.5
ERGO as lessor		
Not later than one year	113.0	112.6
Later than one year and not later than five years	261.9	249.5
Later than five years	158.9	155.2
Total	533.9	517.3

[44] Liabilities secured by liens

Group real estate holdings are encumbered by mortgages, land charges and annuity charges to a total value of €29.6 million (24.7 m).

[45] Number of employees

Employees (year-end)	2010	2009
In-house employees	26,748	26,577
Salaried sales force	6,249	6,575
Total	32,997	33,152

The number of staff employed by the Group at year-end totalled 19,921 (20,420) in Germany and 13,076 (12,732) in other countries.

[46] Events after the balance sheet date

In China the ERGO Insurance Group will be founding a joint venture with the Shandong State-owned Assets Investment Holding Company (SSAIH) which will offer mainly life insurance cover for private customers in the Shandong province. The ERGO Insurance Group and SSAIH will each hold half of the shares in the joint venture. According to the joint venture

agreement, the ERGO Insurance Group will pay RMB300 million (€34.0 m) for its share in the ordinary capital. The set-up of the company will commence as soon as the regulatory authority has given its approval. The company's name will be "ERGO China Life Insurance Co., Ltd."

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List of shareholdings in accordance with Section 313 para. 2 of the German Commercial Code (HGB)

Company name and registered office	Footnote	Stake held
Consolidated affiliated companies Germany		
AEVG 2004 GmbH, Frankfurt	a	0.00%
aktiva Vermittlung von Versicherungen und Finanz-Dienstleistungen GmbH, Cologne		100.00%
ALICE Software Service GmbH, Erkrath		100.00%
almeda GmbH, Munich	1	100.00%
almeda Versicherungs-Aktiengesellschaft, Munich	1	100.00%
avanturo GmbH, Düsseldorf		100.00%
CAPITAL PLAZA Holding GmbH & Co. Singapore KG, Düsseldorf		100.00%
D.A.S. Deutscher Automobil Schutz Allgemeine Rechtsschutz-Versicherungs-Aktiengesellschaft, Munich	2	100.00%
DKV – Alpha Vermögensverwaltungs GmbH, Cologne		100.00%
DKV Deutsche Krankenversicherung Aktiengesellschaft, Cologne	1	100.00%
ERGO Achte Beteiligungsgesellschaft mbH, Düsseldorf		100.00%
ERGO Direkt Krankenversicherung AG, Fürth		100.00%
ERGO Direkt Lebensversicherung AG, Fürth		100.00%
ERGO Direkt Versicherung AG, Fürth		100.00%
ERGO Immobilien-GmbH 14.Victoria & Co. KG, Kreien		100.00%
ERGO Immobilien-GmbH 5.Hamburg-Mannheimer & Co.KG, Kreien		100.00%
ERGO International Aktiengesellschaft, Düsseldorf	1	100.00%
ERGO International Services GmbH, Düsseldorf	1	100.00%
ERGO Lebensversicherung Aktiengesellschaft, Hamburg	1	100.00%
ERGO Pensionsfonds Aktiengesellschaft, Düsseldorf	3	100.00%
ERGO Private Capital Gesundheit GmbH & Co. KG, Düsseldorf		100.00%
ERGO Private Capital Leben GmbH & Co. KG, Düsseldorf		100.00%
ERGO Private Equity Gesundheit GmbH, Düsseldorf		100.00%
ERGO Private Equity Komposit GmbH, Düsseldorf		100.00%
ERGO Private Equity Leben GmbH, Düsseldorf		100.00%
ERGO Versicherung Aktiengesellschaft, Düsseldorf	1	100.00%
ERGO Zweite Beteiligungsgesellschaft mbH, Düsseldorf		100.00%
EUROPÄISCHE Reiseversicherung Aktiengesellschaft, Munich	1	100.00%
FAIRANCE GmbH, Düsseldorf	1	100.00%
Flexitel Telefonservice GmbH, Berlin		100.00%
Hamburg-Mannheimer Pensionskasse AG, Hamburg		100.00%
HMV GFKL Beteiligungs GmbH, Düsseldorf		100.00%
IDEENKAPITAL AG, Düsseldorf		100.00%
IDEENKAPITAL Financial Engineering AG, Düsseldorf	4	100.00%
IDEENKAPITAL Financial Service AG, Düsseldorf	4	100.00%
IDEENKAPITAL Media Finance AG, Düsseldorf		50.10%
iii, Munich		100.00%
IK Einkauf Objekt Eins GmbH & Co. KG, Düsseldorf		100.00%
IK Einkaufsmärkte Deutschland GmbH & Co. KG, Düsseldorf		52.04%
IK Premium Fonds GmbH & Co. KG, Düsseldorf		100.00%
IK Premium Fonds zwei GmbH & Co. KG, Düsseldorf		100.00%
IRIS Capital Fund II German Investors GmbH & Co. KG, Düsseldorf		85.71%
ITERGO Informationstechnologie GmbH, Düsseldorf	1	100.00%
K & P Pflegezentrum IMMAC Uelzen Renditefonds GmbH & Co. KG, Uelzen		84.88%
Longial GmbH, Düsseldorf		100.00%

Company name and registered office	Footnote	Stake held
MEAG Acofonds, Munich		100.00%
MEAG Anglo Celtic Fund, Munich		100.00%
MEAG BLN 2, Munich		100.00%
MEAG BLN 3, Munich		100.00%
MEAG EDL CurryGov, Munich		100.00%
MEAG EDL EuroValue, Munich		100.00%
MEAG Euro 1, Munich		100.00%
MEAG Euro 2, Munich		100.00%
MEAG Eurostar (Spezialfonds), Munich		100.00%
MEAG German Prime Opportunities (GPO), Munich		100.00%
MEAG Gilagrent, Munich		100.00%
MEAG Golf 1, Munich		100.00%
MEAG HBG 1, Munich		100.00%
MEAG HM Global, Munich		100.00%
MEAG HM Recht Chance, Munich		100.00%
MEAG HM Renten, Munich		100.00%
MEAG HM Sach 1, Munich		100.00%
MEAG HM Sach Rent 1, Munich		100.00%
MEAG HM2000, Munich		100.00%
MEAG HM2001, Munich		100.00%
MEAG HMR1, Munich		100.00%
MEAG HMR2, Munich		100.00%
MEAG IREN, Munich		100.00%
MEAG Kapital 2, Munich		100.00%
MEAG Kapital 3, Munich		100.00%
MEAG Kapital 5, Munich		100.00%
MEAG Multi Sach 1, Munich		100.00%
MEAG OptiMax, Munich		100.00%
MEAG PK-NORD, Munich		100.00%
MEAG PK-WEST, Munich		100.00%
MEAG Prestige, Munich		100.00%
MEAG RenditePlus, Munich		100.00%
MEAG REVO, Munich		100.00%
MEAG SAG 1, Munich		100.00%
MEAG Sustainability, Munich		100.00%
MEAG Vertical, Munich		100.00%
MEAG Vidas 2, Munich		100.00%
MEAG Vidas 4, Munich		100.00%
MEAG Vidas Rent 2, Munich		100.00%
MEAG Vidas Rent 3, Munich		100.00%
MEAG Vigifonds, Munich		100.00%
MEAG VLA, Munich		100.00%
Merkur Grundstücks- und Beteiligungs-Gesellschaft mit beschränkter Haftung, Düsseldorf	2	100.00%
Neckermann Lebensversicherung AG, Fürth		100.00%
Neckermann Versicherung AG, Nuremberg		100.00%
OIK Mediclin, Munich		66.67%

Company name and registered office	Footnote	Stake held
QVH Beteiligungs GmbH, Nuremberg		100.00%
Seminaris Hotel- und Kongreßstätten-Betriebsgesellschaft mbH, Lüneburg		75.00%
VHDK Beteiligungsgesellschaft mbH, Düsseldorf		100.00%
Victoria Grundstücksverwaltungs-Gesellschaft GbR, Düsseldorf		100.00%
Victoria Italy Property GmbH, Düsseldorf		100.00%
Victoria Lebensversicherung Aktiengesellschaft, Düsseldorf	1	100.00%
Victoria Pensionskasse AG, Düsseldorf	b	100.00%
Victoria US Property Investment GmbH, Düsseldorf		100.00%
Victoria US Property Zwei GmbH, Düsseldorf		100.00%
Victoria Vierte Beteiligungsgesellschaft mbH, Düsseldorf		100.00%
Victoria Vierter Bauabschnitt GmbH & Co. KG, Düsseldorf		100.00%
Vorsorge Lebensversicherung Aktiengesellschaft, Düsseldorf	1	100.00%
wse Solarpark Spanien 1 GmbH & Co. KG, Fürth		65.17%
Consolidated affiliated companies International		
80e LIMITED, Bristol		100.00%
Amicus Legal Ltd., Colchester		100.00%
Amicus Ltd., Colchester		100.00%
Bank Austria Creditanstalt Versicherung AG, Vienna		90.00%
Bos Incasso B.V., Groningen		90.02%
Capital Square Pte. Ltd., Singapore		100.00%
CJSIC "European Travel Insurance", Moscow		100.00%
Compagnie Européenne d'Assurances, Nanterre		100.00%
Compania Europea de Seguros S.A., Madrid		100.00%
D.A.S. Defensa del Automovilista y de Siniestros – Internacional, S.A. de Seguros, Barcelona		100.00%
D.A.S. HELLAS Allgemeine Rechtsschutz-Versicherungs-AG, Athens		100.00%
D.A.S. Jogvédelmi Biztosító Részvénytársaság, Budapest		99.90%
D.A.S. Luxemburg Allgemeine Rechtsschutz-Versicherung S.A., Strassen		99.95%
D.A.S. Oigusabikulude Kindlustuse AS, Tallinn		100.00%
D.A.S. Österreichische Allgemeine Rechtsschutz-Versicherungs-Aktiengesellschaft, Vienna		99.98%
D.A.S. poisťovna právnej ochrany, a. s., Bratislava		100.00%
D.A.S. pojišťovna právní ochrany, a. s., Prague		100.00%
D.A.S. Société anonyme belge d'assurances de Protection Juridique, Brussels		99.98%
D.A.S. Towarzystwo Ubezpieczen Ochrony Prawnej S.A., Warszawa		99.90%
DAS Assistance Limited, Bristol		100.00%
DAS Holding N.V., Amsterdam		51.00%
DAS Law Limited, Bristol		100.00%
DAS Legal Expenses Insurance Co., Ltd., Seoul		100.00%
DAS Legal Expenses Insurance Company Limited, Bristol		100.00%
DAS Legal Finance B.V., Amsterdam		100.00%
DAS Legal Protection Insurance Company Ltd., Toronto		100.00%
DAS Legal Protection Ireland Limited, Dublin		100.00%
DAS Legal Protection Limited, Christchurch, New Zealand		100.00%
DAS Legal Protection Limited, Vancouver		100.00%
DAS LEGAL SERVICES LIMITED, Bristol		100.00%
DAS Nederlandse Rechtsbijstand Verzekeringmaatschappij N.V., Amsterdam		100.00%

Company name and registered office	Footnote	Stake held
DAS Rechtsschutz-Versicherungs-AG, Luzern		100.00%
DAS Services Limited, Bristol		100.00%
DAS Support B.V., Amsterdam		100.00%
DAS UK Holdings Limited, Bristol		100.00%
DKV BELGIUM S.A., Brussels		100.00%
DKV Luxembourg S.A., Luxembourg		75.00%
DKV Seguros y Reaseguros, Sociedad Anónima Española, Saragossa		100.00%
ERGO ASIGURARI DE VIATA SA, Bucharest		100.00%
ERGO Assicurazioni S.p.A., Milano		100.00%
ERGO Austria International AG, Vienna		100.00%
ERGO Daum Direct General Insurance Co. Ltd., Seoul		75.00%
ERGO Direkt Lebensversicherung AG, Schwechat		100.00%
ERGO Élértbiztosító Zrt., Budapest		100.00%
ERGO Elukindlustuse AS, Tallinn		100.00%
ERGO Emeklilik ve Hayat A.S., Istanbul		100.00%
ERGO Funds AS, Tallinn		100.00%
ERGO Generales Seguros y Reaseguros, S.A., Madrid		100.00%
ERGO Grubu Holding A.Ş., Istanbul		100.00%
ERGO Invest SIA, Riga		100.00%
ERGO Italia Business Solutions S.c.r.l., Milano		100.00%
ERGO Italia Direct Network s.r.l., Milano		100.00%
ERGO Italia S.p.A., Milano		100.00%
ERGO Kindlustuse AS, Tallinn		100.00%
ERGO Latvija Lebensversicherung AG (ERGO Latvija Dzīvība AAS), Riga		100.00%
ERGO Latvija Versicherung AG (ERGO Latvija Apdrošināšanas Akciju Sabiedrība), Riga		100.00%
ERGO Lietuva draudimo UAB, Vilnius		100.00%
ERGO Lietuva gyvybes draudimas, Vilnius		100.00%
ERGO Life N.V., Brussels		100.00%
ERGO Previdenza S.p.A., Milano		100.00%
ERGO RUSS Versicherung AG, St. Petersburg		99.96%
ERGO Shisn, Moscow		100.00%
ERGO SIGORTA A.S., Istanbul		100.00%
ERGO Vida Seguros y Reaseguros, Sociedad Anónima, Saragossa		100.00%
ERGO Zavarovalnica d.d., Ljubljana		100.00%
ERGO životná poisťovňa, a.s., Bratislava		100.00%
Europæiske Rejseforsikring A/S, Copenhagen		100.00%
European International Holding A/S, Copenhagen		100.00%
Europeiska Försäkringsaktiebolaget, Stockholm		100.00%
Evropska Cestovni Pojistovna A.S., Prague		90.00%
First Legal Protection Limited, St. Albans		100.00%
Geschlossene Aktiengesellschaft Europäische Reiseversicherung, Kiev		95.27%
GF 65, Vienna		100.00%
Habiriscos – Investimentos Imobiliários e Turísticos, S.A., Lisbon		100.00%
Hamburg-Mannheimer Consulting NV, Brussels		100.00%
Ibero Property Portugal – Investimentos Imobiliários S.A., Lisbon		100.00%
Ibero Property Trust S.A., Madrid		100.00%

Company name and registered office	Footnote	Stake held
IKFE Properties I AG, Zurich		63.55%
Imofloresmira – Investimentos Imobiliarios S.A., Lisbon		100.00%
Joint Stock Insurance Company ERGO, Minsk		92.31%
Kapdom-Invest GmbH, Moscow		100.00%
Landelijke Associatie van Gerechtsdeurwaarders B.V., Groningen		90.02%
LAVG Associatie van Gerechtsdeurwaarders Zuid Holding B.V., Breda		80.00%
LawAssist Limited, Bristol		100.00%
Marina Salud S.A., Alicante		65.00%
Marina Sp. z.o.o., Sopot		100.00%
MTU Maje Towarzystwo Ubezpieczeniowe S. A., Sopot		100.00%
Nightingale Legal Services Ltd., Colchester		100.00%
Queensley Holdings Limited, Singapore	a, d	100.00%
Renaissance Hotel Realbesitz GmbH, Vienna		60.00%
San Marino Life Impresa sammarinese di assicurazione sulla vita S.p.A., San Marino		100.00%
Sopockie Towarzystwo Ubezpieczen Ergo Hestia Spolka Akcyjna, Sopot		100.00%
Sopockie Towarzystwo Ubezpieczen na Zycie Ergo Hestia Spolka Akcyjna, Sopot		100.00%
Union Beteiligungsholding GmbH, Vienna		100.00%
Unión Médica la Fuencisla, S.A., Compañía de Seguros, Saragossa		100.00%
Van Arkel gerechtsdeurwaarders B.V., Leiden		79.90%
Victoria General Insurance Company S.A., Athens		100.00%
Victoria Internacional de Portugal SGPS S.A., Lisbon		100.00%
Victoria Investment Properties Two L.P., Atlanta		100.00%
Victoria Life Insurance Company S.A., Thessaloniki		100.00%
Victoria osiguranje d.d, Zagreb		74.90%
Victoria US Holdings, Inc., Wilmington, Delaware		100.00%
Victoria Zivotno osiguranje d.d, Zagreb		74.90%
Victoria-Seguros de Vida, S.A., Lisbon		100.00%
Victoria-Seguros S.A., Lisbon		100.00%
VICTORIA-VOLKSBANKEN Eletbiztosító Zrt., Budapest		74.80%
VICTORIA-VOLKSBANKEN poist'ovna, a. s., Bratislava		74.80%
VICTORIA-VOLKSBANKEN Biztosító Zrt., Budapest		74.80%
VICTORIA-VOLKSBANKEN pojišť'ovna, a. s., Prague		74.54%
VICTORIA-VOLKSBANKEN Versicherungsaktiengesellschaft, Vienna		74.63%
Vorsorge Luxemburg Lebensversicherung S.A., Munsbach		100.00%
Non-consolidated affiliated companies Germany		
“PORT HEDLAND” GmbH & Co. KG, Hamburg		99.33%
“PORT LINCOLN” GmbH & Co. KG, Hamburg		99.37%
“PORT WILLIAMS” GmbH & Co. KG, Hamburg		99.31%
ARTES Assekuranzservice GmbH, Düsseldorf		100.00%
ArztPartner almeda AG, Munich		100.00%
Beteiligung HMM Hamburg-Mannheimer Erste Bürogebäude-Verwaltungsgesellschaft mbH, Hamburg		100.00%
Beteiligung HMM Hamburg-Mannheimer Zweite Bürogebäude-Verwaltungsgesellschaft mbH, Hamburg		100.00%
BioEnergie Elbe-Elster GmbH & Co. KG, Elsterwerda		100.00%
BioEnergie Verwaltungs-GmbH, Elsterwerda		100.00%
Blitz 01-807 GmbH, Munich		100.00%

Company name and registered office	Footnote	Stake held
CAPITAL PLAZA Holding GmbH, Düsseldorf		100.00%
CarePlus Gesellschaft für Versorgungsmanagement mbH, Cologne		100.00%
Ciborum GmbH, Munich		100.00%
cliMondo GmbH, Cologne		100.00%
D.A.S. Prozessfinanzierung AG, Munich		100.00%
DKV – Beta Vermögensverwaltungs GmbH, Cologne		100.00%
DKV Immobilien GmbH & Co. KG, Cologne		100.00%
DKV Immobilienverwaltungs GmbH, Cologne		100.00%
DKV Pflegedienste & Residenzen GmbH, Cologne		100.00%
DKV Residenz am Tibusplatz gGmbH, Münster		100.00%
DKV-Residenz in der Contrescarpe GmbH, Bremen		100.00%
ERGO Alpha GmbH, Düsseldorf		100.00%
ERGO Gourmet GmbH, Düsseldorf		100.00%
ERGO Immobilien-GmbH 1. DKV & Co. KG, Kreien		100.00%
ERGO Immobilien-GmbH 15. Victoria & Co. KG, Kreien		100.00%
ERGO Immobilien-GmbH 2. DKV & Co. KG, Kreien		100.00%
ERGO Immobilien-GmbH 3. DKV & Co. KG, Kreien		100.00%
ERGO Immobilien-GmbH 4. DKV & Co. KG, Kreien		100.00%
ERGO Immobilien-GmbH 6. Hamburg-Mannheimer & Co. KG, Kreien		100.00%
ERGO Immobilien-GmbH 7. Hamburg-Mannheimer & Co. KG, Kreien		100.00%
ERGO Immobilien-Verwaltungs-GmbH, Kreien		100.00%
ERGO Neunte Beteiligungsgesellschaft mbH, Düsseldorf		100.00%
ERGO Private Capital GmbH, Düsseldorf		100.00%
ERGO Private Capital Zweite GmbH & Co. KG, Düsseldorf		100.00%
ERGO Specialty GmbH, Hamburg		100.00%
ERGO Versicherungs- und Finanzierungs-Vermittlung GmbH, Hamburg		100.00%
EUREKA GmbH, Düsseldorf		100.00%
European Assistance Holding GmbH, Munich		100.00%
EVV Logistik Management GmbH, Düsseldorf		100.00%
Exolve GmbH, Hamburg		100.00%
Gastronomie Service Gesellschaft Überseering 35 GmbH, Hamburg		100.00%
GBG Vogelsanger Straße GmbH, Cologne		94.00%
GEMEDA Gesellschaft für medizinische Datenerfassung und Auswertung sowie Serviceleistungen für freie Berufe mbH, Cologne		100.00%
goDentis – Gesellschaft für Innovation in der Zahnheilkunde mbH, Cologne		100.00%
goMedus Gesellschaft für Qualität in der Medizin mbH, Cologne		100.00%
goMedus GmbH & Co. KG, Cologne		100.00%
Hamburg-Mannheimer Rechtsschutz Schaden-Service GmbH, Hamburg		100.00%
Horbach GmbH, Düsseldorf		70.10%
Ideenkapital Client Service GmbH, Düsseldorf	4	100.00%
Ideenkapital erste Investoren Service GmbH, Düsseldorf		100.00%
Ideenkapital Fonds Treuhand GmbH, Düsseldorf		100.00%
Ideenkapital Media Treuhand GmbH, Düsseldorf		100.00%
IDEENKAPITAL Metropolen Europa Verwaltungsgesellschaft mbH, Düsseldorf		100.00%
IDEENKAPITAL PRORENDITA EINS Treuhandgesellschaft mbH, Düsseldorf		100.00%
IDEENKAPITAL Schiffsfonds Treuhand GmbH, Düsseldorf		100.00%
Ideenkapital Treuhand GmbH, Düsseldorf		100.00%

Company name and registered office	Footnote	Stake held
IDEENKAPITAL Treuhand US Real Estate eins GmbH, Düsseldorf		100.00%
IK Einkauf Objektmanagement GmbH, Düsseldorf		100.00%
IK Einkauf Objektverwaltungsgesellschaft mbH, Düsseldorf		100.00%
IK Einkaufsmärkte Deutschland Verwaltungsgesellschaft mbH, Düsseldorf		100.00%
IK European Real Estate Verwaltungsgesellschaft mbH, Düsseldorf		100.00%
IK FE Fonds Management GmbH, Düsseldorf		100.00%
IK FE Management GmbH, Düsseldorf		100.00%
IK InfrastrukturInvest Verwaltungsgesellschaft mbH, Düsseldorf		100.00%
IK Objekt Bensheim GmbH, Düsseldorf		100.00%
IK Objekt Frankfurt Theodor-Heuss-Allee GmbH, Düsseldorf		100.00%
IK Pflegezentrum Uelzen Verwaltungs-GmbH, Düsseldorf		100.00%
IK Premium GmbH, Düsseldorf		100.00%
IK Property Eins Verwaltungsgesellschaft mbH, Hamburg		100.00%
IK Property Treuhand GmbH, Düsseldorf		100.00%
IK US Portfolio Invest DREI Verwaltungs-GmbH, Düsseldorf		100.00%
IK US Portfolio Invest Verwaltungs-GmbH, Düsseldorf		100.00%
IK US Portfolio Invest ZWEI Verwaltungs-GmbH, Düsseldorf		100.00%
InterAssistance Gesellschaft für Dienstleistungen mit beschränkter Haftung, Munich	5	100.00%
Juventus Vermögensverwaltungs AG, Hamburg		100.00%
K & P Objekt Hamburg Hamburger Straße GmbH, Düsseldorf		100.00%
K & P Objekt Munich Hufelandstraße GmbH, Düsseldorf		100.00%
KQV Solarpark Franken 1 GmbH & Co. KG, Fürth		100.00%
Larus Vermögensverwaltungsgesellschaft mbH, Munich		50.00%
Legal Net GmbH, Munich		100.00%
Longial Versicherungsmakler GmbH, Düsseldorf		100.00%
m:editerran POWER GmbH & Co. KG, Nuremberg		100.00%
MAYFAIR Holding GmbH & Co. Singapore KG, Düsseldorf		71.43%
MAYFAIR Holding GmbH, Düsseldorf		100.00%
Mediastream Consulting GmbH, Grünwald		100.00%
Mediastream Dritte Film GmbH, Grünwald		100.00%
Mediastream Film GmbH, Grünwald		100.00%
Mediastream Vierte Medien GmbH, Grünwald		100.00%
Mediastream Zweite Film GmbH, Grünwald		100.00%
MedWell Gesundheits-AG, Cologne		100.00%
miCura Pflegedienste Berlin GmbH, Berlin		100.00%
miCura Pflegedienste Bremen GmbH, Bremen		100.00%
miCura Pflegedienste Dachau GmbH, Dachau		51.00%
miCura Pflegedienste Düsseldorf GmbH, Düsseldorf		100.00%
miCura Pflegedienste GmbH, Cologne		100.00%
miCura Pflegedienste Hamburg GmbH, Hamburg		90.00%
miCura Pflegedienste Krefeld GmbH, Krefeld		100.00%
miCura Pflegedienste Munich GmbH, Munich		100.00%
miCura Pflegedienste Munich Ost GmbH, Munich		65.00%
miCura Pflegedienste Münster GmbH, Münster		100.00%
miCura Pflegedienste Nürnberg GmbH, Nuremberg		51.00%
PLATINIA Verwaltungs-GmbH, Munich		100.00%

Company name and registered office	Footnote	Stake held
PRORENDITA DREI Verwaltungsgesellschaft mbH, Hamburg		100.00%
PRORENDITA EINS Verwaltungsgesellschaft mbH, Hamburg		100.00%
PRORENDITA FÜNF Verwaltungsgesellschaft mbH, Hamburg		100.00%
PRORENDITA VIER Verwaltungsgesellschaft mbH, Hamburg		100.00%
PRORENDITA ZWEI Verwaltungsgesellschaft mbH, Hamburg		100.00%
Schrömbgens & Stephan GmbH, Versicherungsmakler, Düsseldorf		100.00%
Seldac 1. Kommunal-Rendite-Fonds GmbH & Co. KG, Düsseldorf		100.00%
Seldac 1. Verwaltungs-GmbH, Düsseldorf		100.00%
Solarfonds Garmisch-Partenkirchen 2011 GmbH & Co. KG, Nuremberg		99.75%
SOS International Reise-Notfallservice GmbH, Munich	6, 8	100.00%
TAS Assekuranz Service GmbH, Frankfurt/Main		100.00%
TAS Touristik Assekuranz Service International GmbH, Frankfurt/Main	6	100.00%
TAS Touristik Assekuranzmakler und Service GmbH, Frankfurt/Main	6	100.00%
Titus AG, Düsseldorf		100.00%
Trusted Documents GmbH, Nuremberg		100.00%
US PROPERTIES VA Verwaltungs-GmbH, Düsseldorf		100.00%
Verwaltungsgesellschaft "PORT VICTORIA" GmbH, Hamburg		100.00%
VICTORIA Asien Immobilienbeteiligungs GmbH & Co. KG, Munich		100.00%
VICTORIA Asien Verwaltungs GmbH, Munich		100.00%
Victoria Erste Beteiligungsgesellschaft mbH, Düsseldorf		100.00%
Victoria Immobilien-Fonds GmbH, Düsseldorf		100.00%
VICTORIA US Beteiligungsgesellschaft mbH, Munich		100.00%
Victoria Vierter Bauabschnitt Management GmbH, Düsseldorf		100.00%
Viwis GmbH, Munich	7	100.00%
Vorsorge Service GmbH, Düsseldorf		100.00%
welivit AG, Nuremberg		100.00%
welivit New Energy GmbH, Fürth		100.00%
welivit Solar España GmbH, Nuremberg		100.00%
WISMA ATRIA Holding GmbH & Co. Singapore KG, Düsseldorf		65.00%
WNE Solarfonds Süddeutschland 2 GmbH & Co. KG, Nuremberg		100.00%
Wohnungsgesellschaft Brela mbH, Hamburg	5	100.00%
Non-consolidated affiliated companies International		
A.L.I.C.E. Software Lda., Lisbon		100.00%
Acalter 140014 S.L., Playa del Inglés		100.00%
Agenzia Chianti S.R.L., Milano		100.00%
Aitesacho 5005 S.L., Playa del Inglés		100.00%
Albulzaga 8008 S.L., Playa del Inglés		100.00%
Aleama 150015 S.L., Playa del Inglés		100.00%
ALICE Software España S. L., Madrid		100.00%
Amladeza 7007 S.L., Playa del Inglés		100.00%
Arridabra 130013 S.L., Playa del Inglés		100.00%
B&D Acquisition B.V., Amsterdam		80.00%
B&D Business Solutions B.V., Utrecht		100.00%
Badozoc 1001 S.L., Playa del Inglés		100.00%
Baqueda 7007 S.L., Playa del Inglés		100.00%

Company name and registered office	Footnote	Stake held
Bobasbe 6006 S.L., Playa del Inglés		100.00%
Botedazo 8008 S.L., Playa del Inglés		100.00%
Callopio 5005 S.L., Playa del Inglés		100.00%
Camcichu 9009 S.L., Playa del Inglés		100.00%
Caracuel Solar Catorce S.L., Antequera		100.00%
Caracuel Solar Cinco S.L., Antequera		100.00%
Caracuel Solar Cuatro S.L., Antequera		100.00%
Caracuel Solar Dieciocho S.L., Antequera		100.00%
Caracuel Solar Dieciseis S.L., Antequera		100.00%
Caracuel Solar Diecisiete S.L., Antequera		100.00%
Caracuel Solar Diez S.L., Antequera		100.00%
Caracuel Solar Doce S.L., Antequera		100.00%
Caracuel Solar Dos S.L., Antequera		100.00%
Caracuel Solar Nueve S.L., Antequera		100.00%
Caracuel Solar Ocho S.L., Antequera		100.00%
Caracuel Solar Once S.L., Antequera		100.00%
Caracuel Solar Quince S.L., Antequera		100.00%
Caracuel Solar Seis S.L., Antequera		100.00%
Caracuel Solar Siete S.L., Antequera		100.00%
Caracuel Solar Trece S.L., Antequera		100.00%
Caracuel Solar Tres S.L., Antequera		100.00%
Caracuel Solar Uno S.L., Antequera		100.00%
Chobocuga 150015 S.L., Playa del Inglés		100.00%
Cotatrillo 100010 S.L., Playa del Inglés		100.00%
DAS Consultancy & Detachering Rotterdam B.V., Rotterdam		65.02%
DAS Incasso Arnhem B.V., Arnhem		100.00%
DAS Incasso Den Bosch B.V., s-Hertogenbosch		87.50%
DAS Incasso Rotterdam B.V., Rotterdam		80.00%
DAS Legal Protection Pty. Ltd., Sydney		100.00%
De Wit Vissers Incasso Holding B.V., Breda		95.00%
DKV Servicios, S.A., Saragossa		100.00%
DRA Debt Recovery Agency B.V., s-Gravenhage		100.00%
Economic Data Research B.V., Leidschendam		100.00%
Economic Data Resources B.V., Leidschendam		100.00%
EDR Acquisition B.V., Amsterdam		80.00%
EDR Credit Services B.V., s-Gravenhage		100.00%
ERGO Asia Management Pte. Ltd., Singapore		100.00%
ERGO Bilisim Teknolojisi Limited Sirketi, Istanbul		100.00%
ERGO Business Solutions s.r.l., Bukarest		100.00%
ERGO GmbH, Herisau		100.00%
ERGO Insurance Service GmbH, Vienna		99.60%
ERGO PORTFÖY YÖNETİMİ A.S., Istanbul		100.00%
ERGO Sigorta ve Emeklilik Satis Aracilik Hizmetleri Limited Sirketi, Istanbul		100.00%
ERIN Sigorta Aracilik Hizmetleri Limited Sirketi, Istanbul		100.00%
ERV (China) Travel Service and Consulting Ltd., Beijing		100.00%
ERV Seyahat Sigorta Aracilik Hizmetleri ve Danismanlik Ltd.Sti., Istanbul		99.00%

Company name and registered office	Footnote	Stake held
Esoleme 120012 S.L., Playa del Inglés		100.00%
Etics, s. r. o., Prague		100.00%
Etoblete 160016 S.L., Playa del Inglés		100.00%
Etogibon 100010 S.L., Playa del Inglés		100.00%
Etolede 6006 S.L., Playa del Inglés		100.00%
Euro Alarm Assistance Prague, Prague		100.00%
Euro-Center (Cyprus) Ltd., Larnaca		100.00%
Euro-Center (Thailand) Co. Ltd., Bangkok		100.00%
Euro-Center Cape Town (Pty.) Ltd., Cape Town		100.00%
Euro-Center China (HK) Co., Ltd., Beijing		100.00%
Euro-Center Holding A/S, Copenhagen		83.33%
Euro-Center Ltda., Rio de Janeiro		100.00%
Euro-Center S.A., Malaga		100.00%
Euro-Center USA, Inc., New York		100.00%
Euro-Center Yerel Yardim, Istanbul		100.00%
Euro-Center, S.A., Palma de Mallorca		100.00%
Europäische (UK) Ltd., London		100.00%
Gamaponti 140014 S.L., Playa del Inglés		100.00%
Gerechtsdeurwaarderskantoor Sturm & Van Vuuren B.V., Nieuwegein		100.00%
Gerechtsdeurwaarderskantoor Van der Meijde B.V., Den Haag		100.00%
Grancan Sunline S.L., Playa del Inglés		100.00%
Guanzu 2002 S.L., Playa del Inglés		100.00%
Hamburg-Mannheimer ForsikringService A/S, Copenhagen		100.00%
Hamburg-Mannheimer spol s. r. o., Prague		100.00%
Health OÜ, Tallinn		100.00%
Hestia Advanced Risk Solutions Sp. z o. o., Sopot		100.00%
Hestia Kontakt Sp. z o. o., Sopot		100.00%
Hestia Loss Control Sp. z o. o., Sopot		100.00%
HMI Sp. z o. o., Warsaw		100.00%
Humanity B.V., s-Gravenhage		100.00%
Íbero Property Guadalix S.A., Madrid		100.00%
ISVICRE SIGORTA KIBRIS LIMITED, Istanbul		51.00%
LAVG Zuid B.V., Breda		100.00%
m:editerran Power der welivit Solar Italia GmbH & Co. KG, Bozen		100.00%
Multiasistencia Europea, S.A., Madrid		100.00%
Naretoblera 170017 S.L., Playa del Inglés		100.00%
Nerruze 120012 S.L., Playa del Inglés		100.00%
Nicamballo 1001 S.L., Playa del Inglés		100.00%
Olbodeca 4004 S.L., Playa del Inglés		100.00%
Oracuet 160016 S.L., Playa del Inglés		100.00%
Oragulno 9009 S.L., Playa del Inglés		100.00%
Oraunte 130013 S.L., Playa del Inglés		100.00%
Orrazipo 110011 S.L., Playa del Inglés		100.00%
Otusleme 3003 S.L., Playa del Inglés		100.00%
Sopocki Instytut Ubezpieczeń S.A., Sopot		100.00%
Sopockie Towarzystwo Doradcze Sp. z o. o., Sopot		100.00%

Company name and registered office	Footnote	Stake held
Stichting Aandelen Beheer D.A.S. Holding, Amsterdam		100.00%
Sydney Euro-Center Pty. Ltd., Sydney		100.00%
Teginago 2002 S.L., Playa del Inglés		100.00%
Tenoslema 110011 S.L., Playa del Inglés		100.00%
TGR Biztosítás Többségynöki Zrt., Budapest		100.00%
Tillobesta 180018 S.L., Playa del Inglés		100.00%
VFG Vorsorge-Finanzierungsconsulting GmbH, Vienna		100.00%
Victoria VIP II, Inc., Wilmington, Delaware		100.00%
VV-Consulting Gesellschaft für Risikoanalyse, Vorsorgeberatung und Versicherungsvermittlung GmbH, Vienna		100.00%
VV-Immobilien Gesellschaft für Haus- und Grundbesitzverwaltung GmbH, Vienna		100.00%
welivit Solar Italia s.r.l., Bozen		100.00%
Zacobu 110011 S.L., Playa del Inglés		100.00%
Zacuba 6006 S.L., Playa del Inglés		100.00%
Zacubacon 150015 S.L., Playa del Inglés		100.00%
Zafacesbe 120012 S.L., Playa del Inglés		100.00%
Zagacobl 180018 S.L., Playa del Inglés		100.00%
Zapaceba 170017 S.L., Playa del Inglés		100.00%
Zapacubi 8008 S.L., Playa del Inglés		100.00%
Zarzucolumbu 100010 S.L., Playa del Inglés		100.00%
Zetaza 4004 S.L., Playa del Inglés		100.00%
Zicobucar 140014 S.L., Playa del Inglés		100.00%
Zucaelo 130013 S.L., Playa del Inglés		100.00%
Zucampobi 3003 S.L., Playa del Inglés		100.00%
Zucarrobiso 2002 S.L., Playa del Inglés		100.00%
Zucobaco 7007 S.L., Playa del Inglés		100.00%
Zulazor 3003 S.L., Playa del Inglés		100.00%
Zumbicobi 5005 S.L., Playa del Inglés		100.00%
Zumcasba 1001 S.L., Playa del Inglés		100.00%
Zuncabu 4004 S.L., Playa del Inglés		100.00%
Zuncolubomcasa 9009 S.L., Playa del Inglés		100.00%

Associated companies	Footnote	Stake held
Associates valued at equity Germany		
Dovull SPV GmbH & Co. KG, Frankfurt a. M.		20.06%
HighTech Beteiligungen GmbH und Co. KG, Düsseldorf		23.10%
KarstadtQuelle Finanz Service GmbH, Düsseldorf		50.00%
MCAF Verwaltungs-GmbH & Co.KG, Düsseldorf		50.00%
MEAG Cash Management GmbH, Munich		40.00%
MEAG MUNICH ERGO AssetManagement GmbH, Munich		40.00%
MEDICLIN Aktiengesellschaft, Offenburg		35.00%
MEGA 4 GbR, Berlin		34.26%
Rendite Partner Gesellschaft für Vermögensverwaltung mbH, Frankfurt a. M.		33.33%
RP Vibeler Fondsgesellschaft mbH, Frankfurt a. M.		40.00%
Sana Kliniken AG, Munich		21.70%
Star Growth GmbH & Co. Beteiligungs KG, Munich		48.28%
TERTIANUM Besitzgesellschaft Berlin Passauer Strasse 5-7 mbH, Munich		25.00%
TERTIANUM Besitzgesellschaft Konstanz Marktstätte 2-6 und Sigismundstrasse 5-9 mbH, Munich		25.00%
TERTIANUM Besitzgesellschaft Munich Jahnstrasse 45 mbH, Munich		33.33%
US PROPERTIES VA GmbH & Co. KG, Düsseldorf		41.12%
U.S. Property Fund IV GmbH & Co. KG, Munich	c	9.78%
VV Immobilien GmbH & Co. United States KG, Munich		28.95%
VV Immobilien GmbH & Co. US City KG, Munich		23.10%
VV Immobilien Verwaltungs GmbH & Co. Zentraleuropa KG, Munich		20.41%
Associates valued at equity International		
D. A. S. Difesa Automobilistica Sinistri, S. p. A. di Assicurazione, Verona		49.99%
Europai Utazasi Biztosito Rt., Budapest		26.00%
Europäische Reiseversicherungs-Aktiengesellschaft, Vienna		25.01%
HDFC ERGO General Insurance Company Ltd., Mumbai		26.00%
Millennium Entertainment Partners II L. P., New York	e	42.30%
Millennium Entertainment Partners L. P., New York	f	27.54%
Millennium Partners LLC, New York	g	20.30%
PICC Health Insurance Company Limited, Beijing	c	6.33%
Property Finance France S. A., Luxemburg		45.46%
SAS Le Point du Jour, Paris		50.00%
Seaflower Health Ventures III L. P., Waltham		28.84%
Storebrand Helseforsikring AS, Oslo		50.00%
VICTORIA-VOLKSBANKEN Pensionskassen Aktiengesellschaft, Vienna		47.50%
VICTORIA-VOLKSBANKEN Vorsorgekasse AG, Vienna		50.00%

Associated companies	Footnote	Stake held
Other associated companies Germany		
"PORT ELISABETH" GmbH & Co. KG, Hamburg		31.97%
"PORT LOUIS" GmbH & Co. KG, Hamburg		26.41%
Assistance Partner GmbH & Co. KG, Munich		22.80%
BF.direkt AG, Stuttgart		27.20%
carexpert Kfz-Sachverständigen GmbH, Walluf		25.00%
Fernkälte Geschäftsstadt Nord Gesellschaft bürgerlichen Rechts, Hamburg		35.87%
Hannover Finanz-Umwelt Beteiligungsgesellschaft mbH, Hillerse		20.00%
IFFOXX AG, Rosenheim		28.00%
IK Objektgesellschaft Frankfurt Theodor-Heuss-Allee GmbH & Co. KG, Düsseldorf		47.40%
K & P Objekt Hamburg Hamburger Straße Immobilienfonds GmbH & Co.KG, Düsseldorf		36.69%
MCAF Management GmbH, Düsseldorf		50.00%
Reisegarant, Vermittler von Insolvenzversicherungen mbH, Hamburg		24.00%
Teko – Technisches Kontor für Versicherungen Gesellschaft mit beschränkter Haftung, Düsseldorf		30.00%
TERTIANUM Seniorenresidenz Betriebsgesellschaft Munich mbH, Munich		33.33%
TERTIANUM Seniorenresidenzen Betriebsgesellschaft mbH, Konstanz		25.00%
Verwaltungsgesellschaft "PORT ELISABETH" mbH, Hamburg		50.00%
Verwaltungsgesellschaft "Port Hedland" mbH, Hamburg		50.00%
Verwaltungsgesellschaft "PORT KELANG" mbH, Hamburg		50.00%
Verwaltungsgesellschaft "Port Lincoln" mbH, Hamburg		50.00%
Verwaltungsgesellschaft "PORT LOUIS" mbH, Hamburg		50.00%
Verwaltungsgesellschaft "PORT MAUBERT" mbH, Hamburg		50.00%
Verwaltungsgesellschaft "PORT MELBOURNE" mbH, Hamburg		50.00%
Verwaltungsgesellschaft "PORT MENIER" mbH, Hamburg		50.00%
Verwaltungsgesellschaft "PORT MOODY" mbH, Hamburg		50.00%
Verwaltungsgesellschaft "PORT MORESBY" mbH, Hamburg		50.00%
Verwaltungsgesellschaft "PORT MOUTON" mbH, Hamburg		50.00%
Verwaltungsgesellschaft "PORT NELSON" mbH, Hamburg		50.00%
Verwaltungsgesellschaft "Port Russel" mbH, Hamburg		50.00%
Verwaltungsgesellschaft "PORT SAID" mbH, Hamburg		50.00%
Verwaltungsgesellschaft "PORT STANLEY" mbH, Hamburg		50.00%
Verwaltungsgesellschaft "PORT STEWART" mbH, Hamburg		50.00%
Verwaltungsgesellschaft "PORT UNION" mbH, Hamburg		50.00%
Verwaltungsgesellschaft "Port Williams" mbH, Hamburg		50.00%
VV Immobilien GmbH & Co. GB KG, Düsseldorf		40.92%
WISMA ATRIA Holding GmbH, Düsseldorf		50.00%

Associated companies	Footnote	Stake held
Other associated companies International		
Central Point Insurance IT-Solutions GmbH, Vienna		20.00%
General Partner Victoria Limited, London		33.33%
POOL Sp. z o.o., Warsaw		33.75%
Triple IP B.V., Amsterdam		50.00%
Volksbanken-Versicherungsdienst GmbH, Vienna		25.23%
VV-Consulting Többsügynöki Kft., Budapest		50.00%
Other shareholdings		
–	–	–

^(a) Consolidation pursuant to SIC 12

^(b) In the future ERGO Pensionskasse AG, Düsseldorf

^(c) Significant influence pursuant to IAS 28.7

Differing voting power:

^(d) 0.00%

^(e) 42.34%

^(f) 42.36%

^(g) 25.00%

¹⁾ Control and profit transfer agreement with ERGO Versicherungsgruppe AG

²⁾ Control and profit transfer agreement with ERGO Versicherung Aktiengesellschaft

³⁾ Control agreement with ERGO Versicherungsgruppe AG

⁴⁾ Profit transfer agreement with Ideenkapital AG

⁵⁾ Profit transfer agreement with ERGO Versicherung Aktiengesellschaft

⁶⁾ Profit transfer agreement with EUROPÄISCHE Reiseversicherung Aktiengesellschaft

⁷⁾ Profit transfer agreement with D.A.S. Deutscher Automobil Schutz Allgemeine Rechtsschutz-Versicherungs-Aktiengesellschaft

⁸⁾ Profit transfer agreement ended 31 December 2010.

Düsseldorf, 8 February 2011

ERGO Versicherungsgruppe AG

Board of Management



Dr. Torsten Oletzky



Dr. Bettina Anders



Dr. Daniel von Borries



Christian Diedrich



Dr. Christoph Jurecka



Dr. Ulf Mainzer



Dr. Jochen Messemer



Dr. Clemens Muth



Jürgen Vetter

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 to 31 December 2010. 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 of the German Commercial Code (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 systems 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 developments.

Munich, 1 March 2011

KPMG Bayerische Treuhandgesellschaft
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft
Steuerberatungsgesellschaft

Martin Berger
Chartered accountant

Roland Hansen
Chartered accountant

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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